

Forward Plan reference number: FP/059/04/21

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| Report title: North East Quadrant Office Strategy | |
| Report to: Councillor Chris Whitbread, Cabinet Member for Finance, Resources and Corporate Affairs | |
| Report author: Ben Finlayson – Director, Property, Investment and Delivery | |
| Date: 19 January 2023 | For: Decision |
| Enquiries to: Andrew Stirling Head of Property email: andrew.stirling@essex.gov.uk | |
| County Divisions affected: Mile End and Highwoods, Abbey | |

Confidential Appendix

This report has a confidential appendix which is not for publication as it includes exempt information falling within paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972, as amended.

1. Everyone's Essex

- 1.1 Everyone's Essex sets out our 20 commitments focused on four areas for the quality of life for all people in Essex: the economy; the environment; children and families; and promoting health, care, and wellbeing.
- 1.2 The properties that Essex County Council (ECC) uses to deliver its operations and services links to these commitments. This includes the role that our buildings and infrastructure play in enabling our staff to deliver excellent services to some of the most vulnerable members of our communities. It is also about ensuring that we are making the most efficient use of space so that we are maximising the value of every public pound we use in our running costs, minimising waste and reducing the carbon footprint of our estate.
- 1.3 The proposal to change our core office estate in Colchester will help ECC reduce its annual operating costs, achieving better value for money and provide a modern working environment for our staff to deliver the services that our communities value.
- 1.4 Further, collaboration and co-location with partners is a Service Excellence and Property Strategy objective. Our proposal to co-locate our Children and Families and Adult Social Care services with Colchester City Council in Rowan House fully aligns with this objective.

2. Recommendations

- 2.1 Agree to the relocation of services as set out in the report from Essex House and Stanwell House to Rowan House and the Townhouse.
- 2.2 Agree to the drawdown of £1.652m from the Transformation Reserve to fund the fit out, relocation and exit costs associated with the moves from Essex House and Stanwell House to Rowan House and the Townhouse.
- 2.3 Agree to serve notice to break the leases at Essex House, Colchester including the car park leases, before the 29th of March 2023.
- 2.4 Agree to enter into a Lease of accommodation at Rowan House with Colchester City Council for 10 years on the terms set out in the report and confidential appendix.
- 2.5 Agree to delegate to Head of Property to finalise terms of the Lease set out in 2.4 above.

3. Background and proposal

- 3.1 Essex House is a large modern open plan office building on the Colchester Business Park with capacity for 500 desks over two floors. The services currently based here are Children and Families, Education, Business Support, Adult Social Care and Customer Engagement. ECC currently occupies Essex House together with the adjacent car parks under three leases from 25th September 2018 to 29th September 2028 (Essex House Leases). These leases allow for ECC to elect to end the leases by serving a notice by 29th March 2023. If ECC elects to break the leases, they will end on 29th September 2023.
- 3.2 Stanwell House is an ECC freehold property located in the St Botolph's area of Colchester. It is a former Court building now used as offices, with capacity for 260 desks in a mix of different sized rooms over two and three floors. The services currently based here are Children and Families, Education and Business Support. The Essex Records Office also occupies part of the building for storage purposes. ECC own Stanwell house and do not have to undertake any exercise to bring its occupation to an end.
- 3.3 Following the Covid Pandemic and the subsequent introduction of ECC's Ways of Working (WoW) programme, there has been a significant reduction in the requirements for office accommodation in Colchester. Utilisation data and consultation with ECC services located in the area has identified that:
 - 3.3.1 At Essex House, there have been changes in working patterns by the services and there has been a significant reduction in the numbers of desks being used. Whilst the peak attendance has reached 154 desks against a maximum capacity of 500 desks, average daily occupancy is typically 15 to 21% of the available capacity. The largest user, Adult Social Care, are seeking to adopt a hybrid working approach coupled with sharing of resources with the NHS, Districts and other partner

organisations. This means that their requirements for accommodation at Rowan House are reduced.

- 3.3.2 At Stanwell House, utilisation of desks has reduced with peak attendance reaching 95 desks against a maximum capacity of 260 desks. The average daily occupancy is typically 20 to 28% of the available capacity. The proposal is for the majority of the Children and Families colleagues to relocate to Rowan House. The preferred option is to relocate the Youth Offending Service (YOS) team based in Stanwell House to the Townhouse in Colchester which is used by the Youth Service. There are planned improvement works to the building being carried out in 2023 and as a result the proposal is for the Youth Offending Service to relocate in early 2024. This proposal is currently under review and if not deemed feasible then an alternate solution will be selected within the funding envelope set out in this paper.
- 3.4 Assessment of the utilisation data and ECC's future requirement for office space in Colchester has identified the opportunity to consolidate its requirements into smaller accommodation and relinquish our use of Essex House and Stanwell House with resulting savings and other benefits.
- 3.5 It is proposed that the services currently based at Essex House and Stanwell House – Children and Families, Education, Business Support, Adult Social Care and Customer Engagement Hub – will be relocated to Rowan House.
- 3.6 Engagement has been carried out with managers and representatives from these services over a series of workshops and individual meetings, held during August to December 2022. Requirements and actual utilisation data have been compiled to arrive at a new floor plan layout for the proposed new building. The new accommodation includes a combination of allocated team areas for sensitive working, shared 'drop-down' spaces that any member of staff can use, areas for collaborative work, designated well-being spaces, and meeting rooms that have hybrid technology that supports both in-person and remote meetings. The new accommodation aligns with ECC's vision for future Ways of Working and provides space for around 196 workstation desks, 110 seating areas in collaborative spaces (including café style seating) and 7-8 meeting rooms.
- 3.7 It is proposed that ECC serve a notice to break the existing Essex House leases in order to end the leases on 29th September 2023. This will allow for ECC's occupation of Essex House to be brought to an end and facilitate the move of these services to Rowan House. There is, however, a risk that the works to make Rowan House ready by September 2023 may be delayed. If this was to happen, we do not expect any delay to be significant and Stanwell House will still be available for staff to work in as an office space in the interim.
- 3.8 It is proposed that ECC take on a lease of Rowan House, which is owned by Colchester City Council (CCC). This will enable the co-location of ECC and CCC functions into this building, benefiting users of ECC Children and Families, Adult Social Care and CCC's Housing services through collaborative working and improved access to services and the building for customers.

- 3.9 The terms of the proposed lease are set out in the confidential appendix to this report. The new Lease of Rowan House will be for a term of 10 years taking the ground and part of the first floor of the building. The Lease will be subject to a mutual break clause in the third and sixth year of the term, subject to six months' notice, for either part or whole of the demise. A service charge and building insurance cost will also be payable to CCC, together with business rates and utility costs. ECC, as tenant, will be responsible will be for internal repairs to the demised area. The rent payable will be subject to review in the third and sixth years of the term.
- 3.10 There are three key implications of taking this Lease covering repairs, the break clause and rent review. There are responsibilities on ECC to keep the internal parts of the demised area in good repair and addressing any dilapidations at the end of the Lease term. The break clause is mutual in favour of both the landlord and tenant and can be for either part or the whole of the demised area. The benefit to ECC as tenant is flexibility if our space requirements change and we have surplus accommodation. Alternatively CCC will have the right to exercise the break if their requirements for space altered and they required part of the demised area to be returned to them. The Lease is also subject to upward only open market rent review in the third and sixth year and any growth in office rents in the interim period would be reflected in the rent reviews.
- 3.11 Stanwell House will remain in the ownership of ECC. The future of Stanwell House will be guided by the emerging Colchester City Centre Masterplan. The disposal and redevelopment or retention and re-purposing of Stanwell House will be determined by the master planning exercise and partnership work (including further work on transport interchange requirements) with CCC. This could result in either a capital receipt to be retained by ECC or the opportunity to generate ongoing revenue income. Any disposal may contribute to ECC's Annual Capital Receipts Target of £5m, but the expected market value at point of potential sale is unknown and is dependent on the outcome of current master planning activity. A further decision will be taken on the future of Stanwell House in due course if required.

Car parking

- 3.12 The current car parking provision for Essex House totals 291 spaces. 106 are provided on site and are included within the existing lease. The remaining 185 spaces are provided near to the building in two separate car parks, one providing 135 spaces and the second providing 50 spaces. Those are held on two leases for which ECC pays £65,000 per annum from its Corporate Property budget. These leases will also be terminated as part of this decision.
- 3.13 Stanwell House has 35 car parking spaces on site. ECC pays £88,000 per annum for the use of up to 150 additional spaces in the NCP car park next door to Stanwell House. The cost of this additional parking for Stanwell House is funded by Children and Families budget.

- 3.14 The future parking provision at Rowan House will provide a total of 120 spaces; 60 spaces within the Lease of Rowan House and a further 60 spaces in the nearby St Mary's Multi Storey Car Park for an additional £54,600 per annum, which has been included in the costs of the proposal.
- 3.15 Given the significant reduction in building utilisation at Essex and Stanwell Houses which has driven the reduced building capacity requirements being proposed at Rowan House, the 120 spaces set out above are anticipated to be sufficient to cover the needs of the services. However, should any additional service specific car parking capacity be required, this will need to be acquired and the costs covered by service budgets as they are currently (see 3.12 above). If no additional capacity is required, then there is an additional saving arising from relinquishing the permits for the NCP Car Park adjacent to Stanwell House that has not been factored into the proposal at this stage.

Draw Down from Reserves

- 3.16 It is proposed to draw down £1.652m from the Transformation Reserve to fund the fit out, relocation and exit costs associated with the moves from Essex House and Stanwell House to Rowan House and the Townhouse
- 3.17 The specific categories of spend are detailed below, and associated financial values highlighted in paragraph 6.1.1:
- Decommissioning of Essex House, including the removal of furniture and equipment to Rowan House, the removal of network equipment, and disposal of surplus furniture and equipment, and agreement and settlement of Landlord's dilapidations claim by way of works or financial settlement.
 - Decommissioning of Stanwell House, including the removal of furniture and equipment to Rowan House, removal of network equipment and removal and disposal of surplus furniture and equipment.
 - The fit out of Rowan House including the main offices, new reception area, provision of new furniture and equipment in line with WoW requirements, installation of network equipment and hybrid meeting room technology requirements.
 - The provision of IT requirements specially associated with survey requirements.
 - Change management costs, enabling employee engagement with the relocation.
 - Costs of additional fit out works to the Townhouse for the Youth Offending Service accommodation requirements, including forming new spaces within the building.

4. Links to our Strategic Ambitions

- 4.1 This report links to the following strategic priorities in 'Everyone's Essex - Our Plan for Levelling up the County 2021-2025':
- Health wellbeing and independence for all ages
 - A good place for children and families to grow
- 4.2 This office accommodation will provide a base for Children and Families and Adult Social Care teams working in this part of the County that is well located and accessible for the residents that it serves.
- 4.3 Approving the recommendations in this report will support the Council's ambition to be net carbon neutral by 2030, by reducing the carbon footprint and improving the energy efficiency of the Council's property estate. The carbon footprint will be reduced as we consolidate our space and reduce our energy consumption. The heating and cooling systems and lighting in the new accommodation in Rowan House has been upgraded by CCC as part of refurbishment works to improve energy efficiency.
- 4.4 The proposed consolidation of office accommodation also aligns with the Property Strategy through providing fit for purpose accommodation for our services, enabling co-location and collaboration with partners whilst also achieving significant savings in running costs.

5 Options

5.1 Option 1 – Do nothing

This option is not recommended. Building utilisation data demonstrates the significant underutilisation of both Essex House and Stanwell House meaning that the current revenue costs of occupying these buildings do not provide value for money when compared to alternative options. The current building layouts also do not align with the new workstyles implemented by ECC which would require remodelling at significant cost if these buildings were to be retained.

5.2 Option 2 – Exercise the break clause in the Essex House and car park leases, relocate affected services to Rowan House under a new Lease agreement and to the Townhouse and dispose of or re-purpose Stanwell House.

This option is recommended. The revenue savings from breaking the Essex House and car park leases, together with revenue savings from vacating Stanwell House will contribute significantly to the overall revenue savings targets currently in place for ECC property. The sale or redevelopment, either by ECC or in partnership by a third party, of Stanwell House would realise a capital receipt or if the building was re-purposed and relet, this would generate revenue income. The co-location of Essex and Colchester City Council functions in one building will bring benefits for users of both Council's services. In addition, the fit out of the recently refurbished office provides a blank canvas

to deliver office accommodation that embraces and facilitates new ways of working which in turn will create a more vibrant collaborative work environment.

5.3 Other options considered

In June 2020 a review was conducted based on the possibility of ECC social care staff operating out of libraries and other front-line properties in north-east Essex. The review concluded that a significant investment would be required to enhance the welfare facilities and ECC network access whilst data safeguarding was also considered to be a risk hence this option was not taken forward. The Wilson Marriage Centre (ACL) was also considered at this time but was discounted due to legal and town planning restrictions.

Investigations into the local commercial office market included The Octagon Building, which is very close to Rowan House, but the rents were £3 per square foot higher for a poor specification workspace. Rowan House is considered to represent value for money in the context of the currently available rented office accommodation in Colchester.

6 Issues for consideration

6.1 Financial implications

- 6.1.1 The total estimated revenue cost associated with ECC teams relocating from Essex and Stanwell House into Rowan House including works to facilitate YOS move is £1.652m across 2022/23 and 2023/24, the table below shows how the expenditure is expected to be profiled across the financial years. It is requested that this be funded in full from the Transformation reserve, there is sufficient in the reserve to cover this request.

| Expenditure | Expenditure 2022/23 £ | Expenditure 2023/24 £ | Total £ |
|-----------------------------------|-----------------------------|-----------------------------|------------------|
| Decommissioning of Essex House | - | 628,020 | 628,020 |
| Decommissioning of Stanwell House | - | 9,975 | 9,975 |
| Rowan House Fit Out | - | 680,305 | 680,305 |
| IT Provision Expenditure | 22,772 | 1,375 | 24,147 |
| Change Management Costs | 9,760 | - | 9,760 |
| YOS Facilitating move works | - | 300,000 | 300,000 |
| TOTAL | 32,532 | 1,619,675 | 1,652,207 |

- 6.1.2 The costs highlighted above are all classified as revenue and associated with the fit out of Rowan House, works to facilitate YOS move out of Stanwell, as well as the dilapidation and decommissioning works for Essex and decommissioning at Stanwell House. The estimated cost above is based on a combination of service matter expertise and quotes from third parties. Contingency has been factored into certain cost lines, where relevant at 10% to mitigate against the risk of cost escalation.

- 6.1.3 By incurring the cost above, ECC is anticipating an overall reduction in annual revenue expenditure of approximately £676,000 per annum. This indicates a simple payback of 28 months, therefore this decision is deemed financially beneficially based on the current assumptions and estimates.

ECC's Medium Term Resource Strategy (MTRS) includes ongoing revenue savings that are currently not achievable without incurring the one-off costs associated with the activity recommended in this report.

- 6.1.4 To evidence the financial benefit associated with the relocation, the following tables show that the estimated running costs for Essex House and Stanwell House are expected to total £1.387m in 2023/24, compared to £710,974 for Rowan House. This delivers the ongoing revenue cost reduction of approximately £675,545 per annum at 2023/24 costs. The exact savings are shown in the Budget Position table below in paragraph 6.1.7.

| 2023/24 Forecast Expenditure under current service provision | | | | | | |
|--|----------------|-------------------------------|---------------------|-------------------------------|---------------|---------------------------|
| | Utilities £ | Rent & Service Charge £ | Business Rates £ | Facilities Management £ | Car Park £ | Total Expenditure £ |
| Essex House | 223,067 | 603,007 | 184,032 | 141,889 | - | 1,151,995 |
| Stanwell House | 69,074 | - | 74,158 | 91,292 | - | 234,524 |
| Total Revenue Expenditure | 292,142 | 603,007 | 258,190 | 233,181 | - | 1,386,519 |

| 2023/24 Forecast Expenditure - Recommended Option | | | | | | |
|---|----------------|-------------------------------|---------------------|-------------------------------|----------------|---------------------------|
| | Utilities £ | Rent & Service Charge £ | Business Rates £ | Facilities Management £ | Car Park £ | Total Expenditure £ |
| Rowan House | 118,736 | 367,818 | 126,743 | 43,077 | 54,600 | 710,974 |
| Total Revenue Expenditure | 118,736 | 367,818 | 126,743 | 43,077 | 54,600 | 710,974 |
| Annual Cost Reduction | 173,406 | 235,189 | 131,447 | 190,103 | -54,600 | 675,545 |

- 6.1.5 The full relocation from Essex House is not expected to complete until September 2023, when the break clause is actioned, therefore the £675,545 saving identified above will not be realised in full until 2024/25, only a part year effect will be achieved in 2023/24 of approximately £337,773 as shown in the annual savings table below.
- 6.1.6 The current revenue budget was built assuming that relocations outlined in this paper would take place in September 2023.
- 6.1.7 The table below highlights a gap between the original savings built into the MTRS and the current savings from this project shown above (6.1.4). This is due to the fact that the revenue budget for Rowan was not built to the required level. This is because certain costs were unknown at the time of budget setting due to the space requirements not having been finalised and terms not agreed with Colchester City Council.

| Budget Position | 2023/24 £ | 2024/25 £ | 2025/26 £ | 2026/27 £ |
|--|------------------|----------------|----------------|----------------|
| MTRS Saving - Essex House | 545,000 | 1,089,000 | 1,089,000 | 1,089,000 |
| MTRS Saving within base - Stanwell House | 180,266 | 180,266 | 180,266 | 180,266 |
| MTRS pressure within base - Rowan House | (270,954) | (270,954) | (270,954) | (270,954) |
| MTRS Carry Forward for 23/24 only | (228,000) | | | |
| Total budgeted Position. | 226,312 | 998,312 | 998,312 | 998,312 |
| Anticipated Essex & Stanwell Running Costs | 693,260 | 1,335,528 | 1,333,986 | 1,357,140 |
| Anticipated Rowan Running Costs | 355,487 | 692,696 | 694,753 | 706,905 |
| Total Anticipated Savings in CMA | 337,773 | 642,832 | 639,233 | 650,235 |
| Variance between budget and savings | (111,461) | 355,480 | 359,079 | 348,077 |

Please note that the Stanwell House MTRS saving was assumed to be achieved this year and is therefore built into the base budget.

- 6.1.8 As a result, there is an ongoing unfunded revenue pressure of approximately £355,000 per annum from 2024/25, requests for this to be built into the MTRS will follow in due course via the appropriate governance mechanism. There are currently deemed to be no other mitigations available within the service's revenue budget to cover this pressure outside those identified above.

6.2 Financial Benefits

- 6.2.1 In addition to the above revenue savings, further unquantified financial benefits associated with this decision are highlighted below:

- The future of Stanwell House will be guided by the emerging Colchester City Centre Masterplan and in line with ECC's Property Strategy. This could result in the disposal of Stanwell House and retention of a capital receipt by ECC. Any disposal may contribute towards the Annual Capital receipts target of £5m, but the expected market value at point of potential sale is unknown. Alternatively, Stanwell House may be retained and opportunities to generate ongoing revenue income considered, such as rent.
- As a result of reducing the number of buildings and overall footprint, there is a potential saving associated with the technology services contract. This is currently unquantified and will be established in conjunction with Technology Services and balanced against the new annual operating costs of ICT equipment at Rowan House to establish the saving position.
- A reduction in the annual cost of car parking provision across the 3 sites resulting in a potential ongoing revenue saving as a result of moving from Essex and Stanwell House. This will be dependent on the need to procure additional parking at Rowan House in excess of that set out in this report.

6.3 Financial Assumptions

- 6.3.1 The forecast expenditure is based on 2022/23 actuals applying assumed inflation rates as per 2023/24 budget setting. This includes the assumption that utility costs will reduce slightly in 2024/25 when compared to 2022/23 and revert back to a more stable position.

- 6.3.2 The forecast expenditure assumes that the break clause for Essex House, including the car park lease is exercised by September 2023 at no additional cost to ECC, including the disposal of Stanwell House and therefore ECC is not liable to cover any future running costs from the point of move. Due to the current uncertainty of the disposal route for this asset, no capital receipt has been built into the financial assessment at this stage, meaning an additional financial benefit could be achieved. However, the magnitude of this additional financial benefit is subject to market factors.
- 6.3.3 The majority of the forecast expenditure figures presented above for Rowan House have been provided by CCC via the draft Heads of Terms that have been agreed (including the Service Charge, Rent & Car Parking). The Business Rates have been provided by CCC based on the current rateable value. All other costs are based on quotes provided by external suppliers or have been estimated internally based on floor space.
- 6.3.4 The cost assumed above for the YOS move, totalling £300,000, is a high-level estimate based on the forecast cost of relocating to Townhouse. The preferred option is to relocate the YOS team based in Stanwell House to the Townhouse in Colchester which is used by the Youth Service. This proposal is currently under review and if not deemed feasible then an alternate solution will be selected within the funding envelope.
- 6.3.5 The building insurance costs associated with Rowan House lease are not currently quantified and factored into the above costings. These are not deemed to be material but once added could have a small impact on the annual financial savings above.

6.4 Financial Risk

- 6.4.1 There is a risk that the relocations outlined in this decision, do not achieve the planned timescales and therefore ECC is required to continue to pay for the running costs of Essex and Stanwell Houses as well as the running costs of Rowan House therefore reducing the annual saving associated with this project and the payback highlighted. This could lead to a revenue pressure, if alternative in year mitigations cannot be found.
- 6.4.2 There is a risk that the annual running costs associated with the YOS move fall to ECC to fund if Townhouse is not the selected location. If this risk materialises the costs will sit outside of the current revenue budget leading to an unfunded revenue pressure.
- 6.4.3 There is a risk that the costs associated with the relocation totalling £1.652m are underestimated and cost escalation occurs. Contingency has been factored in at 10% where relevant, but this risk remains. If it materialises it would lead to a revenue funding gap and additional cost mitigations would need to be found.

- 6.4.4 The lease costs associated with Rowan House as highlighted above are subject to upward only open market rent review in the third (2026/27) and sixth year (2029/2030), furthermore any growth in office rents in this interim period would be reflected in the rent reviews. This could have a future impact on revenue budgets.

6.5 Legal Implications

- 6.5.1 The current leases of Essex House and the Car Parks provide that ECC's right to break and end the leases. ECC are required to have paid all rent and charges and leave the building and car parks empty. Budget has been included to ensure that vacant possession is achieved.
- 6.5.2 By bringing the leases of Essex House and the Car Parks to an end, ECC will be liable for dilapidations depending on the state of repair and condition on exit and the lease provisions. Budget has been included to address anticipated dilapidations to be agreed with the landlord.
- 6.5.3 The Council's financial regulations state that all drawdowns from reserves must be approved by the Cabinet Member for Finance.
- 6.5.4 Drawing down of money from reserves does not authorise any expenditure that is a key decision or any significant changes to ECC services or funding which must be authorised by the relevant Cabinet Member

7 Equality and Diversity implications

- 7.1 The Public Sector Equality Duty applies to the Council when it makes decisions. The duty requires us to have regard to the need to:
- (a) Eliminate unlawful discrimination, harassment and victimisation and other behaviour prohibited by the Act. In summary, the Act makes discrimination etc. on the grounds of a protected characteristic unlawful
 - (b) Advance equality of opportunity between people who share a protected characteristic and those who do not.
 - (c) Foster good relations between people who share a protected characteristic and those who do not including tackling prejudice and promoting understanding.
- 7.2 The protected characteristics are age, disability, gender reassignment, pregnancy and maternity, marriage and civil partnership, race, religion or belief, gender, and sexual orientation. The Act states that 'marriage and civil partnership' is not a relevant protected characteristic for (b) or (c) although it is relevant for (a).
- 7.3 The equality impact assessment indicates that the proposals in this report will not have a disproportionately adverse impact on any people with a particular characteristic.

8 List of Appendices

8.1 Confidential Appendix – Heads of Terms for ten year Lease

8.2 Equalities Comprehensive Impact Assessment

9 List of Background papers

9.1 None

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| I approve the above recommendations relating to my portfolio set out above for the reasons set out in the report. | Date |
| Councillor Chris Whitbread, Cabinet Member for Finance, Resources and Corporate Affairs | 16.02.2023 |

In consultation with

| Role | Date |
|---|------------|
| Executive Director, Economy, Investment and Public Health | 16.02.2023 |
| Tom Walker | |
| Executive Director, Corporate Services (S151 Officer) | 15.02.2023 |
| Stephanie Mitchener on behalf of Nicole Wood | |
| Director, Legal and Assurance (Monitoring Officer) | 09.02.2023 |
| Laura Edwards (on behalf of Paul Turner) | |