

HERTFORDSHIRE COUNTY COUNCIL

**CABINET
MONDAY, 9 JULY 2018 AT 2.00PM**

THE COUNTY COUNCIL OFFICE ACCOMMODATION STRATEGY

Agenda Item

No.

10

Report of the Director of Resources

Author: Trevor Mose (01992 556658)

Executive Member: Ralph Sangster– Executive Member (Resources, and Performance)

1. Purpose of report

- 1.1 To seek Cabinet approval of the revised Office Accommodation Strategy and the consequential recommendations relating to properties in Hemel Hempstead and Welwyn Garden City.

2. Summary

- 2.1 The County Council has embarked on journey towards changing its working culture and methods to achieve a more flexible and cost effective way of working. Under the auspices of the Smart Working Programme a number of work streams have been identified including, culture change, communications, digital, commercial, prevention and property. This report concerns the property work stream and has been brought to members in advance of main smart working strategy for two reasons. The first is that an opportunity has arisen, due to lease break points, to affect significant savings in accommodation costs. The second reason is that a significant amount of preparatory work is required to fully map out the smart work programme design and therefore early work must be commissioned to inform a subsequent full Smart Working report.
- 2.2 The revised Office Accommodation Strategy will support the continued delivery of high quality services to Hertfordshire by providing staff with a range of fit for purpose locations where they can work. Modern work places are both necessary and expected and will help attract and recruit staff and enable Smart Working.
- 2.3 The strategy is consistent with the Asset Management Plan principles and will deliver significant financial savings to the authority which are part of the current Integrated Plan.

3. Recommendations

- 3.1 Cabinet is invited to agree the Office Accommodation Strategy set out in the report, and also:
- (i) to delegate to the Director of Resources in consultation with the Executive Member for Resources and Performance authority to conclude the negotiation of a new lease on Apsley 1, agree final financial terms, as set out in Part II of the report, and enter into the required legal documents, in a form approved by the Chief Legal Officer;
 - (ii) to delegate to the Director of Resources in consultation with the Executive Member for Resources and Performance authority to conclude the negotiation of revised lease terms at Mundells, agree final financial terms as set out in Part II of the report and enter into the required legal documents, in a form approved by the Chief Legal Officer;
 - (iii) that the Director of Resources shall undertake feasibility assessing of the development options at County Hall;
 - (iv) approve the allocation of £0.5m from the Invest to Transform fund to meet the costs of the preparatory work at Apsley and Mundells;
 - (v) to delegate to the Director of Resources, in consultation with the Executive Member for Resources and Performance authority to agree the final financing arrangements for a budget of up to £2m to cover refurbishment works at Apsley 1 and enabling works for Apsley 2; and
 - (vi) approve the inclusion of dilapidations costs for the Apsley 2 lease surrender in the next Integrated Plan.

4. Background

- 4.1 The Office Accommodation forms a significant part of the County Council's property portfolio and has a significant role to play in the way staff perform their daily work. Changing the way staff use accommodation has the potential to deliver significant savings to the organisation. Property was set the target of achieving 25% saving by 2020 as part of the smart working programme and, whilst the numbers were inexact, this reflected the level of ambition that was desired. Overall analysis showed that 25% of the costs of the office portfolio were £2.7m.
- 4.2 An assessment of strategic options suggested that the level of savings were achievable subject to a review of the office accommodation strategy and the County Council utilising the opportunity presented by lease breaks.

- 4.3 The key principles of an Office Accommodation Strategy form part of the overall County Council Asset Management Plan. These are:
- Provide office accommodation to enable staff at the County Council to deliver services to the people of Hertfordshire.
 - Provide flexible, strategically located working spaces that support staff to deliver high quality services, in accordance with our Smart Working principles.
 - To support a reduced reliance on main offices to deliver resilient services and offer location flexibility.
- 4.4 The Asset Management Plan sets out a presumption in favour of ownership (over leasing) to increase control and reduce risk in relation to the financial impact of rising market rents. This presumption remains in place.

The Vision for the County Council's office accommodation strategy

- 4.5 Hertfordshire County Council will provide staff with access to flexible, modern office space at a range of sites across the county for the purposes of delivering the Council's work for the citizens of Hertfordshire. Accommodation will form part of a holistic offer supported by technology that will enable modern working practices and culture and effective and efficient service delivery.

In The Right Location

- 4.6 Locations will reflect the spread of population across multiple population centres that characterises Hertfordshire and the need for flexibility in the long term.
- 4.7 The County Council will provide three main office sites in three key geographical areas: Apsley (west), Hertford (south east) and Stevenage (north). This will enable all staff operating within Hertfordshire to be able to access customers or service delivery sites within a reasonable time and distance of a touchdown or main office site. These offices will ultimately have redesigned office spaces modernised and fitted out to an agreed countywide design specification.
- 4.8 Each main office location will provide a range of working options to reflect the full range of activity expected to be undertaken by staff including:
- Democratic functions and public meetings
 - Team working space
 - Meeting space
 - Areas for collaboration
 - Quiet working space

- 4.9 The County Council will continue to work with local authority and other public sector partners to extend the range of options which can be supported through the continued roll out of technology to support Smart Working.
- 4.10 In addition, touch down hubs will be provided in Hemel Hempstead (Jarman), Potters Bar (Cranbourne Centre), Letchworth (Centenary House) and Hoddesdon to provide alternative office locations as well as a network of smaller touchdown facilities in a variety of locations around the county to prevent staff needing to travel across county to find a work space.

With The Right Environment & Technology

- 4.11 Offices will be modern and flexible to adapt to a range of staff needs. Spaces will be fitted with appropriate technology to enable staff to work anywhere in a range of ways from:
- Quiet working
 - Collaborative team space
 - Meeting spaces fitted with conference technology and collaborative working tools
- 4.12 A design principle will be developed by the Director of Resources and implemented across all sites to ensure a uniform technology and office accommodation offer.
- 4.13 With an agreed and unified office design, staff will know what to expect at each of our sites:
- Appropriate space for them to work in the style their work requires
 - A high level of collaborative areas
 - A variety of different types of desk spaces
 - Working technology in meeting rooms and collaborative spaces
 - A visually modern environment
- 4.14 The speed with which this can be achieved will largely depend on the availability of funding for new layouts and capacity to manage the works. Capital funding has been allocated to support office accommodation on a rolling programme rather than a wholesale change. Similarly, capital funding for the roll out of technology has been increased in order to speed up the delivery of technology to support the cultural change required.

Maximise Effectiveness and Efficiency of Service Delivery

- 4.15 The provision of the right working environments and equipment are key enablers for staff to deliver efficient services to citizens. The Smart Working programme will support Property in delivering this strategy and

recognises that whilst many members of staff have embraced smart working, there is more to be done. The Smart Working Programme will aim to bring about the cultural shift required to fully maximise the potential of this strategy and foster a flexible working environment that focuses on work as a thing we do, not a location we go to.

- 4.16 The Smart Board will take a lead role in driving the cultural change including behaviours, technology, staff travel and management culture. Staff will be encouraged to:
- Work flexibly in a variety of locations not at a fixed desk (unless profiles dictate otherwise)
 - Use technology to reduce the need to travel for meetings
 - Embrace the use of touch down locations to prevent unnecessary additional travel

What will the office portfolio look like in.....?

0-5 years

- 4.17 The County Council's office accommodation needs will be provided based on a multi-site model utilising the existing three main sites, Stevenage, Hertford and Apsley. By capacity Stevenage would be the largest however both Apsley and Hertford play significant parts in supporting service delivery in south, west and east Herts. In this respect they will all be considered as main offices and will provide staff with modern suitable accommodation. Hertford will remain the democratic hub. Location flexibility will be provided through a network of touchdowns as well as through the roll out of technology that enables flexible working outside of County Council accommodation.
- 4.18 Each location will be fully equipped as a modern office utilising modern space standards including facilities to purchase hot and cold food. Limited parking will continue to be available on a first come first basis with a range of interventions and incentives to manage demand and promote alternatives put forward through a staff travel plan.
- 4.19 Office design will be in accordance with the latest national TW3 (The Way We Work) office design standards, currently being signed off by Smart Working Board, and these will set out a high level of workplace flexibility with a significant proportion of collaborative space designed to support interaction and information exchange. Office designs will be rolled out as and when staff and teams are relocated.
- 4.20 Key activities:
- County Hall – continued refurbishment of County Hall offices to new modern standards and support for relocating teams to ensure most effective use of spaces. Long term investment in old block and

Registry Office Block (ROB); feasibility of development potential progressed and ongoing

- Stevenage – gradual roll out of modern workplace environment as and when teams change; active marketing / leasing of Abel Smith House to third parties – on going
- Apsley – formal decision to stay at Apsley in one building only which will be redesigned and modernised – decision May / June 2018 – implementation to lease expiry in 2020
- Mundells – negotiate deferred break in lease and flexibility to sub-lease; re-location of core County Council staff from Mundells in favour of paying third parties (to off-set holding costs) – decision May / June 2018 – fully traded by 2020

5-10 years

- 4.21 Future accommodation needs remain uncertain in a complex local government and wider public sector landscape. Potential NHS and or local government reorganisation cannot be ruled out. Further discussion with One Public Estate partners and central government will be needed.
- 4.22 The County Council's office accommodation can continue to be provided from three locations with a gradual shift in emphasis from Hertford to Stevenage. The Council's accommodation at County Hall will be reduced in order to realise development potential of the new block and wider site and retain a smaller office supporting democratic hub and local service delivery.
- 4.23 County Council retains flexibility at Apsley with the ability to exit the lease.
- 4.24 The Stevenage campus has the capacity for further consolidation by not renewing leases with third parties at Abel Smith House.
- 4.25 The following sections set out the basis of the individual recommendations.

5. Apsley

- 5.1 The County Council currently leases two office properties in the south west of the County. The properties comprise two self-contained office buildings:
- Apsley One (Meadowside House) is a two storey building located on the southern side of the site. Apsley One benefits from tarmac-covered surface car parking around the perimeter of the building with approximately 174 car parking spaces.

- Apsley Two (Network House) has two storeys above ground plus a basement and is located in the north east corner of the site. Apsley Two benefits from basement parking and tarmac-covered surface car parking around the perimeter of the building with approximately 236 car parking spaces.

5.2 The current leasehold position is as follows:

Apsley 1 - Meadowside House (4,036sqm / 43,452sqft net)
 Passing rent £607,068 pax (£14 per sqft)
 Lease expiring 11th Oct 2020

Apsley 2 - Network House (6,330sqm / 68,137sqft net)
 Passing rent £956,000 pax (£14 per sqft)
 Lease expiring 11th Oct 2021

Total site area: 2.821ha (6.971acre).

- 5.3 The expiry of the current leases in 2020 and 2021 provide the County Council with a window of opportunity to review whether Apsley is the best place to provide the accommodation needs of the Council. A 12 month notice period is required in the event that the County Council wish to extend or renegotiate the lease. An early decision will be advantageous in any negotiation.
- 5.4 The current accommodation at Apsley has not been modernised since 2005 and includes significant void space which will increase when existing NHS teams vacate later in 2018. Modelling the accommodation to current space standards would suggest that the same number of staff could be accommodated within half the floor area currently available at Apsley (i.e. c. 40-50k sq. ft).
- 5.5 The accommodation serves primarily Children's Services and Adult Care Teams. Initial consultation with staff in Apsley has been undertaken and further work will need to be undertaken as part of any move.
- 5.6 Recent property searches identify very few freehold or leasehold alternatives in the Hemel Hempstead area. Those sites that might be available for lease are attracting rental values up to 30% higher than our current lease. Other locations that could serve the west of the county, like Watford, are generally more expensive still. An active eye is being kept on the market for relevant property.
- 5.7 The costs of building a new office of the required size have been estimated at £7m plus the costs of fitting out and land acquisition. There is no County Council land in the area considered suitable. Other potential land, for example Kings Langley, would be reliant on the completion of the local plan process before it could be considered for commercial use and could be considered at a suitable point in the longer term.

- 5.8 A new site will incur significant costs for the County Council and disruption for staff, particularly if this was in a new location. Whilst a new office could be smaller, and therefore cheaper, the likely increased cost per sq ft (outlined above) and the costs of moving / displacement would undermine the case to relocate. The current travel time data suggests that Apsley is well placed for the area it serves. In addition, there are currently no feasible alternative locations and there is a real risk that no suitable accommodation can be found regardless of the cost. It is recommended that this option is not pursued.
- 5.9 Similarly a review with public sector partners has not identified any opportunity to share accommodation or join up to provide future needs. Dacorum Borough Council has recently reopened a renewed civic centre, Hertsmere and Watford have insufficient space and no plans for moving. Three Rivers is considered to be in the wrong location (i.e. wrong side of Watford) to serve West Herts.
- 5.10 Overall it was concluded that the County Council should seek to secure continued accommodation of the office at Apsley but to reduce its footprint to one building.
- 5.11 Options to acquire the freehold have been explored, although the landlord is only willing to concede the freehold of both offices in one transaction. In order to review the viability of this option, advice has been sought from Herts Living and Chalkdene Developments. This has concluded that whilst a case could be made it introduces significant risk and complicates implementation of the strategy. Apsley is not seen as an investment opportunity and therefore a simpler renegotiation of the lease is recommended.
- 5.12 Heads of terms have been reached with the Landlord for a favourable outcome that will deliver significant financial benefit to the authority.

6. **Mundells, Welwyn Garden City**

- 6.1 The premises at Mundells comprise a detached warehouse and office building on a self-contained site. The building was constructed in circa 2005 and was purpose-built for the County Council. It comprises a triple bay warehouse building with three-storey integral offices. There is a staff canteen and print room within the warehouse with mezzanine storage and plant room above.

Approximate Floor areas

| | Sq ft (GIA) | Sq m (GIA) |
|-----------------------------|--------------------|-------------------|
| Warehouse | 100,000 | 9,300 |
| Offices and Ancillary Areas | 22,500 | 2,100 |

Current Total occupation costs (disregarding contract income and internal rent):

| Financial Year | Rent | Rates | Outgoings | FM Costs | Total |
|----------------|------------|----------|-----------|----------|------------|
| 2017/18 | £1,029,979 | £440,227 | £301,000 | £299,964 | £2,071,170 |

6.2 The current lease arrangements are as follows:

- 25 years from 25 Dec 2005
- For the purposes of the rent review the total gross internal floor area is specified as £123,731sqft
- Revised rent effective 24 February 2016 of £989,850, (£8 per sq ft) plus an additional rent of £40,129.05 (to reflect capitalisation of additional works) – total £1,029,979.05 per annum (£8.32 per sqft)
- Full repairing obligation - 5 year internal and 3 year external redecoration
- Permitted use is flexible – B1, B2 & B8
- Assignment of the whole is permitted
- Subletting of the whole or ‘permitted parts’ at market rent
- A ‘permitted part’ - any part of the warehouse and/or a whole floor of the offices, subject to a maximum of two under leases being created
- Internal non-structural alterations permitted without landlord’s consent, to be reinstated upon termination of the lease at the Landlords request
- Break clause 25 December 2020 operable by formal notice of not less than 12mths (time being of the essence). The break is conditional upon rent having been paid up to the Determination Date (may require payment of the full December quarter’s rent)

6.3 The opportunity to renegotiate the lease ahead of a lease break in December 2020 provides the County Council with a limited window of opportunity to negotiate. A minimum of 12 months’ notice is required however it is advisable that the County Council determines its position sooner to enhance its negotiating position with the landlord. There are also related decisions that can be made if terms are agreed by June 2018 and therefore a decision is needed now to secure the most favourable offer.

6.4 Mundells is primarily a warehouse and was acquired to support Herts Business Services in 2005. The 2017-2021 Business Plan for what is now known as Herts Full Stop (HFS) sets out the challenges presented by the current building and the likely future needs of the business. This can be summarised as:

“Staying at Mundells adds a complication and potential liability for the County Council should they choose to realise HFS as an asset. A standalone building (developed/purchased or leased (subject to terms)) supports the creation of strategic options for the County Council in respect HFS.” HFS Business Plan Section 5.

- 6.5 The office accommodation at Mundells is large compared with similar warehouse units. As a result it was always too big for HFS and is occupied by the County Council service teams and Herts Catering. Although it was never formally part of the office portfolio its use has grown organically in order to utilise the space. The revised office accommodation strategy re-confirms that Mundells is not needed as part of the office portfolio and instead any decision should be based on the ongoing need for the warehouse and the ability of the office space to generate income to offset the lease cost through sub-leases to partners and third parties.
- 6.6 In essence the building is too large for HFS's current requirements and hence why it has been appropriate to share the accommodation with other users and services. Current occupants are:
- Herts Business Services
 - Herts Equipment Services
 - Hertfordshire Catering Limited
 - Childrens Services (Services for Young People)
 - Community Protection
- 6.7 If the lease break were to be exercised all the above services would be displaced. A number of options have therefore been explored to inform whether it would be appropriate to exercise the 2020 lease break:
- A. Exiting and constructing a new facility on County Council land – the potential to construct a new warehouse was modelled on the former Kodak site in Stevenage. The local planning authority is not supportive of this approach and outstanding risks associated with the acquisition make this unlikely. The ability to deliver a new scheme in another location within the necessary timescales would also now be remote. Evaluation of the return on investment would be needed and is not currently part of the HFS business plan. This option is therefore ruled out.
- B. Exiting and purchasing or leasing a new facility – There are no suitable freehold warehouse premises currently available elsewhere in Hertfordshire and there is a reluctance amongst developers and investors to sell existing given the current strength of the market – which is in turn being driven by a lack of stock. Costs would be slightly cheaper due to the smaller footprint however the costs to move, as well as pay exit costs (dilapidations etc.) at Mundells would offset this for the first 4-5 years of occupation (est. £250k). This option could be considered but lack of availability means it is not currently viable and is therefore ruled out.
- C. Staying, sub-dividing and sub-letting - Reconfiguration of current operations could free up sufficient space in the warehouse to reduce the costs for HFS and enable formal (but minimal)

subdivision and letting to a third party (approximately 3,158sqm / 34,000sqft). It is estimated that this could attract circa £500,000pa via an 'all in one' quarterly payment (rather than rent, rates, service charge etc. individually). As there remains little available warehouse stock within the immediate surrounding area of this size (30 – 50,000sq ft) a good level of interest in short-term sub-letting could be expected. The downside of short term flexible arrangements is that they will inevitably give rise to periodic income voids. In addition the potential to maximise rental income must be balanced against finding an occupier that is broadly compatible with the other service uses on site - to avoid creating additional pressures on parking and service access in particular as these could otherwise significantly hinder service delivery. We would look to target a single occupier as more than one would cause a management issue. This option would generate income to offset costs and is preferred.

D. Staying and alternative use by the County Council - the potential to utilise any void space for other storage such as archives, equipment, and document storage is being considered. Potential demand across the County Council and other public sector partners is being assessed and due to completed prior to commencing marketing of the surplus warehouse space. Although it would be unlikely to offer as favourable returns as option C. it could offer a means to offset costs incurred elsewhere in the event that the lease break was not exercised.

6.8 Option C is the recommended approach and therefore initial negotiations are underway with the landlord to secure a favourable position. Financial Terms are set out in Part II.

6.9 In either case existing County Council teams will be relocated to other main office sites in order to sub-let space at Mundells on commercial terms to traded partners and third parties.

7. County Hall, Hertford

7.1 Consultants have been commissioned to review the development potential and other issues associated with the County Hall site to inform long term planning. Initial conversations have indicated support for exploring their recommendations further. These include:

- To assess the long term development potential of the new block and multi storey car park, its viability and implications
- To assess the capacity of the old block to continue to provide office accommodation for the authority

7.2 Officers would like to undertake consultation with staff and members on a range of scenarios to inform future decisions. Detailed feasibility needs to be undertaken to inform future recommendations.

8. Financial Considerations

- 8.1 The Office Accommodation Strategy will support the delivery of existing Integrated Plan targets for Property Review & Rationalisation which set out £1.487m of savings by 2020 (of this total £1.1m related to the areas covered in this report). The recommendations will however deliver further savings beyond this which will support the Council in managing the budget gap. This is expected to deliver nearly £1.6m per annum from 2022 – which exceeds the IP target and will help close the budget gap the Council faces. There are shortfalls against the IP target in the next two financial years – but it is expected that income from Mundells will help close that gap (and increase savings further in later years). Specific savings attributable to individual decisions are commercially sensitive and contained within Part II.
- 8.2 In order to deliver this accommodation strategy, a significant amount of preparatory work will need to be done. The work includes building services design, smart working interior design work, information technology temporary installations, lease negotiation and legal fees together with significant project management and communications cost for all work streams. A budget of approximately £500,000 is needed to design and plan the property projects and the Smart working work streams that inform the project design. As such, approval is sought from invest to transform funding to meet these costs. This funding will be non-repayable, as all savings will be included in the Integrated Plan. This preparatory work will also help support the outline business case for the Smart Working invest to transform bid that will be presented to Cabinet at a later date (see 8.5 below).
- 8.3 In addition to the initial work streams, there will be a refurbishment cost for Apsley 1 and costs involved in re-configuring Mundells to allow 3rd party lettings. The total cost of this work cannot be fully quantified until the initial work is carried out, however, early estimate indicate that the work should cost between £1m and £2m. A capital budget for this work was included in the Integrated Plan approved by Council in February 2018. Until the actual work to be undertaken is known, it is not clear whether this would be classed as capital or revenue. If any elements are deemed to be revenue, then it will be necessary to revisit the financing at that point, and consider options including the Invest to Transform fund or the Investment Reserve. It is recommended that delegated authority is provided to the Director of Resources, in consultation with the Executive Member for Resources and Performance, authority to agree the final financing arrangements when plans are known
- 8.4 The changes to the lease arrangements at Apsley (the reduction from two buildings to one) will commit the Council to meeting dilapidations costs on the unit it relinquishes. These costs are not currently

budgeted, and are likely to be incurred in 2021. It will be necessary to include these costs in the next Integrated Plan (noting that the Integrated Plan ultimately needs Council approval). Approving the recommendations in this report will commit the Council to these costs.

- 8.5 The Council is also working on how the working practices established at Apsley can be rolled out across the Council. This is likely to need Invest to Transform funding and the business case development will be led by the Smart Working programme. This bid will articulate in greater detail the resource requirements of the full Smart Working Programme including significant investment in culture change, project management, investment in technology and equipment, delivery of redesigned County Hall offices and resource to support staff through the changes. Again it should be stressed that this is about a county wide roll out of the practices, and not specific to this accommodation strategy.

9. Equalities Implications

- 9.1 When considering proposals placed before Members it is important that they are fully aware of, and have themselves rigorously considered the equalities implications of the decision that they are taking.
- 9.2 Rigorous consideration will ensure that proper appreciation of any potential impact of that decision on the County Council's statutory obligations under the Public Sector Equality Duty. As a minimum, this requires decision makers to read and carefully consider the content of any Equalities Impact Assessment (EqIA) produced by officers.
- 9.3 The Equality Act 2010 requires the Council when exercising its functions to have due regard to the need to (a) eliminate discrimination, harassment, victimisation and other conduct prohibited under the Act; (b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it and (c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it. The protected characteristics under the Equality Act 2010 are age; disability; gender reassignment; marriage and civil partnership; pregnancy and maternity; race; religion and belief, sex and sexual orientation.
- 9.4 The proposed Office Accommodation Strategy will continue to ensure the staff have access to a range of workplaces to deliver their roles. Consideration of the need of individuals will continue to be made to ensure the requirements of the Equality Act 2010 are taken in to account to:
- (a) eliminate discrimination, harassment, and victimisation
 - (b) advance equality of opportunity
 - (c) foster good relations between staff.

9.5 An Equality Impact Assessment (EqIA) has not been undertaken as the proposals do not fundamentally change the availability of office space. The new office design principles are consistent with Cabinet Office design principles (The Way We Work).