1.0 Expected Outcome

1.1 Investment in South Lakeland House to:
- Provide office space to support the Council’s Customer Connect Programme.
- Create new modern town centre offices for other businesses.
- Provide a MintWorks2 for new SME’s.
- Deliver much needed refurbishment of Kendal Town Hall.
- Provide much improved working facilities for all employees, both SLDC and KTC.
- Provide disabled access to all areas of SLDC offices.
- Enable a joint reception area in the front of the Town Hall.
- Open up more meeting room space for community groups.
- Reduce ongoing maintenance costs for the Council.

2.0 Recommendation

2.1 It is recommended that Cabinet:-

(1) Approves in principle the proposed investment in South Lakeland House and Kendal Town Hall and recommends to Council its inclusion in the Capital Programme and Revenue budget.

(2) Approves the addition of the project to the Procurement Schedule and for the scheme to be awarded to Bloom Procurement Services Limited with Lambert Smith Hampton as the sub consultant to manage the scheme from RIBA Stage 4 (Technical Design) to RIBA Stage 6 (Handover and Completion);

(3) Endorses the scheme and authorises officers to progress to RIBA Stage 4 - Technical design and to proceed to tender prior to returning to Cabinet to seek approval to implement the full scheme.

(4) Delegates authority to the Director for People and Places to agree any changes to the proposed programme and/or design in consultation with
3.0 Background and Proposals

3.1 South Lakeland District Council is currently undertaking a major programme of change and transformation through the Customer Connect programme, recognising the need to adopt different ways of working to engage with its many customers and residents. Underpinning the transformation will be the adoption of changes in technology, allowing both staff and customers the ability to engage in ways not currently possible. The Customer Connect Programme will result in changes to the way the Council engages with its customers, with more activities being moved to self-help and online channels. It is felt that a new refurbished, agile and flexible working space will benefit the Council and support the Customer Connect Programme.

3.2 In 2016-2018 SLDC undertook a joint feasibility with Cumbria County Council and LDNPA to investigate the potential of a new Public Sector Hub on the County Hall site in Kendal. As part of this work, SLDC reviewed its anticipated floor space requirements following the implementation of Customer Connect, considered the introduction of agile working policies and of new digital technology to support service delivery in line with the new Customer Connect programme.

3.3 Alongside this feasibility, SLDC undertook a high level assessment of the potential to invest in the renovation of South Lakeland House (SLH) and Kendal Town Hall (KTH). With a smaller floor space requirement for SLDC than currently used, the assessment included the potential to create renovated office space which could be attractive to the market and which could generate an income for the Council. The assessment was also based on the idea of creating a new customer service reception area in the Town Hall, with the Town Hall being a major asset for the Town and more readily accessible for the public. The findings of this study indicated that there was scope to improve the space utilisation at both SLH and KTH, with subsequent opportunities to lease out vacated space to third party tenants, or increase the range of function rooms for events within the Town Hall. This study determined that with appropriate design, it would be possible to accommodate the full SLDC requirements for workstations on the first floor of SLH, which would be more directly linked to the main KTH ground floor, which would provide the new main reception and customer meeting space.

3.4 After receiving detailed financial information (including possible costs associated for occupation) for, and completing the initial feasibility of the Public Sector Hub, and taking into account the residual liabilities associated with the South Lakeland House site, the Council withdrew from further feasibility work on the Public Sector Hub to concentrate on a detailed feasibility study for South Lakeland House and Kendal Town Hall building on the high level assessment undertaken.

3.5 In April 2018, SLDC commissioned Lambert Smith Hampton and Blue-sky Interior Designers Ltd to produce concept and developed design options, up to RIBA Stage 3 (Concept design), for South Lakeland House and Kendal Town Hall, with the aim of creating a scheme which is fit for purpose and maximises the use of the available space. To undertake an assessment of potential demand for the refurbished surplus space which is likely to arise from the investment in South Lakeland House and Kendal Town Hall and carry out a market review of all office space within Kendal to determine existing supply and potential future demand. The outputs of this work have informed the Business Case required to support the proposed refurbishment works and to design accommodation for third party tenants to suit the identified demand. It is felt that the current space is unlettable at present.
3.6 The brief for the concept design was to provide office accommodation fit for purpose, fit for the future and to use the space effectively and efficiently, and to ensure that accessibility issues from the Town Hall through to South Lakeland House are resolved. This included looking at a new reception for SLDC in the Town Hall, to create an office environment which encourages a more agile and interconnected workforce and which creates an exciting, vibrant workspace where people want to spend time and create an interface between users and their environment. Various case studies show that improved working environment increases productivity and so it was considered important to create an environment where people enjoy working that offers colleagues a chance to work in a manner and setting which suits them. The design was also to be based on a Desk ratio of 7:10 (7 desks for every 10 employees) and the number of desks based on the perceived staff numbers post-Customer Connect implementation. (The desk ratio is felt to be a fairly conservative ratio with the Council currently operating informally at staffing numbers similar to that of 7:10 without a flexible and agile working policy in place).

3.7 As a result it is expected that the accommodation requirements will not just be reduced in terms of the number of workspaces, but the type of workspace will change with the new accommodation supporting the ways of working to move away from silo working and towards one of flexible working, where boundaries between persons doing different tasks are removed, as multi-skilled working predominates. Automated business processes have also enabled larger organisations to become more streamlined, improving productivity while simultaneously reducing headcount. The project is needed for the Customer Connect Transformation Programme to be a success; consolidation on a single floor will help to support the culture change from a silo approach to a broader collaborative working environment.

Kendal Town Hall

3.8 The project is also needed to undertake much needed refurbishment of Kendal Town Hall, improve use of this asset and secure its future. Kendal Town Hall is considerably under-utilised with the lack of flexibility in the meeting rooms being sub optimal. SLDC day to day functions currently use South Lakeland House and only occasionally Kendal Town Hall. The investment will enable more operational activities to take place in the Town Hall releasing space in South Lakeland House for alternative income generation. The additional space created following the investment will increase the range of events that can be accommodated. The refurbishment of the Town Hall will be sympathetic to its listing and will enable the building to be used more widely by the public through having the Council’s reception within the Town Hall. All existing user groups can be accommodated within the new scheme and the Council will explore the use of the space by other users groups. Events income within the financial forecasting has been kept to moderate increases to avoid the charge of ‘over pricing’ from the regular user groups.

3rd party office accommodation

3.9 While businesses of a certain size will always require larger floorplates, SMEs are a critical component of the future success and vibrancy of the Northern Powerhouse economy and are likely to have a transformative effect on the UK’s commercial property market in the years ahead. Landlords therefore have a vital role to play in nurturing South Lakeland’s thriving SME sector by providing high-quality, flexible office space which is capable of responding to the ever-changing needs of modern businesses. The study has taken a conservative approach to setting expectations of income by applying the lower figures of current market rent to future assumptions.
Therefore, the risks in terms of speculation regarding potential rental charges have been mitigated. We have considered bias throughout the above with reference to rental charges, and basing these on rents currently being achieved for similar spaces in the Kendal area. The opportunity that this scheme has for the Council’s economic development agenda must not be underestimated with the creation of small offices for start-ups. Similar to the Mintworks project and investigation to date has shown an evident need for a Mintworks Phase 2.

Programme

3.10 If the project is approved and included within the capital programme, work will commence on the scheme from 1 April 2019, the proposed works will require planning permission, listed building consent and building regulation approval. Following all statutory approvals being obtained, the tender will be issued in September 2019 with a likely start date of January 2020. The works will be phased to reduce disruption to the employees, public and members.

Technical Design – 01.04.19 – 30.08.19
Statutory Approvals – 17.05.19 – 16.08.19
Out to Tender – 19.08.19 – 27.09.19
Tender Evaluation – 30.09.19 – 04.10.19
Contract Preparation – 04.10.19 - 08.11.19
Mobilisation period and enabling works – 01.11.19 – 20.12.19
Contract Start – 06.01.20
Contract End – Contract to be approximately 15 months.

Based on the proposed programme of works, the Council will therefore be committing to the finances of this project in October 2019, which gives further time to assess any external factors that may affect this scheme and to continue to monitor the Kendal office market.

3.11 In Conclusion, Members are therefore asked to consider the recommendations in this report to enable the scheme to progress to the next stage.

4.0 Consultation

4.1 As part of the feasibility study, the project lead and interior designers have consulted with a number of departments including I.T, those departments who engage with the public and use the reception interview rooms, with departments who work with the facilities/rooms within Kendal Town Hall. All employees were asked to respond to an employee survey regarding their working environment, over 50% of employees responded to the survey. A Councillor survey was also issued in which 19 responses were received. Results of these surveys can be found in Appendix 3. Information was also sought from the detailed feasibility undertaken on the Public Sector Hub to determine space requirements, desking solutions and storage needs.

4.2 The property services manager has also presented the scheme to Kendal Town Council on 21 January 2019 as a major stakeholder in the Town Hall and received support in principle for the scheme. Further discussions will be required to discuss design options with the Town Council and this will take place in the next design stage. It is felt that the current Reception area and office provision can be much improved through this proposed scheme.

5.0 Alternative Options

5.1 Continue with the current position and do nothing – this is not recommended when considering the significant cost to maintain the building, the inefficient use of space,
the loss of opportunity to refurbish the Town Hall and the economic benefits to the
area. This would still require significant additional expenditure to be added to a
future capital programme to maintain South Lakeland House and Kendal Town Hall
in an acceptable condition.

5.2 Explored and fully costed a shared public sector hub option, co-locating with the
county council and LDNPA on the County Hall site but this was ruled out on cost
grounds. Concern was also raised at the time with potential use of the South
Lakeland House site with no obvious or viable use found for the site.

5.3 Undertake the work over a longer phased approach. This has been dismissed due to
the project likely to be higher in cost, difficult to manage contractually, and cause
greater disruption for the organisation and SLDC would be unable to benefit from the
proposed income which would therefore make the scheme unviable.

6.0 Links to Council Priorities

6.1 Council Plan priority economy –
- Engagement with the private sector and public sector partners will be central to the
Council’s approach to helping grow and develop the economy.
- We will when opportunities present themselves make best use of our property
portfolio to support economic growth, through the use of our current and future asset
base.
- Through our economic development strategy we will continue to build on our
traditional strengths, and pioneer new industries that make the most of our place. We
will promote new ways of working so that businesses can compete and reach their
potential whilst enjoying everything that is special about living in South Lakeland.

6.2 Council Plan priority environment –
- We will reduce the Council’s carbon emissions by reducing our energy use through
the efficient management of our land and buildings and be an exemplar to others
- We will support Cumbria County Council and local partners with their strategies for
active travel.

6.3 SLDC need to ensure we are adequately equipped to provide the best, most cost
effective service for the communities we serve. This will be met through a skilled
workforce, ensuring that the staff have the ability to work efficiently working with more
digital skill and a more flexible co-ordinated approach. The places project will help
the Council equip its staff to put the Customer at the heart of everything we do.

7.0 Implications

Financial, Resources and Procurement

7.1.1 The detailed financial, resource and procurement implications of this proposed
addition to the Capital Programme and the draft Budget Report are at an early
stage. The inclusion of this has been applied in principle to the Budget Report, however
further information regarding the worked up costs and income included in the
Business Case is required before the final decision to commit to this scheme is
taken. The inclusion of this in principle can be seen in the draft Budget Report also
on this meeting’s agenda.

7.1.2 The total project costs are estimated to be £4.937m +VAT over a period of circa
18months. The programme of works is estimated to cost £4.5m, with approximate
splits of £1.6m for Kendal Town Hall and £2.9m for South Lakeland House.
Additional costs of fees, contingencies, moving and lost revenue to KTH during refurbishments, bring the total cost to £4.937m.

7.1.3 It is proposed that £4.387m of project costs be funded by application for Public Works Loan Board (PWLB) borrowings. This has been costed on the basis that borrowing is taken on 31 March of each year of construction and be repaid in instalments over the following 25 years. This will match the expected life of the works with the duration of the loan repayment. Actual borrowing will be timed to minimise net interest payments by the Council in line with the Treasury Management strategy and following advice from the Council’s Treasury Management advisors.

7.1.4 The cost to progress to the end of Stage 4 – Technical Design and issue to tender is £148,000. This has been included in the revenue budget for 2019/20. This work will include further cost evaluation, a further review of the Kendal market prior to committing to the full scheme and technical design in the form of structural and mechanical and electrical design.

7.1.5 The project captures some works that would otherwise have been required under the normal business of asset management. The business case has reflected some of the cost avoidance in both SLH and KTH, notably to the following 3 items: lift in SLH, lift in KTH and atrium roof in SLH. These have a combined capital requirement of £250k in the short-term with a further £500k in the medium-term.

7.1.6 Whilst the project includes £1.5m of works to KTH, £23,630pa for the first 10 years is considered as revenue cost avoidance and the planned maintenance budget will be adjusted accordingly.

7.1.7 Using an annuity basis for debt repayment the revenue savings are around £200k for the first 10 years following completion of the building works. Total savings, including capital cost avoidance, are £450k over these 10 years.

7.1.8 The overall Net Present Value (NPV) of the project has been calculated over a total of 27 years from the start of works. A discount rate of 3% is applied to reflect the risk and borrowing rate assumed at 3%. There is a positive NPV of £21,171 including the costs of borrowing and repayments or £51,213 if financing costs are excluded. This indicate income from the proposals will exceed the costs of the scheme. The majority of the income generated by the proposals relate to South Lakeland House which shows a strongly positive NPV, this positive NPV helps offset a negative NPV for the Town Hall works.

7.1.9 It is proposed that £350k from the Cumbria Business Rate reserve is used to fund part of the capital cost of the scheme. This reserve is earmarked for economic development initiatives. The application of this reserve is justified as the project costs are heavily focused on improvements to KTH as an asset of community benefit, and SLH areas to be used for SME business development.

7.1.10 The cost of the project includes all the associated Furniture and Fittings, together with the temporary costs of moving and relocation.

7.1.11 No allowance has been made for energy cost savings from the installation of LED lighting or improved window performance. However, these items are expected to generate additional financial savings over time.
7.1.12 The project requires existing Repairs and Maintenance budgets to be retained over the medium term, although allowance is made in the first 5 years for revenue saving against SLH of £30,000pa. This reflects the expected reduction in reactive and planned maintenance against current levels.

7.1.13 The Council is expected to make savings against NNDR (Business Rates), with charges being applied to occupying tenants. Not all areas will be directly chargeable, and costs will be recovered in service charges as appropriate.

7.1.14 The delivery of the project works will be subject to a separate procurement process in compliance with the Council’s procurement code, national and EU codes. It is recommended that the management of the scheme be awarded to Bloom Procurement Services Limited with Lambert Smith Hampton as the sub consultant to manage the scheme from RIBA Stage 4 (Technical Design to RIBA Stage 6 (Handover and Completion). This represents value for money as LSH have prepared the scheme to the current stage so would benefit from continuity of expertise.

Human Resources

7.2 The business case includes for additional support for the project as required to ensure the existing assets team can deliver the scheme and meet the anticipated programme dates and to support SLDC employees whilst the work is undertaken and minimise disruption and unnecessary upheaval in working areas.

Legal

7.3.1 The decision regarding the use of Council assets is one which lies with Cabinet. It is the remit of Full Council to approve any associated spend (above the amount that Cabinet can approve). There are powers within the Local Government Act 1972 and the Localism Act 2011 to lease property to third parties. Furthermore, the proposal opens up opportunities, pursuant to the Local Authorities (Goods and Services) Act 1970 to provide additional professional services (such as IT support) to tenants.

7.3.2 Providing the Council leases space at a market rent, there are no State Aid implications.

Health, Social, Economic and Environmental

7.4 Have you completed a Health, Social, Economic and Environmental Impact Assessment? Yes (attached at Appendix 3)

Equality and Diversity

7.5 Have you completed an Equality Impact Analysis? No.

Risk

<table>
<thead>
<tr>
<th>Risk</th>
<th>Consequence</th>
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<tbody>
<tr>
<td>Cost estimate is exceeded.</td>
<td>Potential that other Capital schemes will not go forward if this scheme is over budget.</td>
<td>Designated Client lead for the Places programme as Client. Client to appoint Quantity Surveyor (cost consultant) to the design team to monitor and estimate costs at each design stage and value engineer where required to maintain budget.</td>
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<tr>
<td>Risk</td>
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<td>Programme of Works not met and the work is delayed.</td>
<td>Disruption to the day to day running of the building which will affect staff and the general public.</td>
<td>Designated lead for Client. Client to appoint Contract Administrator to be appointed within the Design Team to manage programme of work and appropriate building contract to be used for phased completion.</td>
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<tr>
<td>Disruption to Staff and Services whilst the work is ongoing.</td>
<td>Disruption to the day to day running of the building which will affect staff and the general public.</td>
<td>Clear communication with all the staff and public re: work programme and changes to works programme.</td>
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<tr>
<td>Loss of income to Kendal Town Hall and disruption to key events within the Town’s Calendar.</td>
<td>Reputational damage for the Council and key events.</td>
<td>Programme of works around the Town Hall to be carefully managed in line with the timings of key events. Contingency to also be provided in programme to cover unforeseen delays. Liaise fully with event organisers of key events to ensure early dialogue.</td>
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<tr>
<td>Do nothing and maintain status quo.</td>
<td>Failure to benefit fully from the Customer Connect programme, failure to attract and retain skilled workforce, failure to create a state of the art working facility leading to greater productivity, failure to provide a High Street reception area and greater customer interaction and failure to meet with the Council’s Economic Development agenda through the proposed Mint works option.</td>
<td>Approve the proposed investment in South Lakeland House and Kendal Town Hall.</td>
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<tr>
<td>Do nothing and maintain status quo.</td>
<td>Maintenance costs will continue to rise, continue to use the space inefficiently leading to greater running costs and lose the potential of producing an income stream through commercial lettings.</td>
<td>Approve the proposed investment in South Lakeland House and Kendal Town Hall.</td>
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<tr>
<td>Unable to deliver other key projects on the Capital Programme due to borrowing capacity.</td>
<td>The decision to apply this level of resources to this scheme will result in an opportunity cost i.e. the resources and capacity available to deliver other ambitions will be curtailed over the medium to long term.</td>
<td>The consideration of the longer term impact will continue and the outcome will be reported to a future Cabinet meeting. This limits the risk to the affordability</td>
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<td>Final FTE number may vary following completion of the Phase 2.</td>
<td>Space taken by SLDC is too little or too great. Business case has to be reviewed and updated.</td>
<td>Critical review of the accommodation following the completion of the Customer Connect re-structure.</td>
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<tr>
<td>Demand for 3rd party office space is inaccurate.</td>
<td>Income projections in the business case not met.</td>
<td>Undertake further critical review of the Kendal office market prior to letting out the contract to ensure that there is still sufficient demand for the size of office space proposed.</td>
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Contact Officers
Sion Thomas, Property Services Contract Manager, 01539 793192, sion.thomas@southlakeland.gov.uk

Appendices Attached to this Report

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<th>Appendix No.</th>
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<tr>
<td>1</td>
<td>Outline Business Case – Lambert Smith Hampton</td>
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<td>2</td>
<td>Concept and Developed Design</td>
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<td>3</td>
<td>Staff and Councillor Questionnaire results.</td>
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<td>4</td>
<td>Health, Social, Economic and Environmental Impact Assessment</td>
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Background Documents Available

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