

From: Rebeca Spore, Director of Infrastructure

To: Peter Oakford – Deputy Leader and Cabinet Member for Finance, Corporate and Traded Services

Subject: Property Accommodation Strategy – Strategic Headquarters (SHQ)

Key decision Yes - The delivery of the strategy is likely to involve expenditure / savings in excess of £1m.

Classification: Unrestricted Report with Exempt Appendix A and B – *not for publication. Paragraph 3 of Schedule 12A of the Local Government Act 1972, as amended, refers.*

Past Pathway of report:

Policy and Resources Cabinet Committee, 11th September 2020

Policy and Resources Cabinet Committee, 6th November 2020

Policy and Resources Cabinet Committee, 13th July 2021

Policy and Resources Cabinet Committee, 24th March 2022

Policy and Resources Cabinet Committee, 23rd November 2022

Future Pathway of report: Cabinet Member decision.

Electoral Division: All

Summary:

This report seeks to update the Policy and Resources Cabinet Committee following the decision 21-00064 on 13 August 2021 which confirmed a preferred option for the development of the Kent County Council (KCC) Property Accommodation Strategy for its Strategic Headquarters. The report sets out changes in the operating environment, the options that are now being considered and the preferred option.

Recommendations:

The Policy and Resources Cabinet Committee is asked to consider and endorse or make recommendations to the Deputy Leader and Cabinet Member for Finance, Corporate and Traded Service on the proposed decision to:

- 1) AGREE to discontinue with the Preferred Option as set out decision 21-00064;
- 2) NOTE AND AGREE the current business case and Value for Money assessment recommendations and that a further market test of Sessions House will be progressed to enable the next steps and approach to be agreed;
- 3) ALLOCATE £3.4m from the 2023-33 approved capital budget to enable the essential and urgent backlog maintenance works at Invicta House to be completed; and
- 4) AGREE to delegate authority to the Director of Infrastructure in consultation with the Deputy Leader and Cabinet Member for Finance, Corporate and Traded Services,

Corporate Director, Finance and General Counsel to authorise the execution of necessary contractual and land agreements required to implement the above.

1. Introduction

1.1 A report was provided to the Policy and Resources Cabinet Committee on 11 September 2020, on the preparation of a Strategic Outline Case (SOC) that reviewed the options for the future of the Headquarters Estate centred around Sessions House. This was reviewed by the Committee on the 6 November 2020, where it was agreed that the options appraisal should be revisited, taking into account accommodation changes following the COVID-19 pandemic.

1.2 The key policy drivers to change the office estate are as follows:

- Kent County Council's commitment to an inclusive workplace
- Carbon Neutral by 2030
- Condition and suitability issues
- Reduced Requirement for office space that is more effective and affordable
- Supporting regeneration and Place making

1.3 Following consideration of the revised options, on 13 July 2021, the Policy and Resources Cabinet Committee received an update on the Office Accommodation Strategy that specifically addressed KCC's Maidstone office assets, Invicta House and Sessions House (referred to collectively as SHQ).

1.4 Following this meeting, the Deputy Leader and Cabinet Member for Finance, Corporate and Traded Services took decision 21-00064 on 13 August 2021 to progress with the marketing of Blocks A, B and E of Sessions House for disposal and to develop an option for the refurbishment and modernisation of Blocks C and D predominately for civic uses and Invicta House as a staff hub.

1.5 On March 24 2022, the Policy and Resources Committee received an update on the progress of the project following the decision 21-00064. RIBA Stage 1 had been completed for the Masterplan, including development of design options for Blocks C and D of Sessions House and Invicta House, with RIBA Stage 2 designs due for completion in summer 2022. The marketing exercise for the disposal of Blocks A, B and E of Sessions House was noted to commence summer 2022.

1.6 RIBA Stage 2 design progression and subsequent Final Design Report for the '2021 Option' was completed in June 2022. The cost plan associated with RIBA stage 2 indicated a capital cost of £56.8m.

1.7 In October 2022, given the Council's significant financial challenges, the Deputy Leader and Cabinet Member instructed officers to pause design work for the 2021 option and revisit the scope and present lower capital cost options. The £35m capital budget allocated to the project was reduced to £20m and endorsed by full Council in February 2023.

1.8 On 23rd November 2022, the Policy and Resource Cabinet Committee were presented with a longlist of 6 options for consideration. It was noted that Option 1 (The July 2021 Option) and Option 2 (Retain and expand Invicta House and utilise other KCC

accommodation) were not being progressed further due to the high capital cost requirement of each, exceeding the revised maximum budget of £20m and were therefore discounted from further consideration as shortlisted options.

1.9 The four remaining lower capital cost options, as outlined in section 2, were shortlisted for further consideration and developed in further detail with both qualitative and financial assessments to be undertaken.

1.10 In December 2020, the Council established its Strategic Reset Programme (SRP). Future Assets including the future of SHQ is one of the 13 strands of the SRP. The future of SHQ will influence the accommodation provision across the remainder of the office estate and the delivery of £2.231m revenue savings, which was agreed by full Council and is in the medium-term financial plan (MTFP) as a result of a smaller and more efficient office portfolio.

2. Refresh of the SHQ Options

2.1 The Business Case setting out the consideration of the shortlisted options is included within the Exempt Appendix A.

2.2 Historic under-investment in the estate over many years has created a significant maintenance backlog. As a result of this backlog and the limited suitability of buildings, many services are delivered from buildings that offer a poor user experience. In some cases, staff and service users have had to work in restricted and challenging environments due to condition problems which have resulted in the need to temporarily close areas of buildings or a whole building due to health and safety concerns.

2.3 Due to the limited resources available, urgent health and safety spend is often prioritised meaning that suitability and accessibility issues are rarely addressed with management actions often put in place to enable services to function. i.e. location of functions is driven by the need for accessibility not strategic location and need. The parts of the SHQ campus in Sessions House that were in particularly poor condition (namely Blocks A, B & E) have not been reoccupied since the COVID-19 pandemic.

2.4 While KCC has committed to being carbon neutral by 2030, given the revised financial constraints and a maximum capped budget of £20m, the reduction of the KCC carbon footprint can only be achieved through this programme via a reduction in the estate footprint. Due to the size of the estate and the large building footprint along with the inefficiencies of operating out of some of the current buildings, the current estate, including its office estate, accounts for 46% of the current total emissions that KCC produces.

2.5 Annual revenue running costs are approximately £6.5m across KCC's office estate including SHQ with 3,300 tons of carbon produced. The reduction in the size of the estate (variable subject to selected option) will therefore partly address these figures but KCC's target will not be fully realised by this. To meet the target set other measures across the estate will need to be implemented.

2.6 The key drivers for the project within the £20 million cap are therefore:

- **Address Critical backlog Maintenance** - Address Critical Red and Amber backlog condition works to ensure estate is Warm, Safe and Dry (WSD).

- **Reduce ongoing future maintenance** - Through addressing backlog maintenance the future ongoing planned preventative maintenance (PPM) works are reduced and can be planned in an efficient manner.
- **Provide accommodation requirements** - Provide accommodation in line with the minimum accommodation requirements schedule for the new SHQ provision.
- **Rationalise under-utilised estate** - Reduction in the size of the SHQ estate by disposing of unused accommodation which in turn reduces future ongoing liabilities from upkeep and holding costs.

2.7 Four shortlisted options have been identified with the capital cost implications as follows:

- Option 3 - £20m Capital Cost
- Option 4 - £15m Capital Cost
- Option 5 - £6.4m Capital Cost
- Option 6 - £7.7m Capital Cost

2.8 The capital cost estimates have been calculated based on a number of assumptions and high-level indicative cost estimates as highlighted in the risk sections. Please refer to Exempt Appendix B for full summary of options.

3. Qualitative Assessment Criteria for Business Case

3.1 The Business Case identifies a number of critical success factors upon which the qualitative evaluation has been completed.

3.2 The rationale for selection of the critical success factors is detailed below. The qualitative evaluation contains critical pass/fail criteria with the scored element carrying an overall weighting of 30% and finance 70%. This recognises the importance of the financial drivers.

Project Objective	Weighting	Rationale for Critical Success Factor being selected
Accommodation Requirement Minimum Accommodation Delivered for SHQ	Pass / Fail	Minimum Accommodation requirement can be met to deliver: <ul style="list-style-type: none"> • Members spaces • Corporate Management Team (CMT) Provision • Governance and Legal • Facilities Management (FM) (Partial) • Core Officers Accommodation • Reception / waiting area • Circulation • Plant and Storage
Location Location is accessible, for staff, visitors and partner organisations	Pass / Fail	Location of SHQ must have good transport links for access by staff, visitors, partner organisations and members of the

		public as the democratic centre for the Council's operations.
Accommodation Quality Addressing Backlog Maintenance	Pass/Fail 10%	Objective set to assess the extent that the option addresses urgent backlog maintenance (Red and Amber 1 – 5 years) for buildings that are retained.
Accommodation Requirement Reduce staff space requirement for SHQ from previous pre-covid space levels, whilst ensuring a critical mass of staff are still located together in a single location with adequate space provision. Release surplus capacity in order to reduce the total KCC estate.	10%	A significant cluster of strategic staff can be accommodated together to enable strategic services across key services to come together
Accommodation Requirement Desirable Accommodation Delivered for SHQ	5%	Includes a Council Chamber
Accommodation Quality Provides accommodation which enables inclusive access for all.	5%	As an inclusive employer, a suitable level of accessibility can be achieved.
Impact of Change Minimises organisational change	20%	Objective set to establish the impact that each option would have on organisational change to staff contracts and impact on staff retention and morale.
Deliverability (MOJ Covenant) Risk associated with ability to deliver the option	10%	Objective set to establish the deliverability of the option in the context of the ability to lift or vary the Ministry of Justice (MOJ) covenant
Deliverability (Market Appetite) Risk associated with ability to deliver the option	30%	Objective set to identify the market appetite for disposal and commercial viability to deliver a s.123 compliant disposal (assuming sold with vacant possession)
Deliverability (Construction Delivery) Risk associated with Construction phase delivery of the project	10%	Objective set to identify the level of certainty to complete the construction works within the project tolerances (scope, budget, and programme)

3.3 The full Qualitative Scoring Matrix is set out in more detail in the Exempt Business Case Appendix.

3.4 Based on the qualitative assessment both Option 4 and 6 fail key evaluation criteria for different reasons as set out in the Exempt Appendix.

3.5 Only the remaining Options 3 and 5 therefore progressed following the qualitative assessment. Option 3 and 5 are both centred around KCC existing accommodation in Maidstone (Sessions and/or Invicta House). Option 6, which considered locations outside of Maidstone, was discounted.

4 Financial and Value for Money Assessment of Options

4.1 The detailed financial analysis and assessment of the options is set out in the Final Business Case and has been undertaken by the Council's Finance Team. The calculations are set out in an Exempt Appendix and are based on a range of assumptions and high-level indicative cost estimates as highlighted in the risk section below.

4.2 The capital programme includes an allocation of £20m funded by prudential borrowing for the Strategic Office Estate, which will be used to take the preferred option forward.

4.3 The financial assessments cover the medium-term (five years), and also a 40-year lifespan for a building project. Consideration has been given to:

- a. how much each option costs relative to the current approved capped budget of £20m;
- b. how each option delivers against the existing annual revenue savings target of £1m attributed to SHQ; and
- c. how the capital investment for each option addresses the current identified backlog maintenance and reduces future investment needs.

4.4 Each financial consideration has been weighted using the following weighting and rationale:

- a. Weighting of 35% reflects the scale of the approved £20m capital budget in the current economic climate, the associated cost of borrowing (£1.4m pa) and its resultant impact on the revenue budget.
- b. Weighting of 20% reflects relativity to the capital costs and the importance of delivering the MTFP savings target of £1m pa. (Revenue savings do not take into account the costs of borrowing).
- c. Weighting of 45% due to the importance of needing to reduce backlog and ongoing planned maintenance considering value for money of capital investment now and/or removal of ongoing liability.

4.5 Highlights from the assessments are summarised within the Exempt Appendix.

4.6 It is worth noting that all options have been assessed as being deliverable within the £20m capital cap, as well as delivering an annual revenue saving and addressing backlog maintenance issues.

4.7 It should be noted that if any option had scored a zero against either a or b in 4.4 above, the option would have failed.

5 Combined Scoring

5.1 Combined scoring has been based on a 70:30 weighting in favour of the financial evaluation. Based on the combined Financial and Qualitative scoring the following ranking can be established.

5.2 The below table identifies the weighted score for both the qualitative and financial evaluation, along with a combined weighted score.

	Base Case*	Option 3	Option 4	Option 5	Option 6
Qualitative Weighted Score (%)	18.3%	18.9%	17.7%	14.7%	7.2%
Financial Weighted Score (%)	18.9%	32.2%	37.1%	50.4%	58.8%
Combined Weighted Score (%) (Finance 70:30 Quality)	37.2%	51.1%	54.8%	65.1%	58.8%
RANKING - applying evaluation methodology	3	2	Fail	1	Fail

*Base Case – the Base Case sets out the do minimum option and is for comparison purposes only.

5.3 Based on the combined scoring, Option 5 is ranked highest. With a high financial assessment score and the higher finance weighting, its overall higher ranking is supported by a Net Present Value (NPV) cost of £33.8m less than Option 3 over a 40-year period.

5.4 There are however a number of risks associated with both option 3 and 5 which are set out in the Exempt Appendices, the Business Case and the Value for Money (VFM) assessment. Given the significant financial difference between the two options, it is proposed to further test the market in relation to any disposal of Sessions House in part or as a whole in order to establish the deliverability of Option 5.

5.5 The outcome of the further market testing will help shape the next steps and the deliverability of Option 5 compared to Option 3.

5.6 In addition to the financial analysis and assessment external specialist financial advisers were commissioned to assess whether the processes for assuring that VFM considerations have been appropriately applied when recommending the Preferred Option to deliver the objectives of the SHQ Programme (report attached as an Exempt Appendix to the Business Case). Their report confirms that the preferred option provides the best VFM and makes a number of recommendations to ensure that VFM is maintained in the next phase of the project, these recommendations have been agreed and will be implemented as part of the next phase.

6 Equalities Implications

6.1 An Equalities Impact assessment (EQIA) has been completed and submitted in support of the paper.

6.2 A Data Protection impact assessment (DPIA) has also been completed and submitted in support of the paper.

7 Other corporate implications

7.1 SHQ and its future direction is a key strand of the office strategy as part of the SRP and the delivery of the MTFP savings.

8 Governance and Corporate Assurance

8.1 Any decision will be progressed in line with the governance processes of the Council.

8.2 The Business Case has been reviewed by corporate assurance and comments addressed where appropriate.

9 Conclusion

9.1 As a result of the Council's financial position, it has been necessary to reconsider the previous decision and the scope of the SHQ project as per decision 21-00064.

9.2 The capital budget for the project was reduced to £20m in October 2022 and agreed by full Council in February 2023. The report sets out a range of options that have been considered within the revised capital budget.

9.3 Options 4 and 6 failed to pass the qualitative criteria and are therefore discounted. The remaining Options 3 and 5 both retain the SHQ within Maidstone and utilise existing accommodation within the SHQ estate.

9.4 Given the significantly lower overall NPV associated with Option 5 in comparison to Option 3, further market testing is required to establish the market viability of a disposal of the whole or part of Sessions House that would satisfy the MOJ covenants requirements. This remains a key project risk and is a determining factor which informs the next steps and the deliverability of Options 3 and 5.

9.5 Given that both options include the continued occupation by KCC of Invicta House, it is proposed to progress with the urgent maintenance works at Invicta House, including the required roof works. £3.4m will be allocated from the £20m approved capital budget in order to progress the design and completion of these works.

9.6 The proposed timelines for the next steps are as follows:

Key Activity	Option 5
Key Decision taken	August 2023
Invicta House Design/ Planning/ Contractor Procurement Completed	September 2023 – March 2024
Works start Invicta	March 2024
Marketing exercise Sessions	September 2023 - March 2024
Confirmation as to the next steps	April 2024

10 Recommendation(s):

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11 Background Documents

11.1 Exempt Appendix A – Business Case – available on request.

11.2 Exempt Appendix B – Supporting Information.

12 Contact details

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