Department for Communities and Local Government

Ex-Fire Regional Control Centres

Marketing & disposal summary update

October 2014
Department for Communities and Local Government

This document/publication is also available on our website at www.gov.uk/dclg

If you have any enquiries regarding this document/publication, email contactus@communities.gov.uk or write to us at:

Department for Communities and Local Government
Eland House
Bressenden Place
London
SW1E 5DU
Telephone: 030 3444 0000

For all our latest news and updates follow us on Twitter: https://twitter.com/CommunitiesUK

October 2014

ISBN: 978-1-4098-4332-0

Contents

1. Introduction

1.1. This report provides a bi-annual update on the progress made (following the previous update published in March 2014) with regard to letting and reducing costs on the remaining Fire Regional Control Centres. It aims to briefly recap on the project history, update on recent progress made and advise on the forward strategy to be adopted by the department.

1.2. This report does not consider the reasons for the failure of the FiReControl Project or the overall cost of the project, which has been thoroughly analysed and documented by the National Audit Office over recent years. Instead it focuses on the departments efforts in relation to letting the buildings to others to save costs and see the valuable assets used.

1.3. The report is divided into the following sections:

- National overview
- Control centres update
- Marketing overview
- Marketing & disposal strategy
- Conclusion

2. National overview

2.1. The nine control centre buildings are legacy assets from FiReControl, which were constructed between 2007 and 2010. The buildings are held by the department on long leases, with no break clauses, which expire between 2027 and 2035.

2.2. The buildings were delivered by developers on a fully fitted basis with the fit out ‘rentalised’ at the outset. An initial rent was agreed subject to an increase every 5 years of 2.5% per annum compound for the duration of the term. This means that rents are significantly higher than comparable market rents.

2.3. The control centres are located in accessible locations and are highly bespoke, and were intended to be utilised for the regional co-ordination of fire and rescue services. They possess a range of specialist features, such as double height control rooms, uninterruptible power supplies, full catering kitchens, and large water storage and fuel storage tanks. Because of their specialist nature the buildings are likely to be of interest to a niche market which will be able to utilise the equipment and facilities to the full capacity.

2.4. Since FiReControl was terminated (in December 2010), the department has taken concerted action to find tenants for the centres. Our first preference was for fire and rescue services or other emergency services to use control centre buildings – as they are purpose built for this. However, we have not imposed central solutions. Where local emergency services had decided that using a control centre is not the best way forward for their communities, we have been looking to find other suitable tenants.

2.5. Our general approach to these legacy assets has included consistent action to reduce costs wherever possible, while ensuring good management of the buildings. Alongside intensive work to market the buildings to the fire and rescue services, and across the public and private sectors, which has resulted in significant success.

Five disposals to date

2.6. Five of the nine buildings (London, Warrington, Durham, Fareham and Wolverhampton) have been sub-let or transferred – four to the public sector and one to the private sector, an IT company (see table 1 below). Each occupier pays a proportion of the passing rent incurred by the department along with paying running costs, which are considerable, less any incentives agreed such as rent-free periods. The below table summarises progress made to date:

Table 1

RCC location	Lease expiry	Status / let?	Occupier	Operational	Estimated cost saving
London	2035	✓	London Fire Brigade	✓	c £35 million
Fareham (SE)	2033	✓	Maritime & Coastguard Agency	✓ (part)	c £18 million
Durham (NE)	2027	✓	County Durham & Darlington FRS	✓	c £8.5 million
Warrington (NW)	2033	✓	NW Fire Control	✓ (part)	c £18 million
Wolverhampton (WM)	2032	✓	Oosha Ltd	✓	c £11 million
Wakefield (Y&H)	2028	Marketing underway	-	-	-
Taunton (SW)	2027	Marketing underway	-	-	-
Cambridge (EoE)	2033	Marketing underway	-	-	-
Castle Donington (EM)	2032	Marketing underway	-	-	-

Consistent action to reduce costs

2.7. The Department has been successful in reducing future estimated property costs by over £100m through a combination of transferring or letting centres and reducing running costs.

2.8. Each of the buildings is secured and maintained by Babcock under a comprehensive facilities management contract. Facilities management and utilities are considerable costs, due to the specialist equipment present in the buildings, and this is an area where the department has worked hard to reduce expenditure. Since 2010 facilities management costs have been reduced annually, reflecting a total saving of approximately 79% equating to c£3m.

2.9. The department has taken action to ensure effective asset management of the properties, through the transfer of responsibility for them to department's Property Asset Management Unit, from April 2012, to be managed as part of the Department for Communities and Local Government Estate, whilst continuing to maintain close links with the Fire, Resilience and Emergencies Directorate. In addition, to provide a further layer of scrutiny prior to new lettings, a business case must be drafted and presented to the department's Investment Sub-Committee, who make the ultimate decision as to whether centres are let and on what terms.

2.10. The Department has worked hard over the past few months to progress routes to reduce the overall liability cost of the centres. The Department has been successful in negotiating lease variations with regards to five centres which form part of a portfolio held under the ‘Control Centre General Partner Ltd’ which was placed into administration in March 2012. As a result of agreeing the lease variations, we have negotiated rental reductions equating to £6.5m over the remaining term of the leases.

3. Control centres update

3.1. As a result of the hard work that the department has undertaken relating to marketing the centres, we have been successful in transferring or subletting five of the nine centres. Whilst initial interest from potential sub-tenants detailed within the last update (March 2014) has not materialised, there has been specific interest and direct enquiries on three of the four remaining centres, which we are pursuing (detailed below).

London Regional Control Centre

3.2. The London Fire Brigade control room relocated to the London Regional Control Centre, located in Merton, in January 2012 and the centre is fully operational, handling emergency calls. The transferred centre has saved the department approximately £35 million.

3.3. The control centre houses the London Local Authority Control Centre, who carry out the emergency planning responsibilities of the London Fire and Emergency Planning Authority. Co-ordinating the London wide response of the London Boroughs and the City of London to emergencies such as severe weather or pre-planned events including the recent Olympic Games. In addition, the centre is the Fire and Rescue Service National Co-ordinating Centre, which manages the availability of national New Dimension assets[1] and assists in their mobilisation in conjunction with the National Resilience Team.

Warrington Regional Control Centre

3.4. The Warrington Regional Control Centre lease was transferred to the North West Fire Control in 2012. The centre has full operational status effective March 2014. North West Fire Control comprises collaboration between Cheshire Fire and Rescue Service, Cumbria Fire and Rescue Service, Lancashire Fire and Rescue Service and Greater Manchester Fire and Rescue Service. The transferred centre will save the department in the region of £18 million.

3.5. Since taking the centre North West Fire Control have been making good use of the building basing their project team there, along with making office space available to partners, contractors and facilities managers as flexible ‘touch down’ space. The centre has also been used for hosting a variety of meetings and events, including Chief Fire Officers Association events.

[1] Vehicles and equipment transferred by Department for Communities and Local Government (DCLG) to Fire and Rescue Service (FRS) as part of a national capability to respond to major disruptive events involving Chemical, Biological, Radiological and Nuclear (CBRN) materials, collapsed or unstable structures, and to move large volumes of water.

Durham Regional Control Centre

3.6. The Durham RCC lease was transferred to County Durham and Darlington Fire and Rescue Service in 2012. It is estimated that the transfer of this centre has saved the department in the region of £8.5 million.

3.7. The fire service completed a substantial refit of the centre in late 2013, which the department helped fund, that included: the construction of a mezzanine level in the control room to increase capacity by about 40%; relocation of the entrance to form a new central reception area; a new restaurant area and gym; installation of roof lights and additional windows to bring in natural light; installation of photo voltaic panels across the roof area; and creation of five meeting rooms with state of the art conferencing capability.

3.8. The building went live as an operational headquarters in September 2013 and we understand that it has been very well received by staff. The control room functions were transferred across in May 2014 following the completion of the new IT solution.

Fareham Regional Control Centre

3.9. The Fareham Regional Control Centre was sub-let under a Memorandum of Terms of Occupation to the Maritime and Coastguard Agency in 2012. The centre will become the National Maritime Operations Centre and is expected to be fully operational by September 2014. The facility will eventually handle calls from across the UK and replace several coastguard stations. In their place the new national centre will sit at its centre, alongside nine other 24-hour centres around the UK handling search and rescue operations. It is estimated that this transfer will save the department in the region of £18 million.

3.10. The centre was suitable for the Coastguard Agency as it was purpose built as a Civil Contingencies Act Category 1 Emergency Response control room. The building therefore represents the opportunity for the fastest possible mobilisation of the National Maritime Operations Centre capability, with the lowest overall risk to the delivery of the Future Coastguard Programme.

3.11. The centre has recently undergone IT works to enable coastguard communications and work has been undertaken to develop the Agency's data centre, which will be located on site. In the meantime the centre has also been used as a location for meetings and training events.

3.12. Utilising the centre has removed the need to rent additional commercial premises or invest £5 million in the construction of a new site; this option has therefore delivered substantial savings to the wider public purse.

Wolverhampton Regional Control Centre

3.13. The department sub-let the Wolverhampton Regional Control Centre in December 2013; to a Small to Medium size Enterprise IT-company, Oosha Ltd. Oosha moved in to the building in December 2013 and the centre is operational. It is estimated that this letting will save the department in the region of £11 million.

3.14. Letting to a Small to Medium size Enterprise in this way will not only result in significant cost savings, but it supports the government's drive to assist Small to Medium size Enterprises under the space for growth initiative and stimulate economic growth. This letting was a significant milestone as it was the first letting to the private sector, which demonstrates that there is a market outside of the public sector that has and can continue to be targeted. Furthermore, a letting to the private rather than public sector represents a saving to the tax payer more generally.

Wakefield Regional Control Centre

3.15. The Wakefield Regional Control Centre is at present unoccupied. Detailed discussions with a public sector organisation were undertaken over a period of 6 months to the point at which Heads of Terms were provisionally agreed between the parties. A significant amount of work had been undertaken to progress the interest to sub-let the centre. However, in May 2014, the department were informed that due to budgetary pressure, the interested party were no longer in a position to proceed with the interest.

3.16. The Wakefield Centre was continually marketed during the period of negotiations with the above interest. Despite a renewed marketing campaign, unfortunately, there is no new interest that has been recently shown in Wakefield Centre.

Taunton Regional Control Centre

3.17. The Taunton Regional Control Centre is at present unoccupied. Early stage discussions were on-going with a public sector organisation as referred to in the previous update; however, the interest was subject to co-locating with other public sector organisations. Despite continued efforts from both sides, it has now been established that the interest public sector organisations do not currently have the requirement to take additional space.

3.18. Two new enquiries have been received for Taunton from a private and a public sector organisation, resulting in one viewing. The department, in conjunction with GVA, are actively progressing the two pieces of interest to the fullest extent.

Cambridge Regional Control Centre

3.19. The Cambridge Regional Control Centre is at present unoccupied. Despite strong interest and viewings from a number of public sector organisations, feedback received confirms that the previous interest will not be progressed further.

3.20. There has been interest shown in two of the centres (Cambridge and Castle Donnington) by a national private sector organisation providing security services. A viewing was undertaken in May 2014. However, despite the department pursuing this interest it has not yet progressed to detailed negotiations.

3.21. Additional interest has been received from a national practice of chartered surveyors acting on behalf of a private organisation with a requirement for the area. The interest is at an early stage, initial salient details of the centre have been provided with an inspection anticipated to take place in due course.

Castle Donington Regional Control Centre

3.22. The Castle Donington Regional Control Centre is at present unoccupied. There has been interest in the building from a national private sector organisation providing security services, as detailed above for the Cambridge Centre, resulting in a viewing. It is anticipated that at this stage, only one centre will be required, however, the location is yet to be determined. Initial discussions are on-going with the security services company to try and progress the interest.

Emergency Services Mobile Communications Programme

3.23. The Emergency Services Mobile Communications Programme is a cross government, multiagency programme that will deliver the communication system of the future to the emergency services and other public safety users throughout Great Britain. This system will be called the Emergency Services Network .

3.24. The programme is now progressing to the supplier procurement stage and therefore we have been working in collaboration with other government departments in order to promote the opportunity of one (or more) of the vacant centres being considered to be utilised by the suppliers tendering for the forthcoming ESMCP .The contract is due to be awarded in mid-2015 by the Home Office, by which time we will know if any of the sites have been selected for use.

4. Marketing overview

4.1. Marketing of the remaining centres to the public sector began in 2011 and commercial marketing in 2012. Our initial approach to marketing the buildings was to concentrate on engagement with the local fire services. Once this was completed we worked closely with the Government Property Unit to promote the buildings across the public sector.

4.2. Following the initial marketing initiatives set out within the March update, additional initiatives undertaken since have included:

- Updating the dedicated websites
- Re-Mailing / Emailing target sectors (including the IT sector)
- On-going mailing of agents / enquiries
- Advert in Property Week
- Press release following the Wolverhampton sub-letting to Oosha Ltd was widely circulated in the press

4.3. GVA Ltd (the department's professional property advisers) has carried out a review of the marketing strategy and current market conditions and reported:

- A continued improvement in market confidence across a range of sectors.
- Stability in rentals and incentives.
- Marginal uplifts in net effective rents in 2014.
- A decrease in enquiry levels for the centres compared to the last update.
- Public sector budgetary constraints and the limited demand from target market occupiers requiring this type of specialist property continues to be a limiting factor.

4.4. The department holds marketing and disposal review meetings on a quarterly basis to ensure the forward strategy is continually refreshed and that we are doing everything possible to let the remaining vacant buildings and minimise costs. This forward strategy is considered further below.

5. Marketing & disposal strategy

5.1. The Department continues to explore the following options as part of its disposal strategy:

5.2. **Discounting** – this option relates to offering the remaining empty buildings at substantially below market rates. This could assist in bringing the buildings into occupation and reduce non-rental running costs. At the March 2014 quarterly marketing and disposal review meeting, it was agreed that due to the perceived lack of interest in the buildings, a more flexible approach should be adopted during marketing.

5.3. As a result, in initial discussions undertaken with interested parties, GVA sought to establish the full extent of the enquirers' budget in order to progress their interest.

5.4. It was agreed that wholesale discounting or blanket rental reductions would not be implemented. Instead, each enquiry received would be analysed on a case by case basis to the point at which the enquirer provides a level at which they are prepared to proceed at. This will in turn allow the department to make a decision as to whether to dispose of the lease with significant subsidies, or continue marketing the buildings in an attempt to sub-let on improved terms.

5.5. **Costed Alternative Use Solution** – this option relates to investing in empty buildings to convert them for other uses. We are currently undertaking work to establish the cost and appropriateness of converting the buildings into more conventional commercial space. This involves investigation into the cost implications of adding net floor area provision, by installing a mezzanine within the double height control room area and configuring the space so that it appeals to a wider market. A similar exercise was undertaken as part of the successful disposal of the Durham centre at a cost of approximately £1m. The Durham centre is used as a successful example to promote this concept to other prospective occupiers. It is anticipated that a pilot exercise will be undertaken firstly with Taunton, as this presents the one of the most viable centres in terms of potential disposal. This will help buyers understand what the potential of the buildings is and how it can be delivered to match their business requirement. By providing this additional information it may enable the buildings to appeal to a more conventional, wider target audience including serviced offices and traditional headquarters office function. We anticipate that this exercise will be complete with feedback available to be provided by the end of November 2014.

5.6. **Support wider government policy objectives** –this option relates to utilising the buildings to support key government initiatives. The properties have already been offered for consideration as Free Schools and are being promoted to charities and Small to Medium Sized Enterprises, under the government space for growth agenda. As noted above, this option has experienced some success given the letting of the Wolverhampton centre to a Small to Medium Sized Enterprise IT company. By their very nature, Small to Medium Sized Enterprises will most likely lack the cashflow and covenant strength usually required by landlords to give comfort that the rent will be paid whilst also covering the significant operational costs for the Regional Control Centre. It has previously been suggested that a viable deal to make the centres available for use by Small to Medium Sized Enterprises could be structured within the government space for growth agenda. Whilst this remains a good option and despite the perceived higher level of financial risk attached to Small to Medium sized Enterprises, the department has been unable to progress this opportunity, due to the lack of enquiries from Small to Medium sized Enterprises in the vacant buildings.

5.7. **Hibernation** – this involves closing the empty buildings and reducing the facilities running costs as much as possible while still protecting the specialist plant and equipment and retaining the ability to use the building if a sub-tenant is identified.

5.8. This option has been investigated and the facilities running costs have been reduced to the minimal extent whilst still protecting the specialist plant, equipment and building fabric for future use. To date the buildings' running costs have been reduced significantly, by approximately £3m**.**

5.9. **Leasehold Portfolio Disposal** - We have met with the Government Property Unit (Cabinet office) to actively explore the opportunity of a portfolio disposal involving the remaining control centres. We consider that there is significant opportunity if the department bundled the remaining centres with a mixture of other leasehold liabilities to dispose as part of a wider market transaction of liabilities to the private sector. The main objective would be to combine the leasehold liabilities as part of a portfolio of assets (wider Government) and market as a whole, so that we may transfer the cost of the remaining lease liabilities of the assets at a significant discount to their current book cost. The timescales to undertake this exercise is anticipated to be between 6-9 months.

5.10. **Alternative Public Sector Occupation** - We are 'marketing' the centres to other government departments on terms broadly similar to the deals we did with Fire and Rescue Services. This has delivered limited success, so we are looking at offering the centres to other government departments with a higher level of subsidy. From a wider Government perspective this could prove to be the optimal option, as it would potentially help avoid new commercial lettings. From a DCLG perspective this could prove sub-optimal due to the need to heavily subsidise the sites to lease end. The operating costs of the assets will be the responsibility of other government departments through their use of the buildings. The department will be liable for any shortfall between cost and income for the period to expiry. We are currently reviewing the financial implications for the department of implementing this approach. It is anticipated that the timescales to complete this exercise will be on-going.

5.11. **Freehold Purchase** - Allowing for the current low cost of borrowing and the diminishing cumulative cost of the RCC's through the effluxion of time and improving investment market conditions, DCLG could re-visit the option of buying the freeholds. Purchasing the freeholds of the remaining centres would allow the department to either re-market the properties for sale as an investment with a secured income. Alternatively, the department could re-market the centres for sale with vacant possession on freehold or leasehold basis. This strategy was previously declined by the Secretary of State. The timescales in relation to this exercise will be linked to the negotiations with the current landlord. However, should positive communications be received we would anticipate that the process would take between 6-12 months to be concluded.

5.12. **Complete mothballing** – under this scenario, any empty buildings would be permanently mothballed. This would reduce costs to an absolute minimum, although the building would remain empty. DCLG would remain liable for all of the rent for the remainder of the lease term, and there would be some unavoidable facilities management costs related to maintaining the empty buildings. If this option were progressed we would potentially risk the specialist mechanical and electrical equipment becoming obsolete due to a lack of servicing, which would be very costly to re-commission. Taking into account the marketing and current interest received to date, this option should be considered in more detail but, should only be implemented after all avenues to disposal have been fully explored.

5.13. It is considered that transaction opportunities will arise, albeit these will increasingly require flexibility and innovative thinking to progress deals through from enquiry to completion. Letting the centres at reasonable levels still provides by far and away the greatest potential cost savings.

5.14. Inevitably, however, due to the very specialist nature of the buildings, it will take time to convert tentative into firm interest. This process requires careful handling and persuasion over a period of time. Rushing the process, particularly at an early stage can be counterproductive. In negotiating with interested parties there is a careful balance to be struck between attaining the best deal possible, in light of other deals, and the desire to let the buildings.

Notwithstanding the outcome of the Home Office's ESMCP procurement and our continued approach to marketing the sites to the private sector, we consider the inclusion of the remaining properties in the Government Property Unit's Leasehold Portfolio Strategy to be an appropriate next step for the Department to consider. Due to the very specialist in their nature of the centres, the timescales suggested for the above options are subject to market conditions.

5.15. The following disposal strategy is therefore proposed over the forthcoming period:

- Continued marketing via site visits and the website, and development of discussions with interested parties;
- Continued targeted marketing to the suitable sectors (including the IT sector);
- We continue to actively progress current interest on Taunton and Cambridge;
- We continue to actively monitor and progress interest from the bidders for the ESMCP;

- Continued collaboration with the Government Property Unit with a view to promoting the buildings across the public and private sectors, and supporting wider government initiatives, such as government space for growth;
- We are working with the Government Property Unit to work through the detail of including the remaining centres in their Leasehold Disposal Strategy portfolio;
- Review of previous interest at each empty centre with a view to considering innovative and flexible ways that the buildings can be offered;
- Promotion of the good practice examples where control centres have been successfully let and refitted;
- Continue to explore ways to reduce costs; and
- Continue with the review of the marketing and disposal strategy on a quarterly basis to ensure that everything possible is being done to dispose of the remaining buildings and to minimise costs.

6. Conclusion

6.1. The department continues to work hard to market the buildings across the public and private sectors in order to dispose of the four remaining centres and reduce the departments cost liability moving forward.

6.2. Despite our best efforts the previous interest shown in Wakefield and Taunton did not progress. However, we are now engaged in positive initial discussions with two new interested parties on Taunton and one on Cambridge.

6.3. The department remains successful in reducing running costs, as well as reducing the rental liabilities, as demonstrated following the rental reductions equating to £6.5m as a direct result of the lease variations negotiated by the department. Further cost reduction methods are currently being actively investigated.

6.4. The department’s continued marketing and disposal strategy is to do everything possible to let the buildings, which will by far achieve the greatest savings to the public purse. It will however, due to the challenges posed by the buildings, be increasingly important to formulate innovative solutions and creative ways to make deals happen. On the basis of the renewed interest in the buildings it is hoped that we will be successful in finding tenants for all of the remaining four buildings in order to reduce the outstanding liability.