

Report to: Lead Member for Resources and Climate Change

Date of meeting: 15 October 2024

By: Chief Operating Officer

Title: County Hall site options – asset review

Purpose: To consider next steps following the asset review of County Hall, Lewes.

RECOMMENDATIONS

Lead Member for Resources and Climate Change is recommended to:

- 1) Note the report, including the Scrutiny Committee comments and the detailed asset review in Appendix 1;**
 - 2) Approve that the Council proceed on a phased partnership approach set out in section 4 reflecting the key milestones in the next few months;**
 - 3) Receive a report in July 2025 to review progress on the approach set out in this paper; and**
 - 4) Note, as detailed at para 2.1, the current valuation of the site, even with planning permission for a mixed development, would deliver a capital receipt of less than £10m.**
-

1 Background

- 1.1 County Hall campus (comprising County Hall, Westfield House, the former St Anne's School site and car parks) is East Sussex County Council's (the Council's) largest freehold asset, sited in a key location in Lewes. The Council's Asset Management Plan 2020-2025 sets out how efficient use of its office hubs will be achieved, making the best use of resources and assets to maximise its ability to support the residents and businesses of East Sussex. Phase 1 and 2 resulted in the Council significantly reducing its office estate in Hastings and Eastbourne, reducing floor space by 43% and carbon footprint by 46%. Phase 3 is focussed on County Hall campus which is a complex site due to its topography, access, nature and location of existing buildings.
- 1.2 There is a clear public duty to ensure that maximum value and use is derived from such an asset through its operational use, but also that it is used in a way that reflects its key location in Lewes and potential to have a significant impact on the town and local economy and amenities. To achieve this we will work in close partnership with others including the South Downs National Park and Lewes District Council (LDC). In initial discussions of the work to date and emerging options, LDC:
- welcomed the early engagement and commitment to a partnership approach
 - emphasised the strategic importance and opportunity of the site to Lewes especially in providing much needed housing and importance of understanding the significant and unique opportunity the site provides for the town
 - recognised the complexity of the site in terms of topography, landscape impact and access and the uncertainty in market currently

- highlighted the importance of recognising the embedded carbon in the County Hall current building and learning the lessons from other developments including importance of clarity about objectives and likely strength of public interest

- 1.3 In autumn 2022 as the patterns of working post pandemic were becoming clearer, senior officers requested consideration of the asset options available for County Hall campus. A procurement exercise was undertaken to secure specialist external advice with the appointed company being Inner Circle Consulting (ICC) who had undertaken similar asset reviews for different types of local authorities, including county councils. The Council commissioned ICC to undertake an asset review based on the Treasury five model approach. The five-model approach looks at the management case, strategic case, financial case, economic case and commercial case.
- 1.4 ICC undertook workshops and briefing sessions to engage with different parts of the organisation to understand the Council's key priorities and how an asset review would provide an assessment, ensuring it is aligned to the Council Plan and wider objectives. There was substantial work undertaken to consider options for the campus site before these were refined.
- 1.5 The Council requires a County Hall base in Lewes that provides efficient, modern, carbon efficient office space that meets the needs of residents, members and staff, and which is a sustainable and cost-effective solution for the long term. This was therefore factored into the review.
- 1.6 The early options were discussed with senior officers, and these are set out in Section 3. The Council then asked for ICC to secure specialist advice from property market specialists, architects, quantity surveyors and planning advisors when considering quantitative and qualitative advice on the options. All the consultants had experience of working on similar asset reviews for private sector and local authorities in East Sussex.
- 1.7 This report provides a summary of the outcome of the asset review, discussions with key stakeholders and also reflects on comments made at the recent Place Scrutiny Committee meeting on 23 September. Additional information on the different options is in Appendix 1.
- 1.8 The report also sets out some immediate, short and medium-term proposed actions to be taken given the findings of the asset review.

2 Supporting Information

As part of the asset review the following factors were considered:

2.1 Realising Value from assets

As part of an asset value review, work has been undertaken to look at the opportunities to reduce property costs and free-up assets for disposal to secure a capital receipt. The current site resides in the National Park and is complex to develop due to its topography, access as well as ecological, biodiversity and archaeological factors. These factors mean that there are significant costs and risks involved with any development proposals and therefore also impact on the potential value of the site. An independent valuation of the whole campus site has been undertaken as part of the ICC review. If the site was developed entirely for housing, in accordance with South Downs National Park Authority's (SDNPA) Local Plan, and planning permission was secured, the site could be worth up to £10 million. However, this does not include the cost of providing a new County Hall nor the significant costs involved in securing planning permission. Whilst the future size requirement of a new County Hall has not been finalised, the approximate cost of a new (or redeveloped) County Hall is £12 - £15 million, based on initial cost estimates as part of the asset review.

2.2 The cost of a new (or redeveloped) County Hall would therefore be in excess of any capital receipt secured from the remainder of the site for development and therefore does not represent the most effective use of Council resources. In addition, securing planning permission (in order to maximise the value of the site) would incur costs which the Council does not have the budget for.

2.3 **Utilisation of space and suitability for service requirements**

County Hall was approximately 45% occupied (average) in 2019 although parking was under significant pressure. Post-pandemic office occupation at County Hall has been low compared to other council offices. For 2023 the average occupancy was 22%, with Mondays and Fridays being a lot lower. In 2024 occupancy has increased with a peak of 29% in March 2024. The average for the first six months of the year was 25-27%. As the utilisation of the offices is below optimal levels, some initial work has been undertaken to look at the future space requirements, reflecting the civic accommodation, administration base and frontline service delivery. The suggested space requirements could equate to 3,500 sqm, significantly lower than circa 15,000 sqm of the current County Hall.

2.4 **Property running costs including energy efficiency**

The Council doesn't pay rent at County Hall as it owns the freehold, but there are business rates, reactive maintenance, utility bills, insurance and other costs which are required to operate the facility. These costs equate to approximately £1 million per annum, and this does not include the staffing costs for staff who manage the building. If a smaller, more efficient building was considered for a County Hall, the running costs and carbon footprint would be lower. Energy prices have increased over the last couple of years and the energy efficiency of the current heating system is poor (due to its age) despite some windows being replaced and solar PV panels being installed on the roof.

2.5 **Planned capital investment**

A condition survey for County Hall was undertaken to identify the items and works needed for a further 10 years of occupancy. The condition survey reflected the building was constructed in 1968 and is reaching its end of life, despite having investment over the last 50 years. There has been investment in the last 10 years on new windows, LED lighting, and additional solar PV panels to improve energy efficiency and reduce running costs. The investment required to maintain business as usual over the next 10 years could be up to £8.4 million but this would involve full replacement of key plant and machinery. There has been minimum capital investment over the last four years. The scale of investment has been reduced as an interim measure, but electrical systems, lifts and water drainage systems need extensive maintenance which could impact on the operational running of the building if not undertaken. At present, the Capital Programme includes a non-schools planned maintenance budget for 2024/25 which is fully committed, but going forward some dedicated funds could be set aside within this budget to undertake minimal investment if the Council remains at County Hall in the medium term.

3 Options

3.1 The following options were considered:

- Option 1 – Remain at County Hall indefinitely
- Option 2 – Retain the County Hall structure but refurbish some of the existing space for a new office/civic accommodation with residential conversion for the remaining blocks and re-develop the remaining site for residential homes over the wider campus.
- Option 3 – Retain the County Hall structure but completely refurbish all of the accommodation for residential homes. A new County Hall would be located on the campus site and the remaining space would be re-developed for housing development.
- Option 4 – Demolish County Hall structure and new provide a new County Hall on the site with the remainder of the site being re-developed for housing.
- Option 5 – Re-locate to office accommodation in the Lewes area, if available, and re-develop all of County Hall campus, including primarily residential development.

- Option 6 – Re-locate County Hall services and civic accommodation (Council Chamber) to Sackville House, Brooks Close, Lewes, and re-develop the whole County Hall campus site. Sackville House is owned by the Council and is let out to a number of tenants on leases which end around 2030 and do not have landlord break clauses to enable maximum rental value. This would therefore represent a medium term option.

3.2 The options above were considered following a quantitative and qualitative assessment by officers, by ICC and by specialist property experts. Due to its size, there were perceptions that County Hall had significant capital receipt value. It is a complex site where any re-development would need to consider a number of constraints, and this was reinforced by ICC and the specialist property experts. The site has challenges in relation to access points from St Anne's Crescent and Rotten Row and the site is in South Downs National Park Authority (SDNPA), so important design and environmental factors would need to be considered as part of any development. The site is next to Lewes cemetery, and there could be archaeological factors that influence any development. Across the site, ecological and biodiversity matters will also be a factor in future development. As with all significant potential sites for redevelopment where there is residential development, the mix and style of housing needs to be considered to ensure the site delivers the level of affordable housing in accordance with the appropriate Local Plan.

3.3 Place Scrutiny Committee considered a report, covering the content of Appendix 1 to this report. The Committee considered the options and provided a wide range of diverse comments which can be summarised into the following themes:

- All Members recognised that a short to medium term solution was needed to find a new county hall base for modern space needs but to utilise the wider county campus site for development.
- Whilst some Members considered a base in Lewes was needed, others discussed whether other locations could be considered that would assist in wider economic development and/or regeneration in the county, for example a variation of option 5.
- Some Members were keen to ensure that any re-development on County Hall campus would address the wider county pressure on affordable housing need.
- Some Members considered option 6 has its merits, but the timescale to consider this (not until 2030-2032) was not ideal.
- There were varying views on whether option 2, 3 and 4 was most suitable in relation to the re-development options.
- Some Members considered the re-development of the site was marginal and didn't want it considered until increased viability was known.
- It was acknowledged the Council had notified SDNPA of its intentions in the long term to consider the campus site as part of SDNPA's emerging Draft Local Plan.
- Members discussed whether renewed work could be taken to reduce property running costs and boost income from vacant space from County Hall in any event.

3.4 Given the levels of utilisation of the asset, option 1 is not considered to be a viable option. From the three development options (options 2, 3 and 4), option 3 was the least viable following valuation appraisals. For options 2 and 4, the viability was marginal and there are many variables, risks and dependencies that would negatively impact on the viability in the short to medium term.

3.5 There is also currently no provision for any revenue or capital costs in relation to development works within the Council's existing capital programme or put forward in the Reconciling Policy, Performance and Resources (RPPR) process for any future capital programme. If the Council wanted to include the project in the capital programme, then its impact on the wider Council budget would need to be considered, reflecting challenges to secure a balanced budget for 2025/26. The Council did consider the options for how a development project could be structured to include self-delivery, joint ventures and development agreements. If the Council was to construct and procure a new compact county hall on site, the expected cost would be circa £12-15 million, depending on size and specification. The Council would need to consider

how this would be funded given that the market value of the site is not sufficient to cover it, as noted above.

- 3.6 The option 4 proposal allows teams from County Hall to move to a new County Hall on site so there should not be any need for interim decant offices but there would be an impact on car parking spaces during the development phase. However, options 2 and 3 may result in all County Hall staff having to be moved to alternative office accommodation in Lewes. There would be challenges to find suitable office accommodation to lease for two plus years in Lewes and the financial cost pressures (noted in 3.8 below) for this decant accommodation have not yet been factored into the financial assessment.
- 3.7 In summary, currently there are no viable development options from a cost or delivery perspective.
- 3.8 Option 5 is dependent on the availability of c.3,500 sqm of office space with car parking elsewhere in Lewes. The majority of staff who are based at County Hall live within 5-10 miles or travel in from the west of Lewes, so another location in the north of the county or east of the county may impact on staff retention. The Council also currently holds other key sites across the county with sizeable offices in Eastbourne and Hastings. The Council would need to either acquire the freehold of an office building with vacant possession or seek to lease accommodation. There are no current freehold offices for sale available within Lewes that would meet these criteria. There are smaller office suites in Lewes available to let but leasing space would put pressure on the Council's budget. As a guide, renting space at 3,500 sqm metres in Lewes would be circa £450,000-£500,000 per annum plus other property-related costs. If the Council did seek to move to leased accommodation, it would probably need to undertake works to convert or adapt space for the Council's particular requirements.
- 3.9 Option 6, Sackville House, was previously used by the Council in the 1990s, but it has been let out to different third parties for over 15 years. As of August 2024, the building is 95% let and produces £390,000 of income per annum. The leases granted to tenants by the Council come to an end in 2030-2032 so the Council could re-locate to this office at that time as it is a similar size to the intended County Hall space. In addition, any move would be a straightforward decant for staff.

Variable factors impacting on development feasibility

- 3.10 When options were analysed, ICC and its professional/technical advisors also looked at specific variable factors that would impact on the development viability of the site.
- a. **Grant Funding:** There are a number of funding streams to promote new housing. Whilst there is a good case for leveraging external grant funding from funds such as the Brownfield Land Release Fund (BLRF), which could realistically contribute between £1-3 million, the criteria are very strict. Central government is keen to promote growth and deliver more homes so there may be a new round for BLRF or different funding avenues that may support options. Receipt of an affordable housing grant for the delivery of affordable units has been assumed in the financial modelling.
 - b. **Re-assessment of the required County Hall accommodation area:** The proposed County Hall development area requirements could be adjusted, and layout of space be geared to more meeting spaces and fewer desks. A number of workshops have been undertaken so the size of the new County Hall has been reduced, as is outlined in Appendix 1, though there may be potential to reduce further.
 - c. **Increasing housing density:** This is an area where working with external property development specialists to consider increasing the number of homes, types of homes and layout on the site has yielded increases in development value. There has been no informal testing of the revised assumptions with SDNPA, and this could be looked to be increased. SDNPA are currently

engaging with residents and stakeholders in its emerging Local Plan and more information about this is included below.

- d. **Reduction in specification for housing units and office accommodation:** There have been some revisions in design standards, and these have reduced estimated costs for any new County Hall and the new homes. The design standards still recognise the Council's Climate Emergency Plan 2023-2025. The specification has been slightly reduced but retains some key sustainability aspects, so the scheme delivers sustainable measures above building regulations.
 - e. **Adjustment of Affordable Housing provision:** A review of the mix of housing units, their location on site and other factors could also result in a positive impact on development value. However, for the financial appraisal, it is assumed the Council have a policy compliant scheme with 50% affordable housing though this could be reduced depending on other factors.
- 3.11 County Hall is located within the South Downs National Park Authority area. There is a review of the South Downs Local Plan and early participation is sought by SDNPA. As part of the Local Plan review, it will be seeking identification of potential land so an assessment can be made on the suitability and achievability of potential sites. Further information on the timelines is included in Appendix 1. SDNPA will undertake formal consultation (Regulation 18 consultation) for its emerging revised Draft Plan in Spring 2025 and intends to submit its Local Plan for Examination in 2026. The Draft Plan will allow residents and all stakeholders to come forward with their views and the new Local would provide the Council with greater information to assess the viability of the site for re-development.
- 3.12 At present, the whole County Hall campus does not have a current whole site allocation as a development site for housing or other uses. Parts of the County Hall site (land fronting onto St Anne's and the former St Anne's School site) do have current site allocations and are also within the Lewes Neighbourhood Development Plan. Therefore, a future SDNPA Draft Plan and its site allocations, as well as potential national planning changes, may result in options 2, 3 & 4 becoming more viable for the site.
- 3.13 It is intended to notify SDNPA that the Council wants to consider County Hall campus as a potential opportunity for future development, to enable residents and stakeholders to give their views through the Local Draft Plan process (Regulation 18). It is important to note that the Council has not made a decision but is exploring options about the future use of the campus site. The Draft Local Plan will consider revised policies and plans as an update to the current Local Plan (2014-2033).
- 3.14 There are proposed changes by central government seeking to increase housing supply including changes nationally to the local authority planning system. Over the next 18 months there may therefore be increased opportunity to drive greater property viability returns on sites such as the County Hall Campus.
- 3.15 Lewes District Council (LDC) completed its Regulation 18 consultation for its Local Plan in February 2024, and it is proposed to have the Local Plan ready for Examination in 2025/2026. The Lewes Local Plan covers spatial areas not covered by SDNPA Local Plan. The County Hall campus is within the SDNPA.
- 3.16 There are also general economic factors affecting development viability which have recently included periods of high interest rates and high inflation as well as supply chain difficulties. Inflation has recently fallen, and projections are for a continued fall in interest rates which may result in greater economic certainty and viability for the site.

Financial information

- 3.17 No budget has been prepared or considered for 2024/25 for any additional external consultants or other costs if the project was to move to the next stage.

- 3.18 The Council's financial position was reported to Cabinet on 26 September 2024 highlighting significant budget challenges for 2025/26, so officers and Members are focusing on protecting key services and driving efficiencies. The Council does not have funds available to consider re-development options 2-4 at this time when all staff are concentrating on delivery of frontline services with reduced budgets. Options 2-4 would require significant officer resource together with the cost of external specialist resource to consider a detailed business case, when resources aren't available.
- 3.19 The Council benefits from having two office buildings within Lewes. The actual office requirement is very similar to Sackville House, option 6, and whilst this building produces a gross income of £390,000 per annum, the leases granted allow the Council to consider not renewing the leases in 2030-2032. If the Council switched from County Hall to Sackville House then capital investment to modernise Sackville House would be required, which would be more than offset by the anticipated capital receipt from the current County Hall site. The Council would lose the rental income from Sackville House and would have to bear the property running costs as an operational building. This would be more than offset by no longer incurring running costs of the current County Hall site.
- 3.20 If options 5 or 6 were considered, the Council could sell the County Hall campus site and work with a development partner and other key stakeholders such as LDC to work up planning permission for a residential development. As part of this, the Council could ensure that the overall site is a crucial part of Lewes, providing a mix of homes with a balanced natural environment through open spaces and biodiversity addition to this area. As the Council owns Sackville House as a freehold asset it would not need to lease accommodation. Therefore, option 6 offers an opportunity to be efficient in using its assets as an integral part of its Asset Management Plan 2020-2025.
- 3.21 If option 6 was progressed it would be necessary to better utilise the existing County Hall in the period to Sackville House becoming available. This would include other public sector partners leasing out some of the space (as immediately as possible) and reducing running costs through mothballing part of it (by the new year).
- 3.22 Overall, the Council needs to consider if there are future opportunities where re-development options 2, 3 & 4 would become financially viable and become standout options. This may occur if there are additional avenues to access grant funding; changes in planning policies at local and national levels that increase the development value of the County Hall campus site, and factors within the SDNPA Local Plan. In the meantime, option 6 provides an opportunity to use existing Sackville House office space within Lewes.
- 3.23 Senior finance officers have reviewed the financial information contained within ICC options work.

4 Conclusion and reasons for recommendations

- 4.1 At the moment, there are no standout re-development options (2-4) in the report due to viability. Given the information set out in the paper, particularly that the cost of providing a suitable County Hall exceeds the market value for the sale of the site and given the Council's financial constraints and the uncertainties noted in paragraphs 3.9 to 3.15 above, a phased approach is recommended.
- 4.2 In a phased approach, the Council would look to remain at County Hall in the short term until alternative Council owned accommodation becomes available at Sackville House, Lewes, at which point the Council would look to relocate (see Option 6). This would also enable certain milestones to have occurred which would provide greater certainty over the variables noted above, and therefore greater knowledge of the viability of any potential development (see paragraph 4.5).

- 4.3 In doing so the Council would take immediate steps to ensure utilisation of County Hall improves, to boost rental income opportunities and to reduce property running costs. These would include:
- Relocating teams based in other leasehold premises (other than Eastbourne and Hastings) into County Hall to reduce rental costs elsewhere.
 - Mothballing a significant section of County Hall to reduce running costs. The Property team will work with directorates to consider how best to reduce the number of blocks that will remain open with the intention of finalising plans by December 2024.
 - Appointing an office agent to pursue the medium term letting of spare space.
- 4.4 Ahead of this work, a public sector partner has already agreed to take one floor of one of the blocks and this occupation will take place by the end of November 2024.
- 4.5 The intervening period would also enable the Council to obtain more information which would increase the certainty in any assessment of development viability. Key dates and information include:
- Adoption of the SDNPA Local plan – Spring 2026
 - There may be another round of the Brownfield Land Release Fund which might provide grant funding for the site – Potentially by 2026
 - Any precedent being set on factors such as housing density, housing specification and levels of affordable housing coming from other planning applications in the SDNPA area - Ongoing
 - Central government policy changes or changes to the planning system given their commitment to housing delivery – 12-18 months
 - Changing nature of the property market, economic context, falling interest rates etc – Ongoing
- 4.6 It would also allow close working with SDNPA, LDC, Lewes Town Council and other stakeholders to consider a wider regeneration plan as part of the SDNPA process to develop their Local Plan.
- 4.7 It is therefore also recommended that a further report will be presented to the Lead Member in July 2025 to provide the new Council more information, and progress on this approach.
- 4.8 The Lead Member for Resources and Climate Change is therefore recommended to:
- Note the report, including the Scrutiny Committee comments and the detailed asset review in Appendix 1.
 - Approve that the Council proceed on a phased partnership approach set out in section 4 reflecting the key milestones in the next few months.
 - Receive a report in July 2025 to review progress on the approach set out in this paper.
 - Note, as detailed at para 2.1, the current valuation of the site, even with planning permission for a mixed development, would deliver a capital receipt of less than £10m.

ROS PARKER
Chief Operating Officer

Contact Officer: Nigel Brown
Email: Nigel.Brown@eastsussex.gov.uk

Local Members:
Councillor Wendy Maples

Background Documents:
None