

Report to: Place Scrutiny Committee

Date of meeting: 23 September 2024

By: Chief Operating Officer

Title: County Hall site options – asset review

Purpose: To update Place Scrutiny Committee on the completion of an asset review of County Hall, Lewes.

RECOMMENDATIONS

Place Scrutiny Committee is recommended to:

- 1. Note the contents of the report and attached summary of the asset review.**
 - 2. Provide comments on the outcome of the asset review so these can be considered ahead of a report to be submitted to Lead Member Resources & Climate Change on 15 October 2024.**
 - 3. Discuss and set out other actions following discussion at this meeting.**
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1 Background

- 1.1** County Hall is East Sussex County Council's (the Council's) largest freehold asset, located off St Anne's Crescent, Lewes. Lewes is the county town of East Sussex. The Council's Asset Management Plan 2020-2025 sets out how efficient use of its office hubs are needed. Phase 1 and 2 resulted in the Council reducing its leasehold office estate in Hastings and Eastbourne with reductions in floor space by 43% and its carbon footprint by 46%. As teams have embraced hybrid working over recent years, the leasehold estate has been adjusted to the core business needs. The timing of leases ending in the last couple of years allowed the Council to quickly adapt so it could reduce its footprint to reflect revised service needs. The Council has also committed to a new lease at St Mary's House, Eastbourne, which it occupies with public partners for another ten years. Phase 3 of the office hubs was to consider County Hall optimisation as part of the Asset Management Plan.
- 1.2** In autumn 2023, senior officers requested consideration of the asset options available for County Hall, including the adjoining car parks, Westfield House and the former St Anne's School site. A procurement exercise was undertaken to secure specialist external advice to undertake an asset review of its largest asset. The appointed company was 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 adopted in 2018. The five-model approach looks at the management case, strategic case, financial case, economic case and commercial case.
- 1.3** An asset review for a local authority asset comprises the following key factors: It looks at assessing the utilisation of an asset; its suitability for its service requirements; its running costs; energy efficiency; and its future planned capital investment, as well as looking for wider opportunities to realise value. Further detail of these factors is set out in Section 2.
- 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 advice, 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. The Council does want to retain a County Hall base in Lewes now and in the future, so this was factored into

the options. 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.

- 1.5 This report provides a summary of the outcome of the asset review. Additional information on the different options is in appendix 1.

2 Supporting Information

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

- 2.2 **Utilisation of space and suitability for service requirements**

County Hall was approximately 45% occupied (average) in 2019. Post-pandemic office occupation at County Hall has been low compared to other 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%. Teams are using space differently so there is increased use of meeting rooms compared to 2019. 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 which is significantly lower than circa 15,000 sqm of the current County Hall.

- 2.3 **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 Facilities Management staff who manage the building. If a new, more efficient building was considered, the estimate property running costs would be lower. As energy prices have increased over the last couple of years, the energy efficiency of the heating system is poor despite some windows being replaced and Solar PV panels being installed on the roof in two tranches.

- 2.4 **Planned capital investment**

A condition survey for County Hall was undertaken to identify the items and works needed for a further 10 years' occupancy. The condition survey reflected the building was constructed in 1968 and is reaching its end of life, despite having investment during the last 50 years. The investment required to maintain business as usual over the next 10 years amounted to £8.4 million. The scale of investment could be 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 it is fully committed, but going forward some dedicated funds could be set aside within this budget to undertake minimal investment if the Council wishes to remain at County Hall until 2030-32. This could be linked with Options 2-6 (see Section 3), particularly Options 5 and 6.

- 2.5 **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 work undertaken by ICC is to consider if a new County Hall could be provided and partly funded by disposal of surplus land. The constraints of the actual site impact on the potential capital receipt, meaning that the cost of a new (or redeveloped) County Hall would be in excess of the capital receipt secured from the remaining of the site for residential development.

3 Options

3.1 The following options were considered:

- Option 1 – Remain at County Hall
- 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 provide a new County Hall on the site with the remainder of the site being re-developed for housing development.
- 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 – At a future date (circa 2030-32), re-locate County Hall services and civic accommodation to Sackville House, owned by the Council, and then re-develop the whole County Hall campus site. Sackville House is currently let out to a number of tenants where the majority of leases end around 2030.

3.2 As the wider County Hall campus is the Council's largest asset there were perceptions that the asset had significant capital receipt value. It is a complex site where any re-development will 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 Planning Authority, so important design and environmental factors 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 consider and ensure the site delivers the level of affordable housing in accordance with the appropriate Local Plan. The site therefore does not represent a material financial benefit.

3.3 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 could negatively impact on the viability in the short to medium term. There are therefore no standout development options from a cost or delivery perspective.

3.4 There is 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 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 budgets would need to be considered reflecting challenges to secure a balanced budget for 2025/26.

3.5 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 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 will be challenges to find suitable office accommodation to lease for two plus years in Lewes and the financial cost pressures for this decant accommodation has not yet been factored into the financial assessment. There would be a double move for staff back to the new County Hall for options 2 and 3. As a guide, renting space at 3,500 sqm metres in Lewes would be circa £450,000-£500,000 pa plus other property-related costs.

3.6 Option 5 could be considered but it is very dependent on available office space with car parking being available with a floor area of circa 3,500 sqm. The Council would need to either acquire the freehold of an office building with vacant possession or seek to lease accommodation. There are no currently freehold offices for sale available within Lewes that would meet our criteria. There are smaller office suites in Lewes to let but leasing space would put pressure on the Council's

budget as stated in paragraph 3.5. If the Council did seek to move to leased accommodation, it would need to undertake works to convert or adapt space for our particular requirements.

- 3.7 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 at August 2024, the building is 95% let and produces £390,000 per annum income. 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.
- 3.8 When options were analysed, ICC and its professional/technical advisors also looked at specific factors that may impact on the viability.
- 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 less desks. A number of workshops have been undertaken so the size of the new County Hall has been reduced, as is outlined in the appendix, though there is 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 costs for the 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 retain 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 viability assessment of the site.
- 3.9 County Hall is located within the South Downs National Planning Authority area. There is a review of the South Downs Local Plan (see link below), and early participation is sought by SDNPA, inviting feedback up to 16 September. As part of the Local Plan review, it will be seeking that potential land is identified so an assessment can be made on the suitability and achievability of potential sites. Further information on the timelines is included in the appendix. SDNPA will undertake formal consultation (Regulation 18 consultation) for its emerging revised Draft Plan in Spring 2025.
Link to SDNPA South Downs Local Plan review: <https://www.southdowns.gov.uk/planning-policy/south-downs-local-plan-review/>
- 3.10 At present, the whole County Hall campus does not have a current site allocation as a development site for housing or other uses. Parts of the County Hall site (land fronting onto St Anne's) and former St Anne's School site do have current site allocations and are also within the Lewes Neighbourhood Development Plan.

- 3.11 It is intended to notify SDNPA that the Council wants to consider County Hall campus as a potential opportunity for future development, to allow residents and stakeholders to give their views as part of a Local Draft Plan (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 Plan (2014-2033).
- 3.12 Officers would welcome views from Committee members on any of the options being discussed in this paper and appendix. It would be helpful to consider if the current County Hall base continues for 5-7 years and consider whether moving to Sackville House (Option 6) is favoured, which would free up the County Hall site for development consideration.
- 3.13 If the Council decides to remain at County Hall for the next 5-7 years, this allows a number of initiatives to be explored to increase utilisation of the space. Some public sector organisations have expressed active interest to lease accommodation at County Hall for up to 5 years. The Council is considering 'mothballing' one of the blocks to reduce running costs as an interim measure and freeing up space for external partners.

Financial information

- 3.14 No budget has been prepared or considered for 2024/25 for any additional external consultants if the project was to move to the next stage.
- 3.15 Senior finance officers have reviewed the financial information contained within ICC options work.

4 Conclusion and reasons for recommendations

- 4.1 Place Scrutiny Committee is recommended to:
- Note the contents of the report and attached summary of the asset review.
 - Provide comments on the outcome of the asset review so these can be considered ahead of a report to be submitted to Lead Member Resources & Climate Change on 15 October 2024.
 - Discuss and set out other actions following discussion at this meeting.

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