

## PERTH AND KINROSS COUNCIL

19 December 2012

**ESSENTIAL MAINTENANCE AND COMPLIANCE WORKS –  
2 HIGH STREET AND CARPENTER HOUSE, PERTH****Report by Depute Director (Environment)****ABSTRACT**

This report outlines the essential maintenance and compliance works previously considered by Council required for 2 High Street and Carpenter Street, Perth. It also demonstrates that by rationalising the Council's property portfolio in Perth, there will be significant financial savings to be made in the longer term. This report presents an innovative solution to modernising the use of council accommodation using recurring revenue savings and modern ways of working.

**1. RECOMMENDATIONS****1.1** The Council is requested to:

- (i) Note the termination of the leases for The Atrium, Blackfriars, Riverview House and Whitefriars by 2017.
- (ii) Approve the proposals as outlined in section 4 of the report.
- (iii) Approve the arrangements for Carpenter House and 2 High Street as outlined in sections 5 and 6 of the report.
- (iv) Approve the resource implications, including the additional capital expenditure of £1.25 million, as outlined in section 9 and further detailed in Appendix 1.
- (v) Approve the governance arrangements as detailed in section 10.
- (vi) Note the risks which are outlined in Appendix 2.
- (vii) Request the Executive Director (Environment) to bring back further reports with updates on progress on a regular basis throughout the project.

**2. BACKGROUND**

- 2.1 At the Council meeting, in June 2010, approval was given for a review of central Perth office accommodation (Report 10/357 refers).
- 2.2 On 11 May 2011, a presentation was made to councillors on the options to accommodate staff from buildings in the centre of Perth. From the options available, the lowest cost option to carry out legal compliance works on 2 High Street and Carpenter House was recommended as the way forward. This report provides details about the delivery of that option.

- 2.3 The Council have also been made aware that by 2017 our leases will have expired in Blackfriars, the Atrium, Riverview House and Whitefriars. The initial feedback from the landlords for these buildings is that they are not prepared to re-new the leases on terms which the Council would find acceptable.
- 2.4 These buildings house significant numbers of Council staff who will require to be re-located.
- 2.5 Section 3 below details the key findings from the work done since May 2011 and outlines the project for consideration by Council.

### **3. KEY FINDINGS**

- 3.1 In-depth work has been undertaken to detail the essential maintenance and compliance works required to achieve legal compliance for two of its own buildings – 2 High Street and Carpenter House, Perth. Both of these buildings are essential to the Council's strategic and operational delivery, with the former used as the Council's Headquarters and the latter as the Council's IT hub. However, both these buildings require significant investment to ensure that they can continue to be used for these purposes and to achieve this, £3.975M was agreed by Council on 9 February 2012 (Report No. 12/53 refers) to fund essential works. In addition, in order to maximise the longer term revenue savings a further £1.250m of capital expenditure is required to meet infrastructure and internal redesign costs in Pullar House and Carpenter House to allow for the introduction of flexible working practices.
- 3.2 This gives a total project capital cost of £5.225M. The recurring revenue savings presented after netting off the borrowing costs are in the region of £500K per annum.
- 3.3 If the necessary works are not carried out on these ageing properties there are an increasing risk of legal compliance, building failure and the consequential impact on service delivery and business functionality.
- 3.4 Undertaking this work on a reactive basis at a later date will remove the opportunity to consolidate and make savings. It is also likely to both significantly increase the cost and the level of disruption incurred. Taking forward this programme of works provides an opportunity to rationalise the Council functions into fewer buildings and deal with the termination of the leases while reducing operational costs.
- 3.5 For 2 High Street, the works required to ensure legal compliance include improving fire escapes, upgrading in relation to Disability Discrimination Act (DDA) compliance issues, removing the plant room and electrical switching from the basement to the ground floor to avoid flood risks, replacing and relocating the boilers and flues which have been experiencing regular breakdowns. The full list of required works is:

- Improvement of fire escape route from the Mezzanine level – i.e. resolving fire escape issues from the area between second and third floors
- Improvement of fire escape route within and from the basement area or alternatively address the clearance and zoning off of the basement area.
- Improvement of the external rear area fire escape in terms of fire proofing openings leading on to the stair and upgrading the stair itself
- Form disabled access to the ground floor Banking Hall – currently served by steps up from High Street therefore ramp, platform and suitable doors to be installed
- Relocate main electrical supply from basement to ground floor to avoid flood risk.
- General rewire throughout building to upgrade obsolete fuse boards and infrastructure cabling serving power and lighting installations
- Replace the emergency generator currently situated in the Courtyard
- Replace and relocate the heating boilers and flue – the boilers are c 20 years old and the flue system is below current acceptable standards

3.6 For Carpenter House, the essential works include fire escape improvements, DDA compliance issues, asbestos removal and forced ventilation/air conditioning to better protect the Council's IT infrastructure and ensure greater resilience. The full list of required works is:

- Fire Escapes – improve fire escape routes to front and rear of building
- DDA Provision  
*Reception Area – improve front reception desk for visitors*  
*Disabled toilet Provision 1st Floor*
- Electrical Installations  
*General rewire throughout*  
*Networking distribution*
- Heating Installations  
*Boilers*  
*Heat Exchangers and Reclamation*
- Forced Ventilation/Air Conditioning
- Refurbishment of Windows including Secondary Glazing
- Re-Flooring Ground floor with Modular Flooring Solution
- Kitchen Upgrades
- Lighting Improvements
- Space Planning
- Noise Attenuation
- Asbestos Removal
- Re roofing
- Reconfiguration of Server Rooms

### 3.7 Leases and Opportunities for Rationalisation

3.7.1 Perth & Kinross Council currently operates out of a number of office locations in central Perth. Excluding housing offices and operational depots, the Council owns or leases the following properties:

Property	Owned / Leased	Operating costs p.a.	Lease date	Expiry
1-5 High Street	Owned		N/A	
2 High Street	Owned		N/A	
Carpenter House	Owned		N/A	
Riverview House	Leased	£90,000	June 2013	
Whitefriars	Leased	£180,000	March 2016	
The Atrium	Leased	£360,000	December 2016	
Blackfriars	Leased	£372,000	February 2017	

- 3.7.2 The Pullar House offices in Mill Street, Perth were purpose built under a Public Finance Initiative (PFI) contract. As a result, the Council will effectively lease the property until 2025 when it then has the option to purchase the building at the prevailing market rate. Any withdrawal or early termination from the existing Pullar House contract is likely to incur significant financial penalties.
- 3.7.3 The in-depth work has focussed on examining ways to maximise the opportunities for rationalising the Council's office accommodation in Perth. This is achievable through the introduction of more flexible ways of working supported by an appropriate IT infrastructure. The proposed approach, which has been successfully implemented in other authorities, better fits the changing work patterns of the Council's workforce and generates revenue savings through allowing more employees to operate from, rather than be permanently based at the Council's office accommodation.
- 3.7.4 Support has been provided by Scottish Futures Trust in relation to office design and more flexible ways of working. This has identified that rationalisation of properties is achievable and will provide the recurring savings of £500K in future years. However, it requires the most effective use of the space in Pullar House through flexible ways of working.
- 3.7.5 Flexible working is a more agile approach to working and delivering services. This is underpinned by innovative technology, less reliance on property, more effective records management and document storage.
- 3.7.6 The adoption of a modern and flexible culture of working which will change the physical location and environment of our employees and the technology and processes they use. The implementation of flexible, mobile and home working will allow optimum use of property assets.
- 3.7.7 An occupancy survey identified that desk occupancy levels are approximately 50% in Pullar House and 2 High Street, highlighting the fact that while many employees and councillors have permanent workstations they are not necessarily predominantly office based. Whilst occupancy and work-style surveys require to be updated, this is indicative of the potential to have more employees operate out of a designated building through the adoption of flexible work styles without necessarily having to be permanently based there.

3.7.8 As a result, the proposals set out within this report will enable essential maintenance and compliance works to be financed, through prudential borrowing, at the Council's Carpenter House and 2 High Street properties. The phased withdrawal from the leases of Riverview House, Whitefriars, the Atrium and Blackfriars will fund the resulting borrowing costs in the long term. They will also require the use of Reserves and budget flexibility within the Environment Service, in the short term. However, the financial modelling indicates that within 18 months of final lease terminations in 2017/18 the proposals will deliver net revenue savings and by 2019/20 (after reinstating Reserves), recurring revenue savings in the order of £500K per annum. This is explained in greater detail in section 9.

3.7.9 The funding approved by the Council in February 2012 is for the capital works. However there is also the need for additional revenue funding to facilitate the implementation of the project for such things as decant/recant, file storage along with project and business change management. It has been identified that to maximise the opportunities for long term financial savings and property rationalisation further capital and revenue funding is required in the short term. This is outlined in more detail in section 9 of this report and in Appendix 1.

### **3.8 Risk Assessment**

3.8.1 The assessment of risks associated with not undertaking the necessary works are detailed in Appendix 2. Actions to mitigate the consequences outlined are in place but these are not sustainable in the medium term. A more detailed risk plan has been completed in line with corporate guidance.

## **4. PROPOSALS**

4.1 It is therefore proposed that:

4.1.1 Perth based office staff, along with elected members, are consolidated from six buildings into three main sites – 2 High Street, Carpenter House and Pullar House (para 3.7.1 refers)

4.1.2 The legal compliance works, necessary to meet the Disability Discrimination Act and fire regulations, identified as part of the Composite Capital Budget 2012-2017 (listed in paragraphs 3.5 and 3.6 above) are undertaken to ensure business resilience requirements

4.1.3 Internal redesign of Pullar House and Carpenter House is undertaken to accommodate all the staff who will be displaced as a result of lease terminations at the Atrium, Blackfriars, Riverview House and Whitefriars. This is to support the introduction of more flexible working practices (outlined in section 3.7.5 and 3.7.6).

## 5. ARRANGEMENTS FOR CARPENTER HOUSE

- 5.1 The Council's main IT hub is contained within Carpenter House and during the refurbishment work it will continue to operate uninterrupted, ensuring that the Council's computer and communications network is maintained.
- 5.2 The methodology to be employed for ensuring the integrity of the servers within Carpenter House will be determined by the Council's IT team in conjunction with the appointed contractor. The need for business continuity of systems used across the Council will be paramount.
- 5.3 The indicative timescale is to decant staff from Carpenter House for a period of approximately ten months (between July 2013 and May 2014) . They will be relocated in Blackfriars House during that time.
- 5.4 Relocation in Blackfriars House will allow all IT staff to be accommodated in one location during the period of the refurbishment works and remain in close proximity to Carpenter House and the servers.

Date	Action
April 13 – June 13	Decoration, carpeting and data up-grade of Floor 2 Blackfriars prior to decant of IT staff from Carpenter House.
July 13 (2 <sup>nd</sup> two weeks)	Decant 60 IT staff from Carpenter House to Blackfriars to facilitate Carpenter House refurbishment.
Aug.'13 – April.'14	<b>Business Change</b>  Engagement with IT staff on introduction of Modern Ways of Working in advance of relocation back to Carpenter House.
mid-Aug '13 – mid-April '14	Construction Work.
late April '14 – mid May '14	<b>Business Change</b>  Relocation of IT staff from Blackfriars to Carpenter House, incorporating Modern Ways of Working.

## **6. ARRANGEMENTS FOR 2 HIGH STREET**

- 6.1 It is proposed that all Elected Members, Chief Executive, Executive Directors, Heads of Legal, Human Resources, Finance & Democratic Services and all relevant support staff currently accommodated within 2 High Street will be relocated to Blackfriars House during the period of the essential compliance and maintenance works.
- 6.2 It is proposed that all remaining staff currently accommodated within 2 High Street e.g. Human Resources, Finance and the Social Care Integration cohort, will be relocated to The Atrium during the period of the essential compliance and maintenance works.
- 6.3 It is essential that during the works the democratic process is maintained and to this end it is proposed that the Elected Members, the Chief Executive, Executive Directors and staff identified in para 6.1 'relocate to Blackfriars House, using the 'Tay Room' as the Council's Chambers for the duration.
- 6.4 Work will be carried out to the Tay Room to ensure it is large enough to accommodate Members, officers, press and the public. This work would be carried out and completed by the time of the proposed decant in January 2015.
- 6.5 The office space and suite of meeting rooms at Blackfriars is fit for the purpose of housing Elected Members, the Chief Executive, Executive Directors and staff identified in para 6.1 for the duration of the work and no additional costs in respect of hiring in 'Council Chambers' space will be necessary.
- 6.6 As with Blackfriars, the office space at the Atrium is fit for purpose and no additional costs in respect of the accommodation are anticipated.
- 6.7 The indicative timescale for the decant, construction works and recant back into the building is based on the maintenance and compliance requirements.

Date	Action
Jan.'15 (beginning of the month for 3 weeks)	<p>Phased decant of 2 High Street to Blackfriars and the Atrium.</p> <p>Proposed that Elected Members, the Chief Executive, Executive Directors and staff identified in para 6.1 of around 120 staff, are decanted to Blackfriars, utilising the Tay Room as Council Chambers.</p> <p>Proposed Human Resources, Finance and the Social Care Integration cohort, around 120 staff, decant to Atrium.</p> <p>Proposed that 'Licensing', around 8 staff, relocates to reception at Pullar House</p>

Date	Action
late Jan. '15	Construction works start
July '16	Work complete
Nov '16	Phased relocation of 2 High Street staff from Blackfriars and The Atrium
7 December 2016	Atrium lease expires (assumed dilaps period starts in Sept 2016)
12 Feb 2017	Blackfriars lease expires (assumed dilaps period starts in Nov. 2016)

## **7. 1 - 5 HIGH STREET/ TAY STREET COMPLEX**

- 7.1 Excluded from the scope of this review is the 1 – 5 High Street/Tay Street complex which is also a Council owned building. This contains the Old Council Chambers, along with the Registrars' service, the Unison office and a small number of non-Council organisations.
- 7.2 These services are all delivered from the ground floor as the higher floors are neither safe nor suitable for employees to be working in. It is understood that the Old Council Chambers is seen as part of the Council's heritage and as such, any future use of the building will require to take this into account.

## **8. CONSULTATION**

- 8.1 The Chief Executive, Executive Directors, the Head of Democratic Services, the Head of Finance, the Head of Legal Services, the Head of Human Resources and the Head of Corporate Business Change & IT have been consulted in the preparation of this report.
- 8.2 A briefing session for elected members was held on 10 December 2012.

## **9. RESOURCE IMPLICATIONS**

### **9.1 Capital**

- 9.1.1 In setting the Composite Capital Budget 2012-2017 on 9 February 2012, the Council approved £3.975m of capital expenditure to cover essential maintenance and compliance works at 2 High Street and Carpenter House (report 12/53 refers). The associated borrowing costs will be met through the termination of office leases at The Atrium, Blackfriars, Riverview House and Whitefriars.



9.1.2 In order to maximise the longer term revenue savings a further £1.250m of capital expenditure is required to meet infrastructure and internal redesign costs in Pullar House and Carpenter House to allow for the introduction of flexible working practices. The cost of the associated borrowing can be met through the terminations of all the leased buildings in scope.

## **9.2 Revenue**

9.2.1 There are a number of upfront non-recurring implementation costs associated with the project covering the period 2013-2017.

- Unavoidable leased building dilapidation costs currently estimated at a maximum of £860k
- Decant/Recant costs associated with office moves £90k
- Programme and Change Management £330k

9.2.2 Recurring revenue costs associated with records management are currently included at £100k per annum. Work is on-going to identify the most cost effective solution to records management issues to minimise the expenditure.

9.2.3 All the above costs will be borne in advance of the savings being realised from office lease terminations. It is proposed that building dilapidation costs estimated at £860k are initially met from Council Reserves across financial years 2015-2017 and refunded back to Reserves in 2017-19 as savings are realised from lease terminations.

9.2.4 It is further proposed that all other revenue costs estimated at £553k for the period 2013-2017 (including loan charges associated with prudential borrowing) be contained within the TES/Property Revenue Budgets through in-year savings as part of the 2013-15 Revenue Budget setting process.

9.2.5 As a result, recurring revenue savings of approximately £500k per annum will be realised by financial year 2019/20.

9.2.6 Appendix 1 details the anticipated phasing of revenue expenditure and savings.

## **10. GOVERNANCE ARRANGEMENTS**

10.1 It is proposed that the governance arrangements for the project would be as follows:

- (i) The Executive Officer Team will be the Project Board
- (ii) The Executive Director (Environment) will be the Executive Sponsor
- (iii) The Head of Performance and Resources (the Environment Service) will be the Senior Responsible Owner.

- 10.2 A Project Team will be established consisting of the Programme Manager and officers with responsibility for business change, records management, construction, IT, decant, removals and dilapidations. This team will be augmented, as required, by expertise in Human Resources, Legal, Finance and Communications.
- 10.3 As part of the business change arrangements, it is intended that change champions will be identified in each area affected by the decant to ensure that the project team are identifying and addressing key issues and specific work related issues.
- 10.4 Regular update reports will be provided to the Property Sub-Committee of the Strategic, Policy and Resources Committee by the Executive Sponsor and Senior Responsible Owner.

## **11. COUNCIL CORPORATE PLAN OBJECTIVES 2009-2012**

- 11.1 This report supports all the objectives of the Council's Corporate Plan 2009-2012.

## **12. EQUALITIES IMPACT ASSESSMENT (EqIA)**

- 12.1 The function, policy, procedure or strategy presented in this report was considered under the Corporate Equalities Impact Assessment process (EqIA) and was assessed as not relevant for the purposes of EqIA.

## **13. STRATEGIC ENVIRONMENTAL ASSESSMENT**

- 13.1 The matters presented in this report were considered under the Environmental Assessment (Scotland) Act 2005 and no further action is required as it does not qualify as a PPS as defined by the Act and is therefore exempt.

## **14. CONCLUSION**

- 14.1 The essential maintenance and compliance works is a large and complex programme which will allow the Council to undertake essential building and maintenance works while making significant financial savings in the longer term through property rationalisation.
- 14.2 While capital funding has already been identified through the Composite Capital Budget 2012 – 2017, further capital funding of £1.25m is required to fully exploit all available opportunities for increased savings. There is an additional requirement for revenue implementation costs, as detailed in section 9. However, the project will deliver annual savings of around £0.5m from 2019/20.
- 14.3 It will require effective project management arrangements, supported by robust business change and an IT infrastructure that will enable flexible, mobile and home working in a way that is easy to apply and maintain.

- 14.4 Regular reports will be provided, along with an ongoing communications plan to keep elected members and employees informed of progress.

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**Date:** 12 December 2012



	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
<b>Leased Building Recurring Revenue Budget Savings Upon Expiry Of Lease</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Riverview House - Lease Expires June 2013 (Utility Savings Only)	11	15	15	15	15	15	15	15
Blackfriars - Lease Expires February 2017	0	0	0	47	372	372	372	372
Atrium - Lease Expires December 2016	0	0	0	150	360	360	360	360
Whitefriars - Lease Expires March 2016	90	90	90	180	180	180	180	180
<b>Sub Total (Savings)</b>	<b>101</b>	<b>105</b>	<b>105</b>	<b>392</b>	<b>927</b>	<b>927</b>	<b>927</b>	<b>927</b>
Less: Estimated Prudential Borrowing Loan Charges (Recurring)	(15)	(83)	(158)	(280)	(293)	(306)	(320)	(333)
Records Management (Recurring)	0	(100)	(100)	(100)	(100)	(100)	(100)	(100)
MWOW Business Change Management (Non-Recurring)	0	(50)	(50)	0	0	0	0	0
POAR Programme Management (Non-Recurring)	(50)	(50)	(50)	(50)	0	0	0	0
Change Consultants (Non-Recurring)	(30)	0	0	0	0	0	0	0
Decant/Recant (Non-Recurring)	(10)	(30)	(30)	(20)	0	0	0	0
Leased Buildings Dilapidations - Projected Maximum Cost (Non-Recurring)	0	0	(145)	(715)	0	0	0	0
<b>Sub Total (Costs)</b>	<b>(105)</b>	<b>(313)</b>	<b>(533)</b>	<b>(1,165)</b>	<b>(393)</b>	<b>(406)</b>	<b>(420)</b>	<b>(433)</b>
<b>Net Revenue Budget Savings/(Costs)</b>	<b>(4)</b>	<b>(208)</b>	<b>(428)</b>	<b>(773)</b>	<b>534</b>	<b>521</b>	<b>507</b>	<b>494</b>

FUNDED BY THE ENVIRONMENT SERVICE	(4)	(208)	(283)	(58)	534	521	507	494
FUNDED BY RESERVES	0	0	(145)	(715)	0	0	0	0
<b>TOTAL</b>	<b>(4)</b>	<b>(208)</b>	<b>(428)</b>	<b>(773)</b>	<b>534</b>	<b>521</b>	<b>507</b>	<b>494</b>

## RISK ASSESSMENT

Risk description	Consequence
There is a risk that both buildings will fail due to the age of heating/lighting systems	Unplanned closure of the buildings Restrictions placed on use Server rooms overheat and the Council's IT infrastructure fails Impact on service delivery Impact on business functionality Reputational risk to the Council Financial cost
There is an increased risk of non-compliance with Health, Safety & Fire regulations	Unplanned closure of the buildings Restrictions placed on use Impact on service delivery Impact on business functionality Financial cost Potential risk of further restriction notices Reputational risk to the Council Increased insurance costs
There is a Disability Discrimination Act risk that we fail to provide appropriate access/egress to, and use of, the buildings	Equalities issues Restricted access to service users and impact on service delivery to them Restricted access for staff Reputational risk to the Council
There is a financial risk that reactive maintenance will cost significantly more than planned maintenance in the long term	Increased impact on Council's revenue/capital budget Less funding available to deliver services Reputational risk to the Council
There is a risk that the existing business continuity plans are not adequate for any long term decant requirements, both operationally and strategically	No suitable alternative buildings identified for long term occupation Financial cost Reputational risk to the Council