

## **1. Introduction**

Salisbury District Council has been developing an Accommodation Strategy within the context of their overall Capital Strategy and Asset Management Plan.

In August 2002 the Council commissioned an Office Centralisation Feasibility Study, culminating in a Final Report which highlighted the following four options for satisfying the Council's accommodation needs.

Option 1 : No change ('Do Nothing')

Option 2 : Development of a Customer Contact Centre

Option 3 : Redevelopment of Bourne Hill

Option 4 : A new purpose built centralised facility (Out of town site)

The Feasibility Study concluded that the option of No Change or 'Do Nothing' will in fact "mean spending significant resources on maintaining the status quo"

Nisbet prepared a report dated July 2005 based upon the cost information available at that point in time. Since then a number of costs have increased as the scheme proposals have become more defined.

The purpose of this report is to update the previously evaluated whole life costs of each option based upon the updated cost data available and make comparison between the options both in terms of Capital and Whole of Life Costs.

Option 2 has not been considered with this report as it does not satisfy the overall objectives of the Council.

## **2. Methodology**

The 'No Change' option, far from being cost minimal will require considerable capital investment both initially and ongoing over the remaining life of the facilities. This evaluation considers capital and Whole of Life costs at a strategic level.

In order not to duplicate work already undertaken, maintain consistency and achieve economic efficiencies, this report draws heavily on the information, findings, recommendation and costs from the following reports.

- Office Centralisation Feasibility Study – Financial Report – August 2002 by Vantage Point.
- Agenda item 12 Cabinet 21 July 2004 Report – Capital Strategy (1) as Asset Management – Plan 2004/2005 (2).
- Report on the Condition Survey & Planned Maintenance Programme for Salisbury District Council – February 2002 by Hunter & Partners Ltd.

Costs for backlog maintenance have been used as stated in the above report increased for inflation from IQ02 to 2Q05.

## 2. Methodology (cont'd)

No assessment of the adequacy of the allowances made has been undertaken and no additional allowances have been included other than replacement of the electrical and heating system and rectifying structural defects and fabric repairs at Bourne Hill.

A fabric condition survey was undertaken by Rodney Melville and Partners in Summer 2005 which identified significant fabric repairs required to the portions of the house which would be retained.

Allowances made in the reports for backlog maintenance to Pratten Buildings at Bourne Hill and 26 Endless Street and the building at 3 Rolleston Street are not included on the basis that these facilities would be replaced by permanent new build structures of the same floor area in the 'No Change' option.

- Access Audit of Salisbury District Council January 2005 by Vectra Property Consulting

Costs for improving access have been used as stated in the above report, increased for inflation from 1Q05 to 2Q05.

The reports Executive Summary state in many cases that the buildings, even after implementing measures suggested, do not provide an accessible environment for disabled people. They further state in a number of instances that lifts, toilets and other improvements which would make them accessible have not been recommended because limited space within the building restricts the viability of undertaking such improvements.

No additional allowances are made in this report over and above those included in the Vectra report. Where the report recommends new management procedures to meet access requirements, no allowance is included for implementing these procedures.

Attention is directed to the Executive Summary of the Vectra Access Audit regarding the level of compliance for each building.

Data and information contained in the above reports has been verified by site visits and inspections of the subject properties. This has been augmented by discussions on the relevant issues, with Council Officers to gain further insight and understanding about the condition of the buildings and backlog maintenance requirements.

Capital Costs for the Bourne Hill option including the necessary fabric repairs have been provided by Davis Langdon LLP and capital costs for the Out of Town/PFH option obtained from previous capital cost studies undertaken by the Council and Nisbet and supported by BCIS studies.

Life cycle costs have been developed at a high level from our own database for new office facilities. These have been adjusted to reflect a realistic allowance for the existing facilities. At this high level we consider this a bona fide approach as the core costs for office life cycle costs are consistent across office buildings. Adjusting for specific factors such as building age, known problems, type of construction, ceiling height etc, the resultant rate for the 'No change' represents a realistic basis for comparison. The life cycle period that has been assumed is 25 years, although a sensitivity analysis has been undertaken for longer periods.

Actual maintenance expenditure for the year 2003/4 was sourced from the Councils published accounts.

IT and other fit out costs have been excluded from this comparison on the assumption that they would be broadly cost neutral across all the options.

### 3. Land Costs / Receipts

A number of studies have been prepared on behalf of the Council to assess the potential value of properties that may be disposed of following centralisation. The Council have assessed these to be: -

Bourne Hill Option:	£4,000,000
Out of town site	£4,450,000

The Out of town option would also require the purchase of a site that has been assessed at £2,000,000 at 2Q 2005 prices.

Whilst in theory there may be a receipt for the swimming pool site within the 'Do Nothing' option for the purposes of this comparison it has been assumed that this site would be utilised to accommodate the additional accommodation required.

### 4. Capital Costs

#### Purpose Built Centralised Facility with Retention of Bourne Hill House

Costs for this option include:-

- 1). Construction Costs – Developed and provided by Davis Langdon LLP amounting to £9,487,000 at 2Q 2005 prices, together with £601,000 for the fabric condition repairs, again at 2Q 2005 prices

The above cost is their Stage E Cost Check (issue 6) for a new building to provide 4,050m<sup>2</sup> of space over three floors together with glazed links (250m<sup>2</sup>) to the existing building, refurbishment of the existing Bourne Hill House of approximately 1,210m<sup>2</sup> giving a total floor area of 5,510m<sup>2</sup>. This is the construction cost only for the building and is exclusive of:

- Professional fees
  - VAT
  - Indexation/increases and inflation
  - Category B furniture fittings and equipment
  - Decant
- 2). Decant Cost – Based on current project budget of £413,000.
  - 3) Professional fees – An allowance of £1,300,000 for professional fees based upon the current assessments.

#### Out of Town/PFH

Costs for this option include:-

- 1). Construction Costs – Office accommodation (4,650m<sup>2</sup>) @ £1,250/m<sup>2</sup> and catering accommodation (150m<sup>2</sup>) @ £1,500/m<sup>2</sup> at current prices i.e. 2Q05 based upon upper quartile of average building prices published by BCIS adjusted for location. Allowance of 15% of building cost total for site works, for works at Out of Town/PFH and £250,000 for works to Pennyfarthing House to create a Customer Services Centre.

#### 4. Capital Costs (cont'd)

This is the construction cost only for the building and is exclusive of:

- Professional fees
- VAT
- Indexation/increases and inflation
- Category B furniture fittings and equipment
- Decant

2). Decant Cost – Nil

3) Professional fees – An allowance of 12% for professional fees based upon the construction cost.

#### No Change 'Do Nothing' Option

Costs for this option include:

1) Backlog Maintenance

Costs have been taken from the report "Condition Survey & Planned Maintenance Programme" prepared by Hunter & Partners Limited February 2002 and updated to current prices i.e. 2Q05.

2) Upgrading Facilities

These costs have been developed by Nisbet LLP following a survey of each building and include:

- New Floor Covering
- Decoration to walls, ceilings and windows
- Upgrading toilet accommodation (where appropriate)
- New electric and heating system to Bourne Hill
- Structural repairs to Bourne Hill
- Fabric repairs to Bourne Hill House, as identified in Rodney Melville and Partners report together with an allowance of £150,000 for fabric repairs to elements of the building which would be retained in this option e.g. Victorian extension.

3) DDA Costs

These costs have been taken from the report "Access Audit of The Salisbury District Council" by Vectra Property Consulting January 2005:

Attention is drawn to the Executive summary for each property which highlights continued deficiencies in respect to DDA compliance despite implementing the measures scheduled. No further allowance to overcome these deficiencies, whether physical or management issues, is included in the capital cost.

4) 'Pratten' and other temporary Buildings

We have allowed for replacement of these temporary buildings with new permanent structures of the same floor area attached to and accessible from the main building(s) in the current locations.

**4. Capital Costs (cont'd)**

5) Additional New Space

Allowance has been made for the following additional new space totalling 699m<sup>2</sup> to be provided at Bourne Hill to accommodate personnel currently based elsewhere, either in rented or other owned sites.

	m <sup>2</sup>
1. 'Ambassadors' City Hall	95
2. Crane Street	75
3. 3 Rolleston Street	279
4. Registrars	<u>250</u>
Total	<u>699m<sup>2</sup></u>

6) Fees

An allowance for professional fees of 15% of construction works cost has been allowed.

**5. Life Cycle Costs**

As well as capital costs, we have also considered life cycle costs including building replacement life cycle, planned preventative maintenance and facility running costs.

These have been considered at a high level as a cost per m<sup>2</sup> per annum using analysed data developed by Nisbet LLP across a range of building types.

From the above database, benchmark Whole of Life Costs for offices fall within the following ranges and averages.

	Life Cycle Building Replacement	Planned Preventative Maintenance	Facility Running	TOTAL
Range	£16-20/m <sup>2</sup> pa	£15-18/m <sup>2</sup> pa	£10-14/m <sup>2</sup> pa	£41-52
Average	£17/m <sup>2</sup> pa	£15/m <sup>2</sup> pa	£11/m <sup>2</sup> pa	£43/m <sup>2</sup> pa

The above costs are for purpose built office buildings generally built within the last 5 years having natural ventilation, double glazing, and a good level of insulation to current building regulation requirements.

**Existing Buildings**

Considering the nature of the buildings the subject of this report, which include the following factors:

- Generally not purpose built offices
- Generally old buildings
- Generally not built to current building regulations
- Poor level of building insulation
- A significant number of ongoing material defects
- High ceilings
- Inefficient wall to floor ratios
- Previous low level of maintenance

## 5. Life Cycle Costs (cont'd)

It is reasonable to assess an increase of 15-20% to the annual m2 pa rate for life cycle costs, resulting in a rate of between £49.50 - £51.60/m2 pa.

It should be noted that the total maintenance expenditure on the subject properties in 2003/4 was £47,500 or £8.39/m2 pa. Expenditure was deliberately limited pending the outcome of the Accommodation Strategy.

### **New Buildings**

Any new buildings provided will be built to achieve a BREEAM excellent rating. It is reasonable to assume that the average facility running costs will be reduced to 15-20% giving a total whole of life rate of £40.80 – 41.35/m<sup>2</sup>.

## 6. Decant Costs

Both the 'Do Nothing' and Bourne Hill options will require a component of decanting to permit the necessary capital works to be undertaken. For the Bourne Hill option this is currently assessed at £413,000. The 'Do Nothing' option has not been developed in any detail but it would be reasonable to assume that at least a similar provision would be required to allow each premise to decant whilst the works were undertaken. Therefore the same allowance has been made for this option.

## 7. Summary of Capital Costs

### **Capital Cost Summary – 'Do Nothing'**

Building	Backlog Maintenance £	Upgrading/ fabric repairs £	DDA £	Replace Pratten £	Additional New Space + Site Works	Prelims & Contingency £	TOTAL CAPITAL £	Building Area m <sup>2</sup>
Bourne Hill	150,000	1,030,000	125,000	405,000	1,166,000	575,000	3,451,000	3455
24/26 Endless St	38,000	69,000	38,000	345,000		98,000	588,000	1045
16 Endless St	41,000	21,000	8,000			14,000	84,000	184
37 Endless St	32,000	9,000	12,000			11,000	64,000	189
Penny Farthing House	46,000	22,000	12,000			16,000	96,000	619
61 Wyndham Road	53,000	17,000	81,000	40,000		38,000	229,000	588
<b>Construction Costs TOTAL £</b>	360,000	1,168,000	276,000	790,000	1,166,000	752,000	4,512,000	6,080
<b>Fees</b>							677,000	
<b>Capital Costs Total</b>							5,189,000	

7. Summary of Capital Costs (cont'd)

Capital Cost Summary – 'Out of Town/PFH'

Building	Construction £	Building Area
Penny Farthing House	250,000	619 m <sup>2</sup>
Out of Town/PFH and associated site works	6,943,000	4,800 m <sup>2</sup>
Contingency	540,000	
<b>Construction Costs Total £</b>	<b>7,733,000</b>	<b>5,419 m<sup>2</sup></b>
<b>Fees</b>	<b>928,000</b>	
<b>Capital Costs Total</b>	<b>8,661,000</b>	

Capital Cost Summary – 'Bourne Hill'

Building	Construction £	Building Area
New Building and associated site works	7,671,000	4,300 m <sup>2</sup>
Refurbishment of Bourne Hill House	1,816,000	1,210 m <sup>2</sup>
Fabric Repairs to Bourne Hill House	611,000	
Contingency	745,000	
<b>Construction Costs Total £</b>	<b>10,843,000</b>	<b>5,510 m<sup>2</sup></b>
<b>Fees</b>	<b>1,300,000</b>	
<b>Capital Costs Total</b>	<b>12,143,000</b>	

8. Life Cycle costs Summary

Building	Area	Rate	Cost Over 25 Year Cycle
<b>'Do Nothing'</b> - New - Existing	1420m <sup>2</sup> 4810m <sup>2</sup>	£41.00/m <sup>2</sup> pa £50.52/m <sup>2</sup> pa	£7,530,000
<b>New Office Building</b> - New - Existing	4300m <sup>2</sup> 1210m <sup>2</sup>	£41.00/m <sup>2</sup> pa £50.52/m <sup>2</sup> pa	£5,936,000
<b>Out of Town/PFH</b> - New - Existing	4650m <sup>2</sup> 619m <sup>2</sup>	£41.00/m <sup>2</sup> pa £50.52/m <sup>2</sup> pa	£5,701,000

## 9. Combined Capital / Whole of Life Cost Summary

The capital costs and life cycle costs combined provide a whole of life cost as summarised below which is then converted to a net present value (NPV)

Option	Land Sales / Receipts	Capital and Fees	Decant	Life Cycle	TOTAL	NPV @ 3.5%
'Do Nothing	0	5,189,000	413,000	7,530,000	13,132,000	10,567,000
Out of Town/PFH	(2,450,000)	8,661,000	0	5,701,000	11,912,000	9,970,000
Bourne Hill	(4,000,000)	12,143,000	413,000	5,936,000	14,492,000	12,469,000

## 10 Non Property related costs

The Council have advised that the following savings will be delivered as a consequence of each option

Do nothing

- Nil

Out of town/PFH

- Canteen and transport costs +£100k pa
- Other property related savings -£50k pa
- Productivity savings -£50k pa
- Staffing efficiencies -£280k pa

Bourne Hill

- Other property related savings -£66k pa
- Productivity savings -£100k pa
- Staffing efficiencies -£300k pa

The net present value saving of each of the above over a 25 year period would be

Option	NPV @ 3.5%
'Do Nothing	Nil
Out of town/PFH	-5,439,000
Bourne Hill	-8,504,000



**10 Non Property related costs (cont'd)**

In addition there are material "soft" business case objectives that the Council feels a split site operation cannot achieve namely:

- Sufficient Customer Satisfaction
- Sufficient Staff Morale (The staff focus group and unions both stated a preference for the Bourne Hill option)

No attempt has been made in this report to equate these to £ values.

**11. Conclusion**

When the Property and non property related costs are combined the overall NPV for each option identifies the Bourne Hill option as the preferred option by £566,000 as summarised below.

Option	Property related NPV @ 3.5%	Non Property related NPV @ 3.5%	Overall NPV @ 3.5%
'Do Nothing	10,567,000	Nil	10,567,000
Out of town/PFH	9,970,000	-5,439,000	4,531,000
Bourne Hill	12,469,000	-8,504,000	3,965,000

A sensitivity analysis of the non property related savings has been undertaken which identifies that if only 75% of the predicted savings were achieved then the ranking of the options does not alter, although the margin between the Out of town/PFH option and Bourne Hill increases to £736,000

The above analysis does not include the costs in developing the current option to Planning. These would be sunk costs under any option.

The 'No Change' option requires an immediate capital outlay of £5.60m for backlog maintenance, upgrading, fabric repairs, DDA issues and new space to replace temporary accommodation which is nearing the end of its useful life.

However the 'Do Nothing' option still fails to address a number of inherent problems with the current building stock as identified within this report and summarised below

- Rectify intrinsic building fabric deficiencies brought about by age
- Render the buildings DDA compliant
- Overcome functional inefficiencies of office space
- Contribute to a unified corporate image for the Council
- Contribute to customer service strategies.

The Bourne Hill and Out of Town/PFH options require an initial capital outlay of £8.56m and £6.21m respectively.

Costs for the 'Do Nothing' option do not consider the potential future life of the building stock. Much of it will require replacement within the 25 year period considered, which will further impact upon its ability to provide a 'best value' solution.

The only option that meets fully the business case objectives is the Bourne Hill option.