

The Highland Council

Resources Committee – 2nd December 2009

Review of Office Accommodation – Inverness and Dingwall

Agenda Item	
Report No	

Report by the Director of Housing and Property

Summary

This report outlines the background and the recommended approach to be adopted by the Council in taking forward the major office accommodation reviews in Inverness and Dingwall.

1. Current position

- 1.1 A review of the Council's Inverness and Dingwall office accommodation has been initiated by the Service Director under the Asset Management Corporate Improvement Project (CIP).
- 1.2 The Council's current office portfolio (**Appendices 1-3**) is comprised of:-
 - Inverness – **35 office buildings** (27 sites)
 - Dingwall – **12 office buildings** (12 sites)
- 1.3 **Appendix 4** outlines major office rationalisation projects undertaken by the Council.

2. Benefits

- 2.1 Rationalisation of the office estate has the potential to deliver the following benefits:-
 - Significant **reductions in the operating and running costs** of the estate
 - **Capital receipts** generated through property disposals for reinvestment
 - **Reduced property risks and liabilities** associated with a high maintenance backlog¹
 - **Improved:-**
 - Building **condition**/maintenance of retained property assets
 - **Asset performance** by reducing operating and energy running costs
 - Efficiency of office **space use**
 - Sustainability and environmental performance of the estate
 - Working environment for staff and customers
 - Service delivery and efficiency through **co-location and shared service opportunities**
 - Incorporation of business improvement benefits delivered by other CIP projects

3. Challenges/Constraints

- 3.1 The Council faces significant challenges in seeking to realise the above range of benefits:-
 - **Political and organisational**
 - Competing priorities, programmes, timescales
 - Establishing an agreed Vision for the Council's corporate office estate
 - Service Asset Management Plans are not yet developed
 - Addressing operational Service accommodation needs during the review period

¹ The Council's Required Maintenance for operational estate – c£200million (as reported to Audit Scotland – August 2008)

- Incorporation of business transformation CIProjects (9) currently in development
 - **Financial and economic**
 - Challenging **financial outlook and economic climate**
 - Capital and revenue **budgetary pressures**
 - **Achievability, affordability and funding** of major capital projects
 - Lack of available finance to fund the reviews and deliver the outcomes
 - **Resource**
 - Availability and affordability of qualified and experienced internal/external resources
- 3.2 No detailed or definitive best practice procurement guidance has been identified for local authorities wishing to undertake and implement major reviews of (office) accommodation.
- 3.3 Central Government departments, and public bodies (that are subject to the 'Scottish Public Finance Manual'), seeking to achieve **significant construction procurement objectives** are subject to **mandatory best practice guidance** produced by the Office of Government Commerce (OGC)² and the Scottish Procurement Directorate³ respectively.
- 3.4 Whilst the Council is not subject to strict compliance with the above guidance, it does need to:-
- Operate under a statutory duty of delivering **Best Value**⁴
 - Demonstrate public accountability and **Value for Money (VfM)** in everything that it does
 - Adopt Best Practice principles where possible and act as an exemplar Service Provider
 - Subject its activities to external audit and scrutiny, eg. by Audit Scotland
- 3.5 Under the above guidance:-
- The Inverness and Dingwall office reviews would be categorised as a '**major**' and '**mission critical**' projects (**Appendix 5**)
 - An appropriately qualified and experienced **Independent Client Advisor (ICA)** should be appointed to lead and support the Council through the key project identification, development and pre-construction phases (**Appendix 6**).

4. Options

- 4.1 There are **2 principal office rationalisation options** available to the Council, both of which will require upfront funding to initiate and finance the reviews:-
- **Minimise the estate** in each area through the adoption of a **development solution**:-
 - Benefits end date loaded
 - Maximum business transformation impact
 - Non financial benefits maximised through move to a modern and reduced portfolio
 - External/Internal expertise, resources and upfront funding required to deliver solution
 - Possible private sector development funded solution required
 - **Incremental rationalisation** of the existing portfolio:-
 - Retention of existing, aged **core** portfolio
 - Reduced scope for realisation of potential benefits and efficiencies

² The Office of Government Commerce, Achieving Excellence Procurement Guidance

³ The Scottish Construction Procurement Manual, The Scottish Procurement Directorate.

⁴ Local Government in Scotland Act 2003 (s1)

- Gradual implementation and roll-out of business change improvements
- Potential for greater self-funded programme through benefits re-investment
- Potential for in-house delivery of reviews

5. Way forward

5.1 The ICA will initially advise and lead the Council in the development of a '**Strategic Business Case**' (SBC) that will identify suitable **strategic options** that fit with the **corporate and operational needs** of the organisation, typically identifying:-

- The **business need** and contribution to the Council's strategy, objectives and priorities
- Key **Benefits** to be realised
- Key **Risks**
- **Critical Success Factors**
- Main stakeholders
- High level options
- **Achievability, Affordability and funding** options
- Suitable **procurement options** and **market testing** with potential suppliers
- **Resource** requirements

5.2 Given the specialist nature of the ICA role, it is recognised that the Council **does not** have the necessary skills, experience or staff resources available **in-house** to lead the delivery of these reviews. The Council will therefore adopt the national Best Practice guidance referred to above, seek to appoint a suitably qualified and experienced ICA via a competitive tendering process, and implement a procurement framework (**Appendix 7**) for the reviews.

5.3 A dedicated and multi-disciplinary project team will also be required to take forward each project (**Appendix 8**), the composition and requirements of which will need:-

To be tailored to the **procurement route** adopted

A mix of suitably qualified and experienced **internal and external resources**

To be **developed** during the SBC stage

6. Funding

6.1 Office Rationalisation

6.1.1 Major office rationalisation projects require a high level of capital investment which, together with Prudential borrowing commitments, will place significant financial pressures on the Council's ability to deliver improved front line services through its Capital Programme.

6.1.2 The SBC will need to look at available and alternative sources of funding that will include potential private sector financing solutions.

6.1.3 The Asset Management Project will also seek, in parallel, opportunities to reduce the office estate during the period of the reviews through local rationalisation and efficiency initiatives. Member's agreement to 'ring-fence' receipts from property disposals and revenue savings will contribute to supporting the cost of funding the property rationalisation programme.

7. Independent Client Advisor

- 7.1 Subject to Members' approval of the recommendations of this paper, the services of a suitably qualified and experienced ICA will be sought via a competitive tendering process upto and including approval gateway 1 review stage.
- 7.2 A separate paper will be brought back to a future Committee with a recommendation following the tendering exercise to seek Members' funding approval.
- 7.3 Should the Council decide to proceed beyond approval gateway 1 review stage, the services of an ICA will be required as outlined in **Appendix 6** (at additional cost).

8. Timescale

- 8.1 The estimated timescale to deliver a development office solution for both areas will be in the region of **5years** from review commencement, depending upon the procurement route.
- 8.2 The review timescale up to and including approval gateway 0 stage agreement is estimated to be in the region of **16 weeks** from the appointment of an ICA, with a similar period for approval gateway 1 stage agreement (**Appendix 9**).

9. Key Milestones/Decision points

- 9.1 Milestones requiring Members approval, up to and including approval gateway 1 stage are:-
- Agreement to progress the reviews on the basis outlined in this paper
 - Funding approval for the appointment of an external ICA
 - Approval of project evaluation, strategic assessment and budget in principle (gateway 0)
 - Approval of Strategic Business Case, project evaluation and budget (gateway 1)

10. Approval Gateway Reviews

- 10.1 Under the above procurement guidance, capital projects with a total budget exceeding £5million (inclusive of professional fees and VAT) and assessed as being **high risk** or **mission critical** should be subject to formal independent approval gateway reviews⁵ at key decision points in the project lifecycle.
- 10.2 This process is regarded as best practice in central civil government, the health sector, local government and Defence, and would need to be set up by the Council at additional cost.

11. Communications Plan

- 11.1 A Communications Plan has been drafted and this will be further developed as the project progresses. The purpose of the plan is to identify the stakeholders and ensure that they are both informed and involved in the work of the review.
- 11.2 **It will be important to stress to all stakeholders that at this point the review makes no assumptions and that decisions can only be taken on the basis of proper**

⁵ This would be similar to The Gateway™ Review process registered to the Office of Government Commerce, and the process adopted by the Digital Highland Programme Board gateway review process.

option appraisals.

12. Appendices

12.1 A schedule of appendices and glossary of abbreviations referred to in this paper is included at the end of this report.

13. Recommendation

13.1 Members are requested to:-

- i. Agree that the Council progresses the Inverness and Dingwall office reviews on the basis outlined in this paper
- ii. Note that a tendering exercise will be carried out for an ICA to lead the Council through project identification and preconstruction phases up to and including approval gateway 1 stage, and that a paper will be brought back to future Committee for funding approval
- iii. Agree that the Council adopts an independent approval gateway review process in respect of the office reviews.

Signature

Designation Director of Housing and Property

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Date: 25th November 2009

Appendices

- 1 Council sites with office accommodation - Inverness
- 2 Council sites with office accommodation - Dingwall
- 3 Office Accommodation – Inverness and Dingwall - Summary
- 4 Previous major office rationalisations undertaken by the Council
- 5 Definitions of Major, High Risk and Mission Critical Projects
- 6 Outline of Independent Client Advisor role
- 7 (Simplified) Generic Project Procurement Life Cycle (project planning route)
- 8 Outline Project Organisation
- 9 Outline programme to approval gateway 1 stage approval

Glossary of Abbreviations (referred to on this report)

CIP	Corporate Improvement Project
FBC	Full Business Case
FTE	Full Time Equivalent
GIA	Gross Internal Area
ICA	Independent Client Advisor
OGC	Office of Government Commerce
SBC	Strategic Business Case
VfM	Value for Money

Appendix 1 – Council sites with office accommodation in Inverness

HC Ref	Site	Feuhold/ Leased
HC 00007	Kinmylies Offices	Feuhold
HC 00221	Ruthven House	Feuhold
HC 00221	Ness House	Feuhold
HC 00328	Carsegate House	Leased
HC 00408	Ardross House	Leased
HC 00672	Culcabock Child Guidance Centre	Feuhold
HC 00676	Inverness Area Education Office	Feuhold
HC 00804	Library Support Unit	Leased
HC 00913	Inverness Family Resource Centre	Feuhold
HC 00985	Trading Standards Office	Feuhold
HC 00992	Clachnaharry Old School	Feuhold
HC 01338	Highland Council Headquarters	Feuhold
HC 01345	Emergency Operations Centre	Feuhold
HC 01385	Dochfour Drive Hutted Accommodn	Feuhold
HC 01386	Inverness Finance Office	Feuhold
HC 01397	Culduthel Community Service Office	Feuhold
HC 01428	Kenneth Road – Offices and Stores	Feuhold
HC 01571	Culloden Social Work Office	Leased
HC 01655	Inverness Service Point and Offices	Leased
HC 02477	Inverness Castle (offices)	Feuhold
HC 02858	Inverness Town House	ICGF
HC 05236	Church Street Offices	ICGF
HC 05319	Hilton Service Point	Leased
HC 06146	Castle Wynd Offices	Leased
HC 06164	MP33 Office	Leased
HC 06216	Catering and Cleaning Offices	Leased
HR 01654	Hilton Social Work Offices	Feuhold

Appendix 2 - Council sites with office accommodation in Dingwall

HC Ref	Site	Feuhold/ Leased
HC 00781	Dingwall Library Building	Feuhold
HC 00941	Conon Family Resource Centre	Feuhold
HC 01335	Dingwall Registrar's Office	Feuhold
HC 01369	Dingwall Divisional Education Office	Feuhold
HC 01378	Consultancy Design Office	Feuhold
HC 03573	Dingwall County Offices	Feuhold
HC 03580	Ross House	Feuhold
HC 03595	Social Work Office, Fodderty Way	Feuhold
HC 03619	Dingwall Education Offices	Feuhold
HC 04429	Dingwall Offenders Services Office	Leased
HC 05750	Glen Orrin	Leased
HC 06473	Dingwall ECS Staffing Unit	Leased

Appendix 3 Office Accommodation – Inverness and Dingwall - Summary

	Inverness	Dingwall
Office locations	27	12
Buildings	35	12
Leased offices	11 (see note *1)	3 (see note *2)
GIA (m2) - Total	c30,000	C9000
No. of staff (apprx. FTE)	1400	325
Condition Offices with poor/unsuitable overall physical condition	7	5
Suitability Offices with poor/unsuitable functional Suitability (ie, not fit for purpose; do not support service delivery)	9	6
Required Maintenance	c£6.45m	c£5.15m
Capital Value (of portfolio)	See note *3	See note *3
Operating and Running Costs	See note *4	See note *4
Energy Costs/Performance	See note *5	See note *5

Notes:

- *1 Leased offices (Inverness) - 8 leases due to expire before 2014
- 2 properties owned by Inverness Common Good Fund
- *2 Leased offices (Dingwall) - 1 lease due to expire before 2013
- *3 Capital Value of the property estate – Current market values not known
- *4 Operating and Revenue Costs – Currently working with Finance Service to identify
- *5 Energy Costs/Performance – Currently working with the Energy Team to identify

Appendix 4 Previous major office rationalisations undertaken by the Council

a) **Drummuie office rationalisation** (completed 2008)

The rationalisation of 5 existing offices (approximately 120 staff) into a converted a Grade II listed building near Golspie.

b) **Wick office rationalisation** (presently at design stage)

The rationalisation of 6 existing offices (approximately 190 staff) into one existing, redeveloped and refurbished Council office location in Wick town centre.

Appendix 5

Definitions of Major, High Risk and Mission Critical Projects

The Scottish Construction Procurement Manual⁶:-

- defines a '**major**' project as one with a total budget exceeding £2m (including professional fees and VAT)
- advises that Public Sector Clients seeking to embark upon '**major**' (construction) procurement projects need to ensure that:-
 - questions relating to 'common causes of failure'⁷ are addressed
 - independent 'Approval Gateway Reviews' are carried out prior to key decision points in the Project Life Cycle, and
 - an evaluated assessment of the risks associated with different procurement routes is carried out.
- refers to two types of **major** (construction) project:-

a) **Mission Critical Projects**

Projects that (irrespective of size, value or complexity) deliver outputs that directly support the delivery of a major policy outcome or that deliver an integral business change that supports the administration of the organisation.

b) **High Risk Projects**

Typically display some or all of the following characteristics:-

1. A novel or untested approach to delivery
 2. A lack of experience of similar project delivery
 3. A complex matrix of project interdependencies
 4. A significant impact on the public and other organisations
 5. Business criticality and/or political sensitivity
 6. A significant resource commitment.
- recommends the adoption of a generic project procurement lifecycle planning process (see Appendix 6), and that a Value for Money process is followed for each project to ensure a structured approach to planning and managing a project from inception to completion.

⁶ Construction Procurement Manual, Construction Advice and Policy Division, Scottish Procurement Directorate (Dec 2008)

⁷ Common Causes of Project Failure, OGC Best Practice Guide (2005)

Appendix 6

Outline of Independent Client Advisor (ICA) role

The key areas where an external ICA would provide support to the Council is in the provision of the necessary knowledge, expertise and resources to lead, advise and undertake the following (not exhaustive):-

Approval Gateway 0 (Strategic Direction)

- Identification of:-
 - Business needs and contribution to the Council's business strategy, objectives, and current priorities
 - Key benefits to be realised
 - Critical success factors and how they will be measured
 - Key risks – identification of key risks and impact assessment
 - Main stakeholders and commitment to project
 - High level options
- Undertake:-
 - Preliminary financial investment appraisal (achievability, affordability and funding options)
 - Consideration of appropriate procurement strategies, including evaluated risk assessment; market testing with potential suppliers
- Provide:-
 - Assistance and advise on resource requirements for the project review team
 - Project evaluation, preparation and submission of a Strategic Business Case (SBC) - Approval Gateway 0 (Strategic Assessment)

Approval Gateway 1 (Business Justification)

- Identification of:-
 - User Requirements
- Undertake:-
 - Development of options to meet business needs
 - High level and feasibility option appraisals to identify suitable and preferred options
 - Financial investment appraisal, modelling and sensitivity analysis
 - Risk review and impact assessment, incl. mitigation and management appraisals
 - Preparation of high level business case, including (whole life cost) estimates
 - Development of a procurement and contract strategy, including evaluated risk assessment; market testing with potential suppliers
- Provide:-
 - Assistance and advise on resource requirements for the project review team
 - Project evaluation, preparation and submission of an Outline Business Case (OBC) – Approval Gateway 1 (Business Justification)

Approval Gateway 2 (Full Business Case approval)

- Undertake:
 - Feasibility option appraisal to develop suitable and preferred options
 - Detailed Financial appraisal, modelling and sensitivity analysis
 - Risk review and impact assessment, incl. mitigation and management appraisals
 - Preparation of business case and investment appraisal, including detailed (whole life cost) assessments
 - Development of procurement and contract strategy, including evaluated risk assessment; market testing with potential suppliers
- Provide:-
 - Advise and Assist in the development of the project brief
 - Project evaluation, preparation and submission of a Full Business Case (FBC) – Approval Gateway 2 (FBC Approval)

Following Approval Gateway 2 stage agreement, it is envisaged that the ICA's involvement and role in the project will reduce to an advisory role to:-

Approval Gateway 3 (Contract Preparation)

- Advise and assist in the development and preparation of a Whole Life Design
- Advise and assist in the contract preparation to meet procurement route

Approval Gateway 4 (Tender Approval)

- Invitation of expressions of interest
- Tendering
- Contract Award

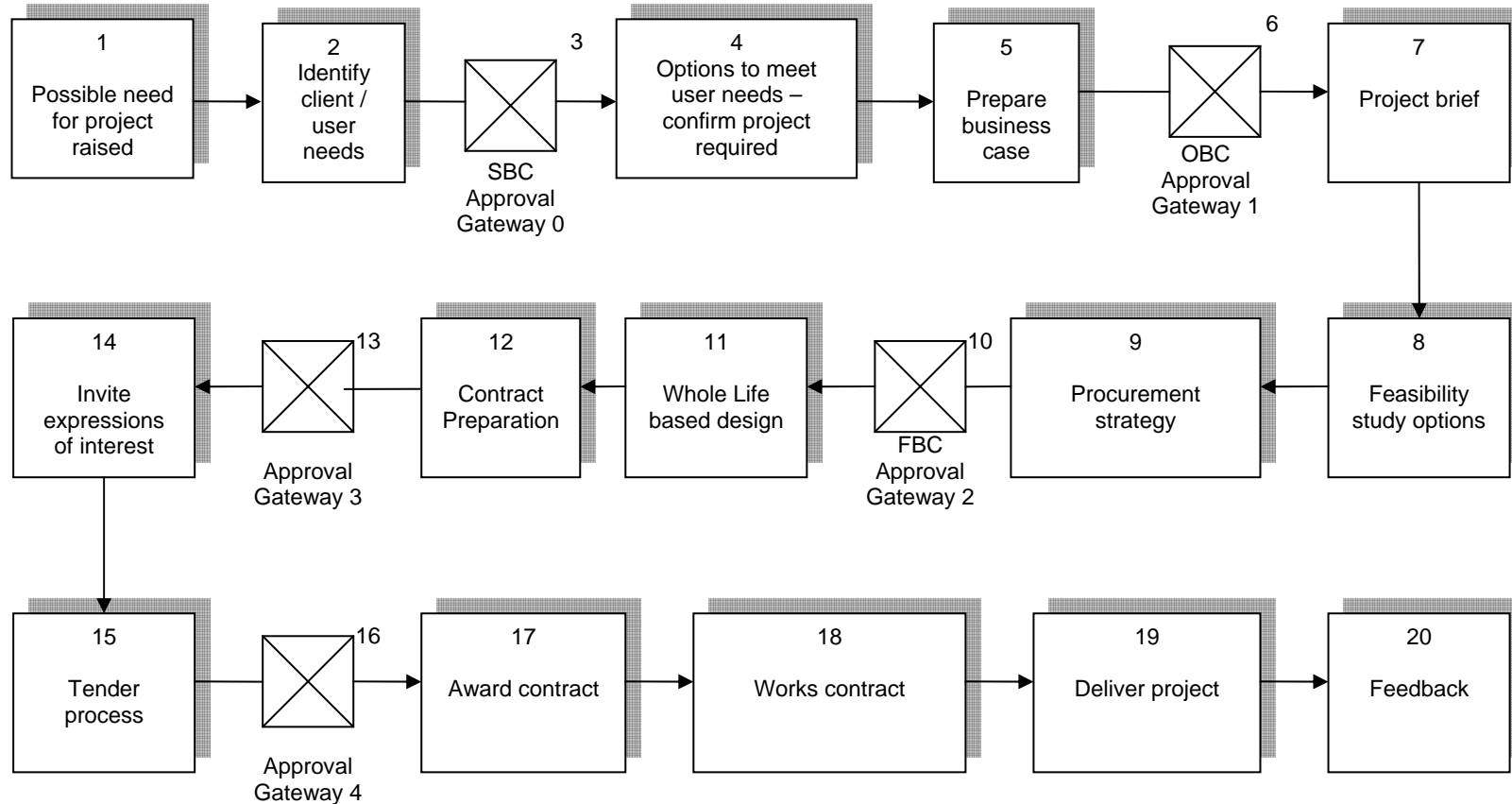
Each of the Strategic, Outline and Full Business Cases should include, in increasing and appropriate levels of detail, information covering five key aspects:

- Strategic fit
- Options appraisal
- Commercial aspects
- Affordability
- Achievability.

Throughout all key review stages, the ICA will provide advice and lead the Council in the development, integration and implementation of the following appropriate to the review stage:-

- Value for Money (VfM) and Value Management processes and reviews
- Risk identification and management processes and reviews
- Whole life costing and long term sustainability approaches
- Identification and integration of suitable and appropriate procurement routes/options (including evaluated risk assessment of options; market testing with potential suppliers)
- Identification of potential for integration of design and construction processes (as far as possible) through team working and partnering
- Appointment of (further) qualified and experienced independent client advisors (eg legal, finance, value and risk management) subject to project requirements
- Co-location and partnering opportunities.

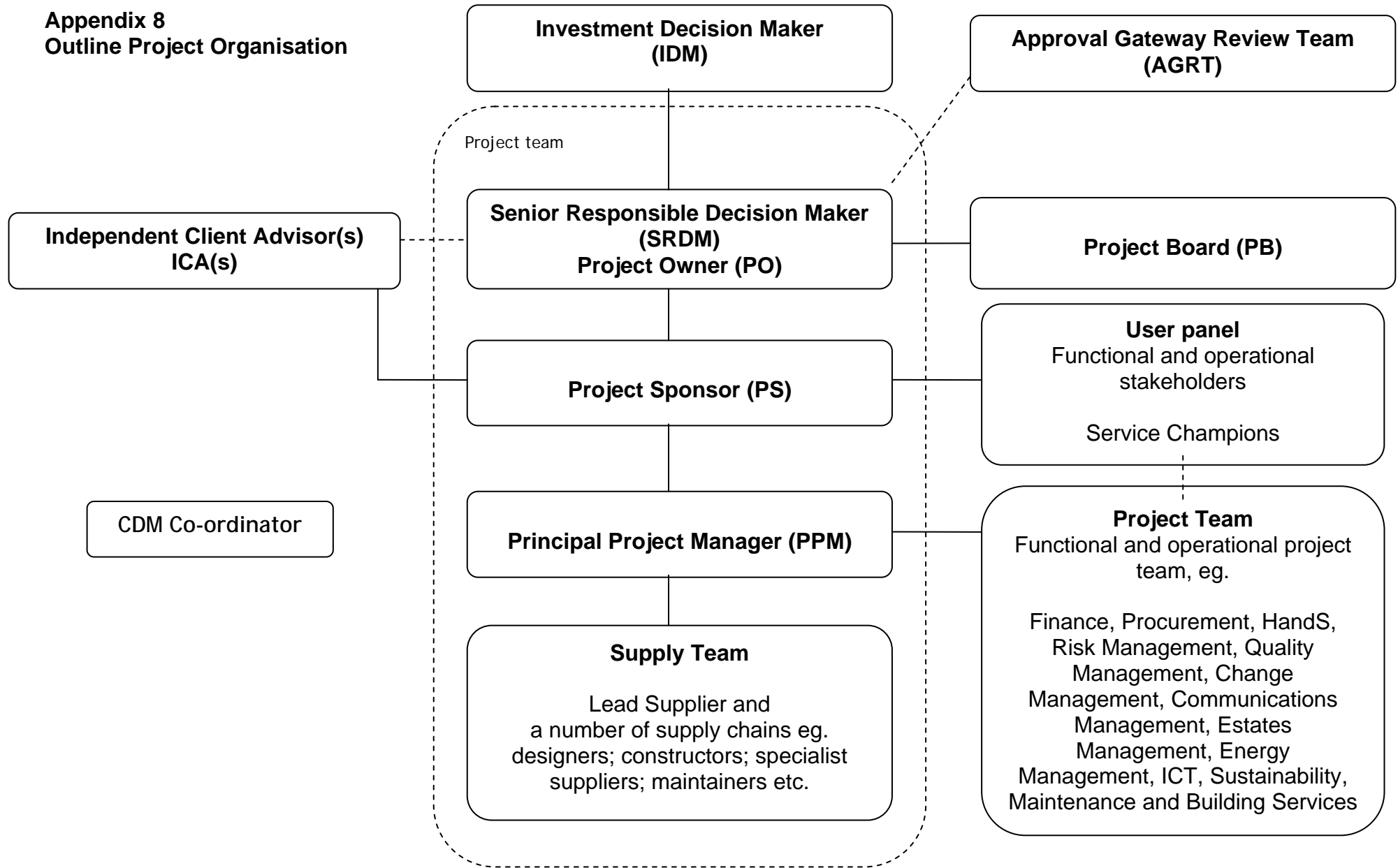
**Appendix 7
(Simplified) Generic Project Procurement Life Cycle (project planning route)⁸**



Note: More detailed project procurement lifecycle guidance and schematic can be found in the Office of Government Commerce (OGC) Achieving Excellence in Construction Procurement Guidance Note No 3, Project Procurement lifecycle (2007)

⁸ Source: Construction Procurement Manual, Construction Advice and Policy Division, Scottish Procurement Directorate (Dec 2008)

**Appendix 8
Outline Project Organisation**



Appendix 9

Outline programme to Approval Gateway 1 (Business Justification) approval

Selection and Appointment of Preferred Supplier (ICA) – Approval Gateway 0	Weeks	Cumulative total
Preparation of tender documentation	2	
Tender Invitation and tender period	4	
Tender return, evaluation, short listing and interviews	4	
Selection and appointment of preferred supplier (ICA)	2	
Lead in and mobilisation period	4	16weeks

Approval Gateway 0 - Review Implementation Phase	12	
Submission of Project Evaluation/Strategic Assessment	-	
Approval Gateway '0' (Strategic Assessment)	4	16weeks
<ul style="list-style-type: none"> ▪ Approval Gateway Review ▪ Council Review/Report to Committee 		
IDM approval to proceed	To fit committee cycle	

Approval Gateway 1 - Review Implementation Phase	12	
Submission of Project Evaluation/Strategic Business Case	-	
Approval Gateway '1' (Business Justification)	4	16weeks
<ul style="list-style-type: none"> ▪ Approval Gateway Review ▪ Council Review/Report to Committee 		
IDM approval to proceed	To fit committee cycle	