REPORT OF	**Strategic Manager (Resources)**		
To:	**Full Council**		
Subject:	**Bridge Buildings – Progress Report**		
Date:	**14 May 2018**	**Reference:**	

PURPOSE OF REPORT: To report to Members on the progress of result of the Marketing of Bridge Buildings, Bideford and the proposed next stages.

1. INTRODUCTION

As part of the approved Transforming Torridge Project (TTP) the Council is restructuring its Office Accommodation to achieve greater efficiencies and better facilities for the reduced number of staff and better public access to services. This in summary includes:

- A New Customer Hub at RBH.
- New Offices at RBH.
- Relocation of the Server Suite to RBH.
- Use of the Town Hall as a Training and Meeting Location complete with Member Facilities and use with other Public Sector Bodies.
- Investment and Refurbishment in Facilities e.g. extra PV at RBH, new sound system etc.

The outcome of the rationalisation is that Bridge Buildings in terms of accommodation for our own staff will become surplus to requirements during the summer 2018.

A number of options have been considered for the future of the building by Committee and this report updates Members where we are with progressing that process.

2. REPORT

The provision of office accommodation has been a matter under consideration for a number of years with many councils' implementing programmes of office rationalisation as a means of delivering ongoing revenue savings. It can be a hugely contentious change programme to manage and implement on a number of fronts:

- Customer expectations
- Staff changes
- Public perception - spending scarce resources on Council buildings
- Historic, prominent and occasionally iconic buildings becoming redundant

A Brief History and timeline – Bridge Buildings

The building itself has been used by TDC as staff offices and reception since its purchase in 1974 and the Town Hall has been employed as a secondary building in terms of offices, reception and meeting facilities. Significant modernisation was required to make the building suitable for staff office accommodation in the 1990s and in 1997 £550,000 was invested in the building to make it fit for purpose and DDA compliant etc (the detail of the works were reported to Full Council in December 2017 Subsequently the property had major Internal and external Planned Maintenance in 2012.

- ***June 2013 (Community & Resources Committee)*** - considered a report in relation to the short, medium and long term options for office accommodation, which set out a number of principles that were a must to be achieved:
  - Operating costs to be reduced or remain the same
  - Long term sustainability
  - Flexibility
  - An improvement in Office performance (staff per NIA)
  - A reduction in Office Space
  - Improved Service Delivery/efficiencies
  - Reduced or Low carbon emissions

  It should be noted that at the time of this report TDC was in the process of trial arrangements for joint / shared working with North Devon Council and some of the longer term options took account of this potential for future working. The Committee approved the proposals, subject to satisfactory business cases being produced.

There was then an intervening period of delay where TDC investigated alternative options for shared / joint working, which would have changed the requirements for office accommodation.

- ***October 2014 (Full Council) –*** considered a report setting out the options for delivery of services by TDC, which eventually set the course and paved the way for our current Transforming Torridge Programme (TTP).

  The report contained and proposed the high level costs and savings attributable to the TTP including the accommodation strand, which was approved.

- ***January 2015 (Full Council) –*** considered a report, which was requested by Members to set out the full details and extent of the TTP with project initiation documents (PiDs) / business cases for each of the strands. The key points for noting in relation to office accommodation and Bridge Buildings were:

  - Independently assessed sale value (commercial / office space) of £330,000.
  - Independently assessed as a nil value residential conversion opportunity due to the conversion costs and rental income not providing a return for at least 25 years, which would make it unattractive to a potential purchase unless the market changes in the future.
  - Considered in-house that £500,000 could be achieved in the right market
  - Rental proposition of c.£65,000 per annum, but would require investment up front and ongoing revenue running costs
  - From any sale proceeds the cost of relocating and modernising the IT suite estimated at the time at £250,000 would need to be funded.
  - The remaining sale proceeds and capitalised savings from the disposal of Bridge Buildings would be available to spend on necessary alterations to Riverbank House

Members approved the TTP and the associated "strands / themes" that make up the / transformation programme, which included marketing Bridge Buildings for sale or rent.

- ***June 2015 (Full Council) –*** the new Council considered a position statement and presentation on the overall TTP, which included the responses and updating of project documents recommended by the Local Government Association (LGA) and Local Partnerships (LP) engaged early in 2015 / late 2014 to evaluate the feasibility and potential achievement of the programme. This included establishing Critical Success Factors (CSFs) for each of the project strands. The CSF for the Accommodation Project Strand is attached as Appendix 1 and the goals approved as part of the report were:
    - To provide a single, improved customer one-stop-shop for the Council
    - To reduce the day to day running costs of council staff accommodation
    - To reduce inefficient movement of staff between buildings, thereby improving management
    - To release inefficient capital assets ie Bridge Buildings

- ***July 2015 (Internal Overview and Scrutiny) –*** establishment of an Income Generation Working Group to consider and evaluate opportunities for generating additional income.

- ***January 2016 (Internal Overview and Scrutiny) –*** the income generation working group to look into options and future use of Bridge Buildings and was added to their work programme.

- ***March – May 2016 (Internal Overview and Scrutiny) -*** *received regular updates from the Income Generation Working Group that had met on a number of occasions. The working group had:*
    - Received, discussed and considered an options report for Bridge Buildings
    - Requested officers obtain full independent market assessment reports for options of future use
    - Toured the site to consider how the options presented themselves
    - Prepared a final report for the Committee in August 2016

- ***August 2016 (Internal Overview and Scrutiny)*** – considered a report following an exercise to engage independent assessment and evaluations on options for the future use of Bridge Buildings. One independent valuation report and three market reports (different sectors) were commissioned to generate an overall Market Viewpoint to enable and inform Members options for the site. The key points derived were:
    - Freehold value of site was £300,000 to £400,000 for all uses
    - Limited town centre market for offices or office rentals
    - High conversion costs for all uses due to layout, ground floor issues and listing
    - Apartments would not generate a high return and are competing with better properties in the local area e.g. seaside. This would effect end rental and sale values and interest.
    - Most development options appear unviable or high risk to investor.

- Owner occupier / full leaseholder likely to be best use.
- Likely to be 12 – 18 month sale period
- Dispose by expression of interest and assess bids

Members of the Committee recommended to Community and Resources Committee that the Council market the site for a freehold or leasehold disposal at the earliest opportunity in order to move this forward with no obligation by the Council to accept any offer.

- ***August 2016 (Community and Resources) –*** considered the report and recommendations from Internal Overview and Scrutiny Committee.

  Members resolved that the Council market the site for a freehold or leasehold disposal at the earliest opportunity in order to move this forward, with any offers to be considered by Full Council in due course, be agreed.

  There then followed a second intervening period of delay in the Accommodation Project, which was due to the a second tendering exercise recommended by Full Council for the external building adjacent to Riverbank House now called "Riverside". The delay caused uncertainty with the timing of the project and the point at which staff could be relocated from Bridge Buildings, which meant that marketing the site for sale at that point would be a wasted exercise and was therefore delayed until phase 1 of the project "Riverside" was back underway.

- ***December 2017 (Full Council) –*** considered a report setting out the outcome of the exercise to market Bridge Buildings. The report evaluated the offer for the outright (conditional) purchase of Bridge Buildings offered at £515,000 and alternative options, which consisted of:
    - Resume / continue to market for sale or lease
    - Develop property ourselves ***(this had previously been considered and independently assessed during the 2016 exercise and rejected)***
    - Leave building as is i.e. partly occupied and stop further development at Riverbank House
    - Leave empty / mothball
    - Develop in partnership with a Housing Provider
    - Convert and develop as homeless accommodation

  The report recommended discounting the six options above in favour of disposal. The reason being it presented an opportunity to enable the property to be developed, generating a higher cash receipt than had been anticipated and disposed of an asset surplus to TDCs operating needs.

  Members rejected the recommendation and tasked officers with looking further into options to develop Bridge Buildings internally.

Members will note that there have been considerable and varied discussions on what to do with the building, which is understandable given its town centre position and historic background. However, as officers work our way through the various decisions costs are being incurred as the options to be considered often require the support of external organisations and thus far we have incurred the following:

- Market options reports 2016 – £1,500 (James Doble, Brights and Cowlings)
- Valuation report(s) – £2,000 (Underwood Wright and VOA)

- Marketing exercise 2017 – £2,575 (Webbers)
- Drawings, design, site survey & cost evaluation – £4,575
- Future options – e.g. housing use – £1,950
- Staff time not shown

To date £12,600 has been incurred exploring and investigating the recommendations approved by Committee(s) and Full Council with as yet no conclusive way forward. Options for the future ownership and management of Bridge Buildings will undoubtedly require further investment to evaluate not withstanding any construction and redevelopment costs. Therefore it is considered at this “gateway” point Full Council consider how to progress.

In addition to those costs already incurred it is estimated (reported to Full Council – December 2017) that the annual costs of the building once it is fully unoccupied are £17,465. However, clearly this figure will rise over time should the property remain empty and ad-hoc items such as repairs will also arise.

The current plan is that staff will relocate and vacant Bridge Buildings in August 2018, at which point we will be incurring costs on an empty building. At this late stage that is inevitable as taking any project or proposal forward will not be concluded in such a short period of time.

Progress on Alternate Options

The next part of the report outlines current progress, costs and options for furthering that work into a project if Members are minded to continue.

Following instruction from Full Council officers have produced some draft designs for how the property could be laid out. Whilst drawing and designs give a good impression of how the property could be converted they do not provide a true reflection of the complexities involved in redeveloping a building structured in the way Bridge Buildings currently is.

As part of our consideration for the alternative uses for the premises we have taken into account the following:

1. Feedback obtained from the original speculative developers who expressed an interest and submitted offers for the premises in 2017.
2. Current feedback from local agents on the market for commercial and residential accommodation.
3. An assessment of the existing building structure and form in terms of adaptability and design constraints for the possible alternative uses.

Sketch scheme layouts were developed for a mixed use scheme of commercial, office and residential accommodation in line with the general principles proposed by the majority of the speculative developers. This option has subsequently been abandoned because of the physical limitations of the building footprint and lack of perceived demand in the current market.

Access to the upper floors is achieved through the centre of the building meaning that any commercial space on the ground floor would be dissected by the access stair and lift core serving the upper level accommodation. Splitting the commercial space across two footprints to the front and rear of the premises was not only difficulty to achieve within the physical constraints of the building footprint, but operationally from a business perspective.

The potential for a self contained office suite independently accessed via the current entrance from Allhalland Street did provide a layout that was practically achievable without compromising the other parts of the premises, but the current demand and rental levels for the type of space that would be achieved were limited and therefore discounted.

All of the options are influenced by the lack of car parking available for the premises. The building footprint occupies the full site with no opportunity for any feasible adaptation for under-croft parking.

We have therefore concentrated our efforts on the potential for the conversion of the entire building into residential units. The feedback obtained from local agents has helped to influence the type and mix of accommodation offering comprising the following:

Unit No.	Location	Unit Type	Area (m^2)	OMV (£)	Rental Value (£/month)
1	G F Front	2 Bed Apartment	97	160,000	550
2	G F Rear	1 Bed Accessible Unit	84	100,000	425
3	1st Floor Front	2 Bed Apartment	95	165,000	550
4	1st Floor Rear	2 Bed Apartment	108	150,000	550
5	2nd Floor Rear	2 Bed Apartment	109	150,000	550
6	3rd Floor Suite	3 Bed En-suite Apartment	162	190,000	725
	Totals			**915,000**	**3,350**
Note: the above figures are based on current values at April 2018 and these will be subject to changing market conditions.					

Further considerations

The current heating system is at the end of the economical life and prone to regular breakdown and repairs. The current reports indicate that the system is unable to service the full heating load for the premises and is unlikely to remain serviceable for another winter.

The property is Listed Grade II and the current proposals have therefore been developed to retain the external façade and elevations as existing. The only alterations proposed comprise the internal works necessary to form the individual units of accommodation and the following works of compliance.

a. Thermal upgrade to walls
b. Secondary double glazing
c. Acoustic upgrade to floors
d. Fire compartmentalisation
e. Individual heating systems
f. Individual electrical systems
g. Individual access control systems
h. Safety & security systems

The mezzanine floor previously installed between the first & second floor has also been removed to enable the windows to the first floor to be operational to the front elevation for natural ventilation of the unit affected.

The existing mechanical ventilation system will be removed and the lift will require a complete overhaul and upgrade to current requirements for residential use.

Alterations to form a shared refuse and recycling store and dedicated meter room have been included within the ground floor layout.
At this stage there is no intention to utilise the basement area, it has limited headroom and as it is within Flood Zone 3, cannot be used for residential accommodation.

No parking provision has been allocated on the basis that a previous joint development brief for the area stated that any residential development should not have a detrimental effect on parking numbers within the Bridge Street car park. The addition of a permitted parking space would achieve an increase in rental value of approximately £20 per month. The current income to TDC per parking space in this popular location is currently circa £190 per month making a permit scheme an expensive option.

Development Costs

Taking all of the above into consideration and having assessed the extent of work required to construct the individual apartment units we have calculated the overall development cost to be in the region of £710,000. In addition to this there is estimated to be professional fees including consents and surveys amounting to £107,000 bringing the total estimated development costs to £817,000. These figures are exclusive of VAT, which is normal practice for Local Authorities, however, due to the nature of what is being developed and might be proposed we are seeking some advice for the treatment of VAT as it amounts to £163,000.

Management Costs

We have not deducted any charges for the ongoing management of the individual units, the fees for which would obviously be deducted from the rental income levels achieved.

Qualifications & Exclusions

In preparing these costs and values we have made the following assumptions:

- We have not included for any asbestos removal works or for any unexpected asbestos material to be identified.
- No allowance has been included for any works to the main roofs on the basis that they remain in good condition following the previous refurbishment.
- Planning & Listed Building Consent will be achieved.
- No works have been included for any substantial repairs to the exterior of the building or stonework remedial works.
- Existing common parts will be retained in their current form and condition with only minor cosmetic improvements.
- Building Regulation completion can be achieved without excessive fire precautions, compartmentalisation and means of escape provisions.
- The existing sliding sash windows can be refurbished to achieve the natural ventilation requirements for the premises.

- The structural alterations required to open up parts of the premises for circulation purposes can be achieved without significant strengthening works.
- The existing local gas, water and electricity supply networks can be utilised without the need for any infrastructure upgrade.
- The existing foul drainage systems within the basement and inner courtyard / well area can be utilised and have sufficient capacity for the premises proposed.
- The construction costs have been prepared on the basis of a single stage competitively tendered contract let as one package for the entire project.
- The costs have been prepared on the basis of current tender price indices and no allowance has been made for any projected increase in costs associated with any delay in progressing the scheme beyond 2018.
- All costs exclude VAT at the current rate.

Summary

The design clearly offers the possibility of a mixed sized and style development

Estimated Costs

- Development costs - £817,000
- Management costs – £2,870
- Maintenance costs e.g servicing - £7,930 (service charge?)
- Repairs & cyclical maintenance - £5,000

Estimated Income

- Rent - £40,200 per annum (gross)*
- Council Tax - £740 per annum ** & ***
- New Homes Bonus - £27,000 (4 years) **

** No assumption built in for bad debts*
*** Based on assumption that would be 1 band A, 4 band B's and 1 band C for Council Tax purposes.*
**** Assumes paying full Council Tax not in receipts of Council Tax Support*

Simple return on investment calculation

Capital employed £817,000 less £27,000 NHB receipt = £790,000
divided by
Annual net income (£40,940 - £15,800) - £25,140
equals
Would take 31.4 years to recover our investment or 3.18% per year return

Future Management Considerations

TDC transferred our council housing stock to Tarka Homes (now Westward Housing Group) in 2006-07 and therefore currently has no residential housing stock. The ownership of residential housing by Council's with no Housing Revenue Account is beset with legislative complexities, which TDC need to consider and take account of before potentially embarking on such a journey.

One of the key aspirations highlighted at the Full Council in December 2017 was for the retention of ownership of Bridge Buildings. However, this aim is not as straightforward as it might first appear, which is entirely down to various Housing and Financial legislation.

There are three options to consider and specialist advice has been sought to develop the options.

Direct Management

It is clear that this would be most desirable option in order that TDC retain legal ownership and control of Bridge Buildings in order to attain sole beneficiary of any income and or capital appreciation of the asset.

There are powers in place (Housing Act 1985), which on the face of it allow this. However, the key constraint here is that the tenants would benefit from the provisions of the "Right to Buy" legislation, which would enable the tenants to acquire from the Council the leasehold.

Therefore this option should be discounted on both value for money and ownership retention grounds.

Local Housing Company

Local Housing Companies have evolved as delivery mechanisms for Council's to deliver a variety of housing priorities e.g. social, affordable, private rent, development and sale. There are various pieces of legislation that permits this course of action (Local Government Act 2003, Localism Act 2011).

By nature they are "companies" and therefore governed by different legislation, which sits outside the Local Authority Housing and Finance System and not subject to the Housing Act. This means that this would overcome the issue of "Right to Buy".

However, that doesn't make a simple solution by any means due to the considerable resources, time and cost that would be required to establish and set up a company. With the question being would it be practical and value for money to do so for the management of 6 units?

It is estimated that would involve tens of thousands of pounds in attaining the necessary Legal (company structure and governance) and Financial (tax, VAT, financing) expert advice as part of the set up. This would be external consultancy as TDC does not have the necessary expertise internally.

We consider that could take as much as 18 months to establish and gain all the necessary consents and approvals both internally and externally before the company were able to operate.

Members should also note that the whilst the Housing Company could be owned by the Council it does so under completely different terms, which mean that direct control of its operations are lost. In addition to that is would be acting on a commercial basis i.e. to generate profit.

There is a recommended staged process for this as shown below:

Step 1 – Outline business case – this involves exploring and recommending strategic purposes, scale of ambition, type of vehicle, basic principles of ownership, governance, scope and timescale. This is followed by securing political approval to progress the project.

Step 2 – Detailed business case – including the following. This is also followed by securing political approval to progress the project.:

- 2(a) Identify sites / potential acquisitions
- 2(b) Research rental / sale values, build costs, acquisition costs, management and maintenance costs
- 2(c) Explore financial resourcing including debt, equity and grant/subsidy
- 2(d) Build business model using cost/value assumptions, test out commercial viability (profitability)
- 2(e) Sensitivity testing to consider risk of variability in key assumptions (e.g. inflation)
- 2(f) Evaluate and recommend a suitable corporate legal form
- 2(g) Evaluate and recommend a suitable governance structure

Step 3 –Establishing the company – including the following:

- 3(a) Memorandum and Articles of Association and Shareholding Agreement
- 3(b) Appoint Directors
- 3(c) Register Company
- 3(d) Apply for a company bank account
- 3(e) Appoint company auditors, solicitors, valuers, etc. as needed
- 3(f) Set up financial systems

Step 4 – Securing finance – including the following:

- 4(a) Loan facility agreement agreed between Company and lender (Council or external lender) and ensure State Aid compliance
- 4(b) Equity input agreed by the Council
- 4(c) Provide business modelling, viability appraisal, other due diligence needed before drawdown of funds can be approved
- 4(d) Funds drawn down as and when required to commence acquisitions, development expenditure

Step 5 – Agreeing Company policies and procedures

Step 6 – Commencing trading operations

When looking at the process TDC clearly has yet to address step 1, although in terms of step 2 this report and previous independent advice asserts that the business case for progressing with the development is not valid.

Therefore at this stage this option should be discounted on value for money grounds.

Partnership / Joint Venture

The final option to consider is whether to enter into a partnership arrangement possibly with an organisation with existing residential housing, e.g. a Registered Provider. Clearly the benefits here are in the fact that they would already have the necessary skills, expertise, systems and processes to manage housing stock.

There are positive things to consider such as cost and risk sharing, but also negatives such as sharing any benefits attributable and possibly ownership as arguably if an organisation were to commit to large investment project they would certainly want an asset on the balance sheet.

Officers have made tentative enquiries (limited) in this area, but have been unable to generate any enthusiasm for such a venture.

Therefore at this stage this option should be discounted on the grounds of lack of interest and ownership.

3. IMPLICATIONS

Legal Implications

Legal implication and resources required will be dependant on the route Members consider and approve to follow and would require additional consideration at that point.

Financial Implications

The original business case highlighted that the forecast savings generated by the release of this building was around £141k in accommodation savings, although this was based on an option to lease / rent the property to the market. However, it was emphasised at that time should the rent option be not available and disposal possible then a capital receipt would be generated in its place.

The high level business case indicates that there would be a considerable time lapse in the Council getting a return on its investment.

Human Resources Implications

Up until this point the work involved has been largely contained within the team and only specific external pieces of work have been commissioned externally. However, depending on how Members wish to proceed with the project will determine whether additional resources are required, or not.

Sustainability/Biodiversity Implications

These would be dealt with within the proposals

Equality/Diversity

Ditto

Risk Management

Clearly there are numerous major risks including non-disposal, wrong decisions, delays, public perception and not achieving our financial targets. The Council also has the situation that we are making a decision on the current situation and the most likely future and matters can change very rapidly. However, a no decision and “wait and see” rarely resolves matters satisfactorily. In addition the advice is that we should be using our funds on schemes where there is a clear business case and low to medium risk. High risk projects are not excluded but need to be more closely considered as often they can produce higher returns, but the sensitivity and extent of risk needs to be clearly understood.

Additional work would be required to understand risk depending on which route Members approve.

Compliance with Policies and Strategies

Asset Management Plan. And Income Generation Strategy both point towards a business minded approach and in particular a) Office Rationalisation to improve operational efficiency, occupancy rates, quality, customer offer and reduce required maintenance b) reduction in Co2 and energy use and c) best use of TDC funds/estate to achieve a commercial return i.e. changing shape of estate to achieve the Councils aims, such as employment and business growth.

TTP as agreed.

Ward Member and Leader Member Views

Date of Consultation – 3 May 2018

Cllr Laws – Lead Member for Internal Resources.

The future use of Bridge Buildings has been the subject of many a debate amongst Members ever since the Council took the decision to relocate the majority of its staff and services to the Riverbank Site. It is an emotive subject and Bridge Buildings is somewhat of an iconic building in the Town Centre. However, the decision to relocate was taken in a business sense to dispose of by way of rent or sale an uneconomic asset and take the opportunity to seize the benefits that releasing the building might generate.

This report illustrates that Council have reached a variety of opposing suggestions over time, taken external independent advice (at a cost) and still struggle to reach a conclusion.

It is clear the options of how to manage it after development (if it were to be developed) are equally as challenging and to manage a small number of units not cost effective either.

The building will be empty very soon and vacant buildings as you know deteriorate far quicker than those occupied, which means the Council will be losing more money.

We had on the table an offer to purchase Bridge Buildings for £515,000 and whilst this was subject to contract and conditional upon gaining planning consent I believe was the best in commercial terms and we should endeavour to try and dispose of the property again.

Ward Member(s) – the report and business case has been produced on the instruction of Full Council due to its strategic and corporate importance to TDC therefore ward member comments have not been sought.

4. CONCLUSIONS

This has been discussed at length with the Income Generation Task and Finish Group and Community and Resources Committee, Internal Overview and Scrutiny Committee and Full Council on a number of occasions over the course of almost five years without achieving a conclusive plan and way forward.

The high level business case outlined in the report suggests that the redevelopment internally does not present the best value for money in commercial terms. The purpose of the residential units post development and how to manage them have not been articulated by Members. However, whilst retention has been explicitly cited the establishment of a Housing Company would appear not to be value for money simply to manage 6 residential units.

The recent marketing exercise provided an actual test of the market and presented the Council with an offer but clearly subject to planning etc due to the risks involved. This offer has now been withdrawn and hence the marketing exercise would have to be restarted and may not achieve the same results. The previous applicant would be contacted and any offers resubmitted to Members for consideration.

5. RECOMMENDATIONS

- That Full Council consider the report and determine the next steps.

<u>SUPPORTING INFORMATION</u>

Consultations:	Date of Consultation – 3 May 2018 Officers Consulted – S Dorey J Wallace, S Hearse, A Waite
Contact Officers:	Steve Hearse / Adrian Redwood
Background Papers:	

Accommodation Project

Critical Success Factors

MISSION:

To provide modern, good quality services accessible to all, at a single point of contact

CRITICAL SUCCESS FACTORS:

1. Relocate the ICT server hub to Riverbank House
2. Put in place front funding for the project
3. Provide sufficient staff accommodation at Riverbank House and vacate Bridge Buildings
4. Increase parking provision at Riverbank
5. Understand customer needs

GOALS:

1. To provide a single, improved customer one-stop-shop for the Council
2. To reduce the day to day running costs of council staff accommodation
3. To reduce inefficient movement of staff between buildings, thereby improving management
4. To release inefficient capital assets ie Bridge Buildings