

# OFFICE ACCOMMODATION STRATEGY OPTIONS APPRAISAL

## PORTFOLIO RESPONSIBILITY: CORPORATE STRATEGY & FINANCE AND RESOURCES

CABINET

7 MAY 2009

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### Wards Affected

County-wide

### Purpose

To note the outcome of the options appraisal for back office accommodation and approve the recommendation of Plough Lane as the preferred option; to reaffirm the decision previously taken by Cabinet to acquire buildings and land at Plough Lane and to approve the procurement of the development of the site at Plough Lane for shared office accommodation.

### Key Decision

This is a Key Decision because it is likely to result in the Council incurring expenditure above agreed budgets for the service or function (shown as a line in the budget book) to which the decision relates but allowing for virements between budget heads and savings within budget heads of up to £500,000.

It was not included in the Forward Plan, however inclusion in the agenda gives the required notice in accordance with Section 15 of the Local Authorities (Executive Arrangements) (Access to Information) Regulations 2000.

### Recommendations

#### THAT:

- (a) progress made in the development of a business case supporting an integrated back office accommodation strategy for the council and NHS Herefordshire be noted;
- (b) Plough Lane be endorsed as the preferred option;
- (c) the decision taken by Cabinet in 2005 to purchase Plough Lane be reaffirmed in light of the findings of the recent options appraisal, and authority be delegated to the Chief Executive to conclude negotiations for the property acquisition;

- (d) **the Chief Executive be delegated authority to proceed with the preparation of a detailed design, specification for and the development thereafter of shared office accommodation at Plough Lane; and**
  
- (e) **the overall Accommodation Strategy be brought to Cabinet by the end of 2009.**

## **Reasons**

1. The council has determined to rationalise its existing office accommodation and to provide a suitable, modern office environment to support the delivery of back-office services to the council and NHS Herefordshire (NHS).

### **Background**

2. On 23 June 2005, and taking account of the views expressed by Strategic Monitoring Committee following call in of the decision, Cabinet confirmed its decision to progress the purchase of the Plough Lane site as part of the then current accommodation strategy. Given changes in ownership of the site, and the subsequent need to revise the accommodation strategy to take account of changing circumstances, this decision has not yet been implemented.
3. In May 2008, the views of Strategic Monitoring Committee (SMC) were sought regarding the proposed process for developing an integrated office accommodation strategy for the Council and NHS, and on 13 June 2008 SMC recommended that a full options appraisal be undertaken on a number of specified sites. Knight Frank, consultants, were selected and appointed to carry out the appraisal and began work in July 2008.
4. A series of consultation meetings was held during July 2008 with senior managers of the council and NHS and Members, in addition to the appraisal process.
5. The report contains:
  - (a) An assessment of the demand requirements of the council and NHS, giving commentary on better ways of working, space requirements and the relationship between the back office and other related accommodation matters.
  - (b) An assessment of the supply of accommodation, using the existing accommodation as a baseline against which to compare the other site options.
  - (c) An assessment of the running costs for the existing accommodation, including backlog maintenance and an estimate of the potential running costs for new provision.
  - (d) An assessment of market worth of the existing sites which may become surplus to council requirements. In view of the change in financial markets since the report was issued, the indications of worth should be treated with caution.
  - (e) A financial analysis of each option, based on the Net Present Cost of construction of a new building and ongoing running costs over a 25 year period.
  - (f) A non-financial assessment of each option based on a number of specified

criteria.

(g) A risk analysis of the deliverability of each option.

(h) A commentary on procurement methods and funding options.

(i) A recommended method of procurement.

6. Six short-listed options (location maps at Appendix 1) were appraised:

- Option 1: Base Case - retain the existing properties, purchase Plough Lane offices and sell Rotherwas East site;
- Option 2: Bath Street redevelopment with car parking on Gaol Street, sell surplus properties & sites;
- Option 3: Gaol Street redevelopment with Bath Street levelled to provide car parking, sell surplus properties & sites;
- Option 4: Plough Lane existing offices purchased and refurbished, additional offices built on land to be purchased, sell surplus properties & sites;
- Option 5: Rotherwas East developed, sell surplus properties & sites;
- Option 6: Blackfriars Education Centre redeveloped with additional offices built on land to be purchased, sell surplus properties & sites.

#### **Outcomes of the Options Appraisal**

7. The report identifies a need for a new building to accommodate 1,275 workstations to accommodate some 1,600 full time equivalent staff (an average ratio of five staff to four workstations, achievable through improved flexibility in working practices). The overall space requirement is approximately 12,500 square metres, to include meeting space, a large “business centre” with drop-in provision for remote workers, training rooms, Member and Non-Executive Director accommodation.
8. The sites were assessed on their capacity to take a building of the required size, plus car parking of 314 spaces, this total being based on one car space per 40 square metres of accommodation.
9. In accordance with the council’s priority for sustainable development, the build design cost has assumed a Building Research Establishment Environmental Assessment Method (BREEAM) standard of “very good” aspiring to “excellent” with a low carbon footprint.
10. The financial model has assumed there is no capital contribution from NHSH towards the cost of the development, rather a rental element payable by NHSH for occupation of space and use of the shared accommodation.

#### **Financial Analysis**

11. Once acquisition costs are included, the relative estimated costs of the options are ranked as follows:

Option 1: Base Case	Base
Option 2: Bath Street	4
Option 3: Gaol Street	3

Option 4: Plough Lane	1
Option 5: Rotherwas East	2
Option 6: Blackfriars Education Centre	5

12. The report goes on to identify potential revenue savings, including all current running costs, achievable from each option against the existing accommodation provision. Each of the options (other than base) shows revenue savings against the current running costs for the existing accommodation. In addition to these financial savings, there are estimated to be further non-physical savings for each option, to be achieved through, for example, reduction in leased line networks, internal courier services and inter-office travel costs. The ranking of revenue savings for the options is as follows:

Option 1: Base Case	Base
Option 2: Bath Street	4
Option 3: Gaol Street	4
Option 4: Plough Lane	1
Option 5: Rotherwas East	2
Option 6: Blackfriars Education Centre	2

13. To help decision making, the appraisal utilises a Net Present Cost (NPC) Discounted Cashflow model, which estimates a cost for each option over a period of 25 years. The options were compared with the baseline case of retaining the existing accommodation, and produced the following ranking:

Option 1: Base Case	Base
Option 2: Bath Street	4
Option 3: Gaol Street	5
Option 4: Plough Lane	1
Option 5: Rotherwas East	2
Option 6: Blackfriars Education Centre	3

14. The provision of car parking is a particular issue at Rotherwas and, while the appraisals have all been calculated on the provision of 314 car spaces, the location of Rotherwas on the outskirts of the city, with poor existing public transport infrastructure, has raised a major risk. The consultants believe that up to 590 additional car spaces would be needed at Rotherwas. This would breach planning policy and also significantly increase the cost for that option.

15. On the basis of the revenue savings identified in the report, only Plough Lane and Rotherwas are currently affordable without identification of further savings. However, if additional car parking is needed at Rotherwas, then it is no longer affordable and only Plough Lane would meet the criteria.
16. Current funding of £17m has been identified within the Medium Term Financial Management Strategy consisting of capital receipt reserves of £2.3m and prudential borrowing of £14.7m over three years.

### **Non-financial Analysis**

17. The appraisal also looked at aspects of the site locations and development which do not result in clearly identifiable cash savings. However, some of these aspects have tangible benefits for improved service delivery, quality of environment, sustainability and other factors.
18. An evaluation matrix was created and the criteria were scored for each option, including the baseline case. This assessment provides information on the comparative suitability of each option. The full evaluation is shown in Appendix 2.

### **Procurement**

19. The report discusses a number of alternative funding methods to traditional procurement, and tested the NPC of two of them: Sale and Leaseback and traditional leasing. These are the two main alternatives to outright ownership which are used in development funding, however the NPC of both was in excess of £20m higher than using a traditional procurement approach.
20. The procurement of any of the options will involve the Official Journal of the European Union (OJEU) process. It is estimated that a period of between 9 and 12 months is needed to complete that process.
21. As already indicated, the council has identified £17m of capital reserves and prudential borrowing to contribute towards the cost of the development. The remainder of any funding gap will have to be met from further prudential borrowing, using the savings to be generated from the rationalisation.

### **Option Appraisal Conclusions**

22. The work concluded that:
  - a) Maintaining the base position is the least viable option.
  - b) All the options are capable of meeting the space needs.
  - c) Provision of car parking spaces is an issue. The city centre and edge of centre (Plough Lane) options are better able to deal with demand for spaces in excess of the 314 spaces proposed, than is Rotherwas.
  - d) Three of the options show a lower NPC than the baseline case, with Bath Street and Gaol Street being more expensive options than the base case. However, there is a risk over the cost of Rotherwas (as noted in paragraph 13).
  - e) Only Plough Lane and Rotherwas are affordable without identification of further savings or additional capital funding. However, there is a risk over the cost of Rotherwas (as noted in paragraph 13).
  - f) Gaol Street and Blackfriars produce the greatest level of non-financial benefits.

- g) With appropriate phasing of the developments, space should be available to decant staff from Plough Lane in December 2010, which will mitigate against timetabling issues.
- 23. The report recommended taking three options forward to the procurement process. This course of action was recommended to mitigate against any potential option proving to be unfeasible during evaluation. If a single option was chosen, then the OJEU process could be abortive and would have to start from the beginning with an attendant delay of several months.
- 24. The Plough Lane option is clearly the most beneficial in financial and deliverability terms. The other options have restrictive time constraints relating to the need to vacate Plough Lane by December 2010. In addition there may be interest from other public sector partners in sharing a back office facility which would deliver additional benefits in terms of affordability and service improvement.
- 25. The current owners of Plough Lane have confirmed in principle agreement to sell the Plough Lane site, along with part of the storage capacity to the north of the site. This warehouse area would be demolished as part of the sale price. In addition, car parking at the end of Plough Lane will be included, along with the right to vehicular and pedestrian access from Yazor Road. However, the council would need to build any road if this is pursued in the future.
- 26. The options appraisal has been reviewed by the council's independent financial advisors CAPITA and they conclude that the assumptions, estimates, conclusions and recommendations in the report are reasonable.

### **Accommodation Strategy**

- 27. The accommodation strategy is a major programme of work for the council and NHSH that, in addition to provision of back office accommodation (target date 2011/12), incorporates a number of associated projects which are closely linked to this project and all of which are inter-related. These include:
  - a) The replacement of the Hereford Info Centre at Garrick House and provision of a new public services front office, working with NHSH and West Mercia Constabulary to create a shared presence in Hereford City Centre, with potential for use by a wider range of local partners
  - b) Locality offices – a major examination of drop-in provision for remote workers across the County in council and NHSH accommodation. This will also include the proposed decentralisation of a substantial number of staff in Children and Young Peoples Directorate
  - c) ICT data centres – an interim solution is currently being progressed to improve the current Thorn data centre, but the accommodation strategy will need to address data centre requirements in the longer term
  - d) A review of the future use of Shire Hall and Town Hall to ensure continued effective use of these two landmark buildings
  - e) A replacement public records centre, both for public access in the City centre and remote storage
  - f) Provision of new facilities for the Modern Records Unit to replace the inadequate facility in leased accommodation at Harold Street

28. The overall strategy will be brought back to Cabinet by the end of 2009. External support will be secured to progress the development of the strategy, facilitated by the existing Accommodation Strategy Board consisting of senior officers from the council and NHH.

## **Legal Implications**

29. The Council will be required to comply with the EU procurement rules in relation to the tender and award of the contract for the development of this site.

## **Financial Implications**

30. The current available funding totals £17m, being made up of capital receipts reserves of £2.3m and prudential borrowing of £14.7m. The costs of prudential borrowing are included in the council's Medium Term Financial Management Strategy (MTFMS).

## **Risk Management**

31. It is noted that none of the new build options can provide all of the space needs by December 2010. However, by phasing of development, the risk is mitigated.
32. The Council currently has an agreed period of occupation at Plough Lane until 2010; acquisition of the site would remove the risk associated with the lease not being renewed.

## **Alternative Options**

33. The three city centre sites are within conservation areas. If any of these options are taken forward a full series of specialist surveys and archaeological investigations will need to be commissioned. These investigations could uncover finds of historical or archaeological interest which would significantly increase the timetable and cost of taking forward a development

## **Consultees**

34. None identified.

## **Appendices**

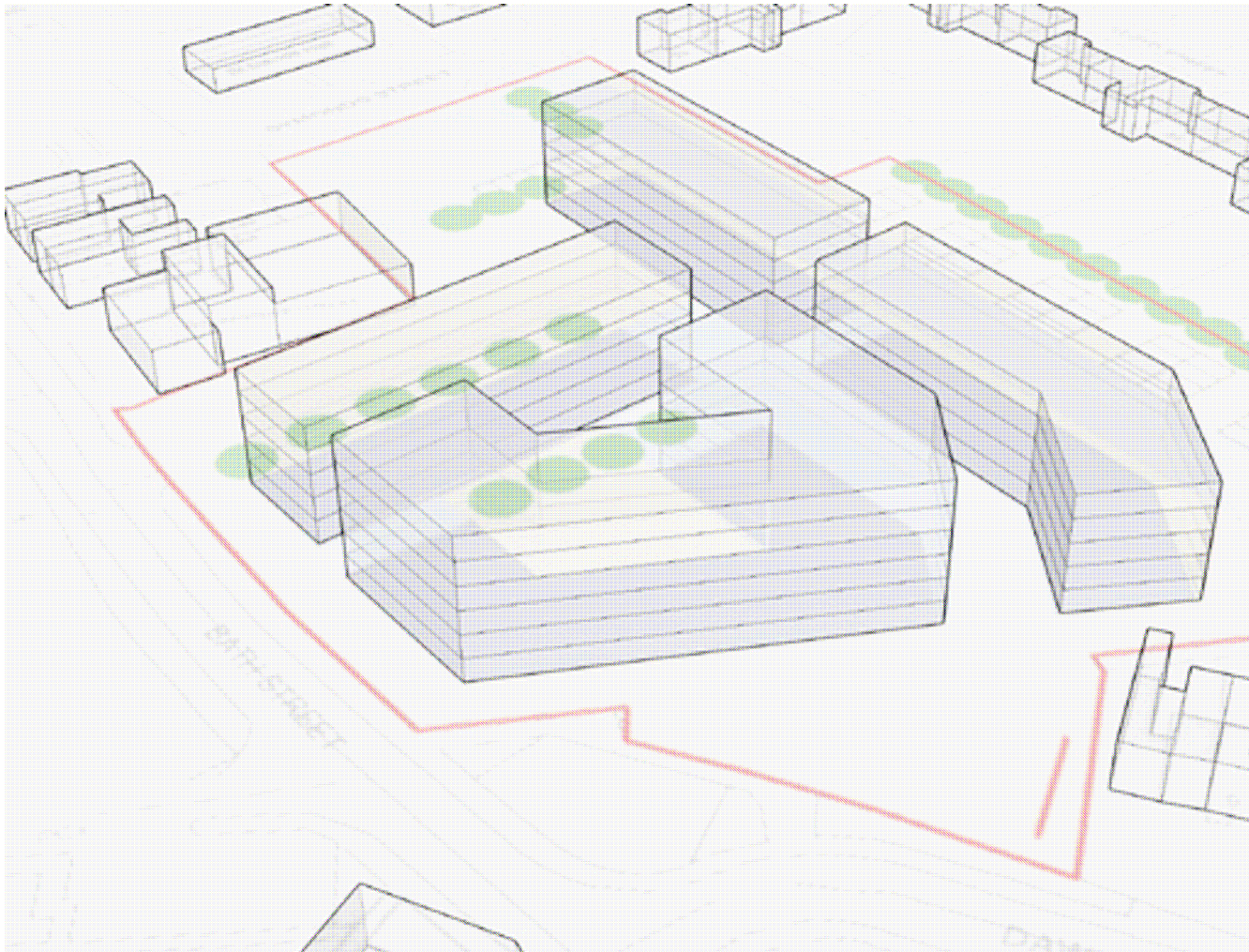
Appendix 1 – Location plans

Appendix 2 – Non-financial evaluation matrix

## **Background Papers**

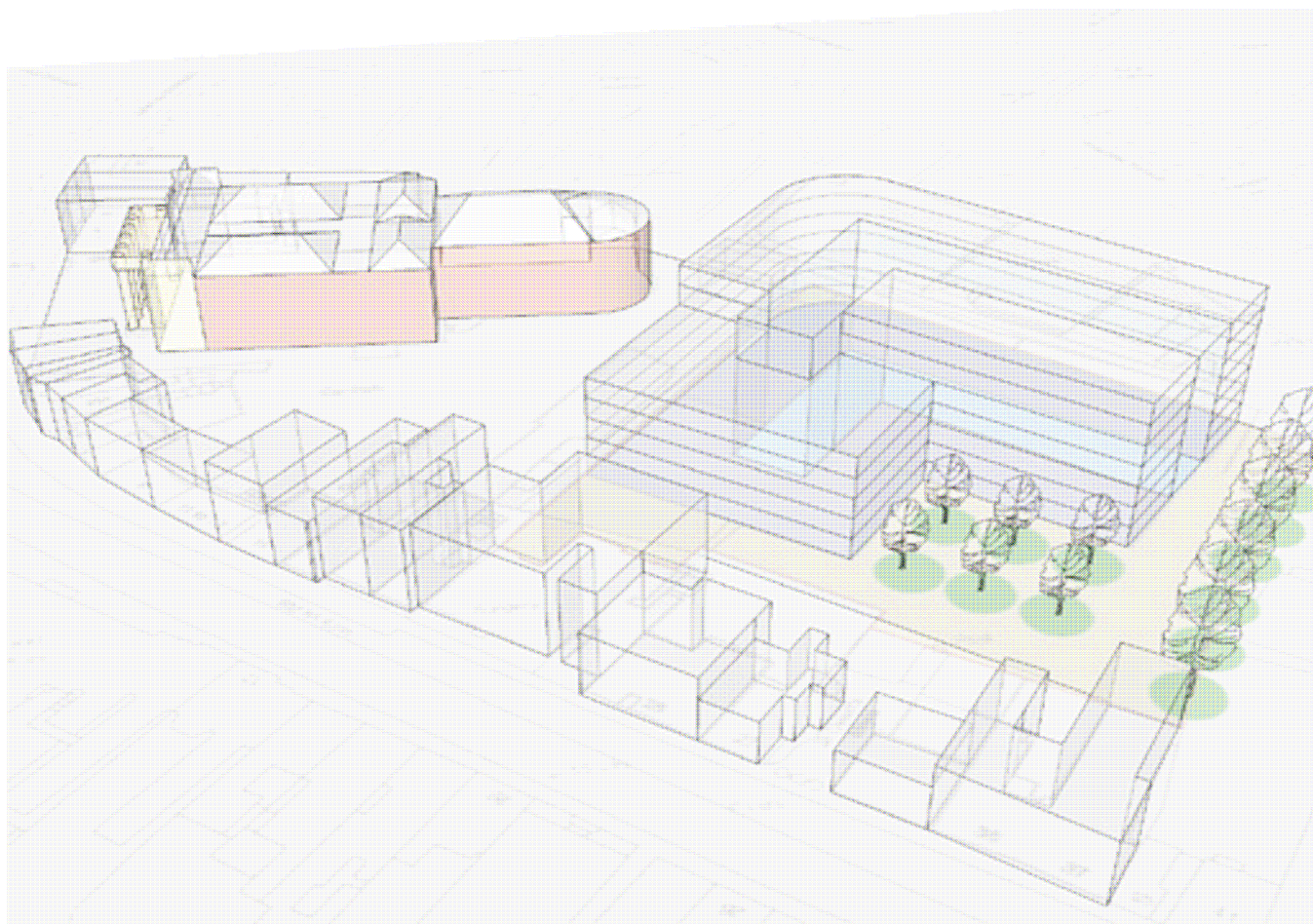
- Report prepared by WM Enterprises dated September 2008 on the economic impact of a city centre and out of city centre office accommodation development.

OPTION 2 – BATH STREET

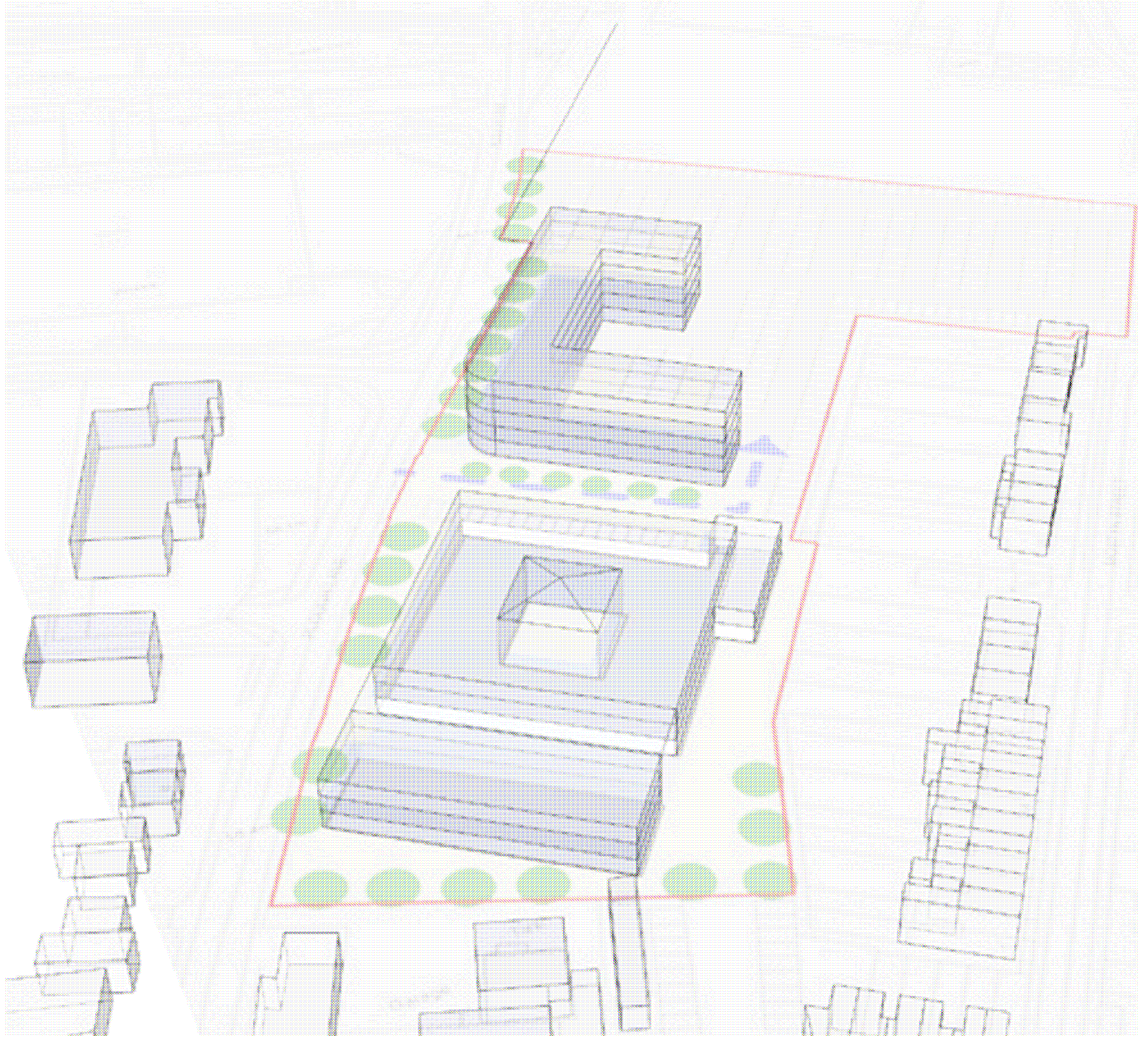




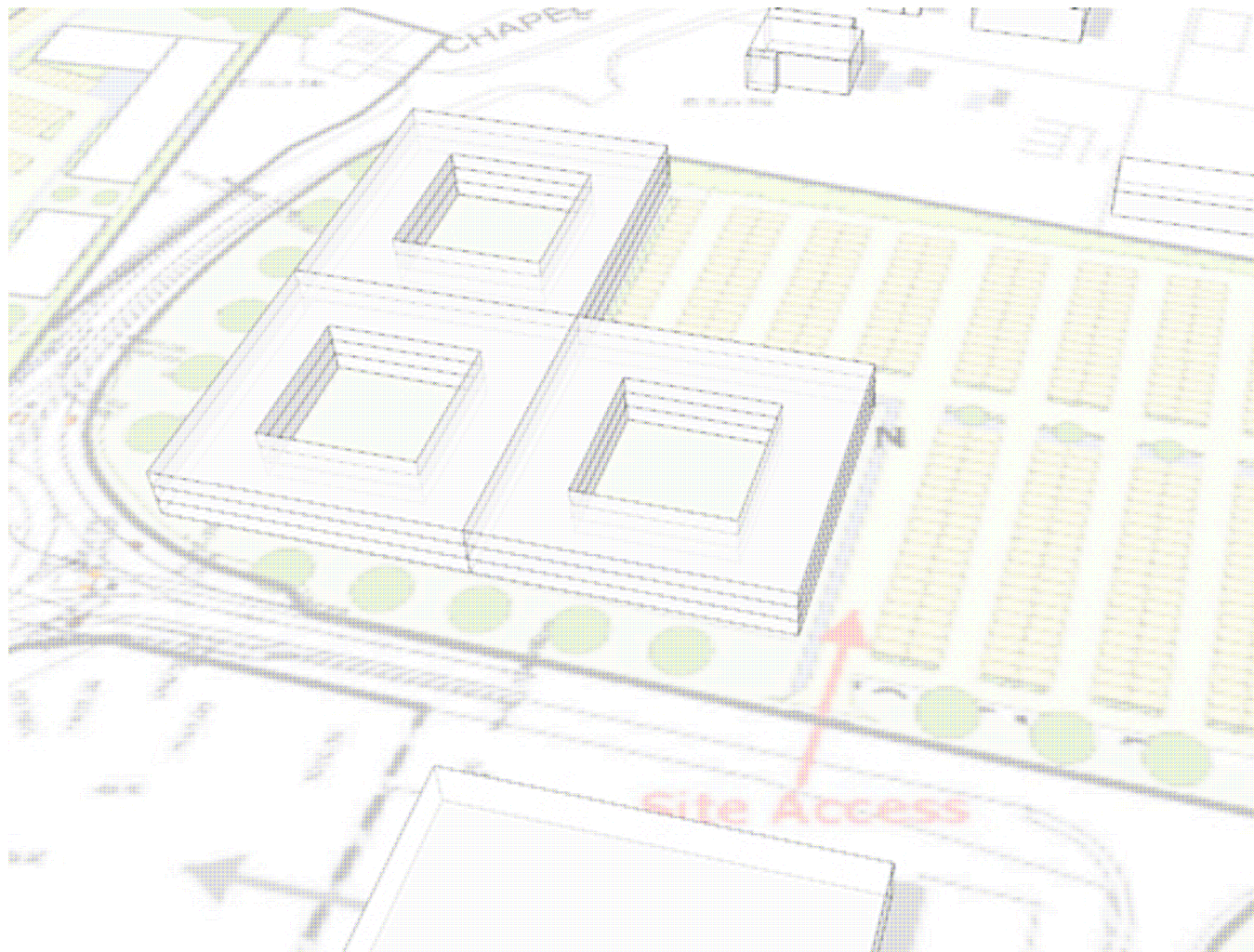
OPTION THREE – GAOL STREET CAR PARK



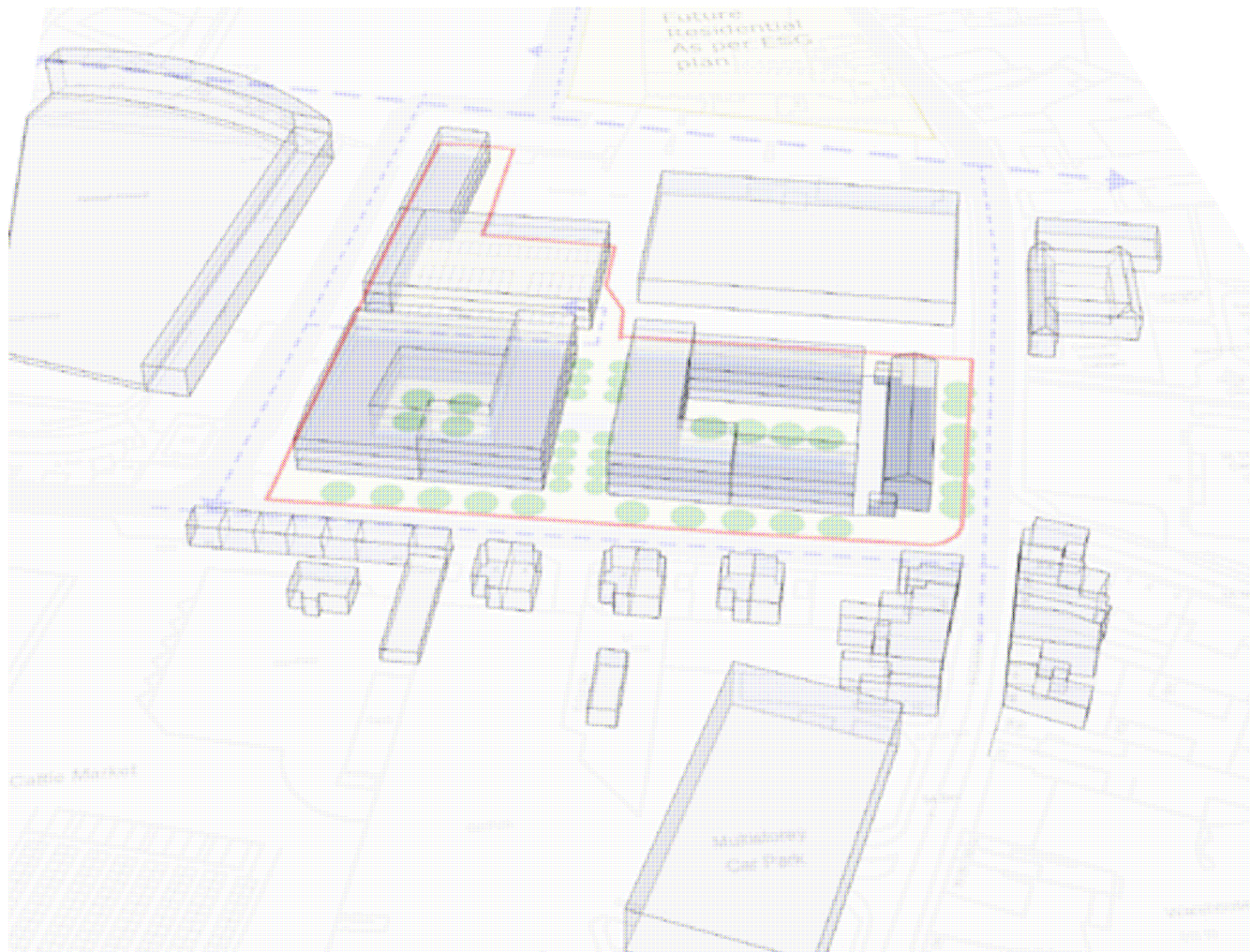
OPTION FOUR = PLOUGH LANE



OPTION FIVE – ROTHERWAS EAST



OPTION SIX – BLACKFRIARS



Criteria	Option						
Option number	1	2	3	4	5	6	Reasoning
Description	Base Case	Bath Street	Gaol St	Plough Lane	Rotherwas	Blackfriars	
Co-location	3	10	10	9	9	10	All the new build projects bring staff together
Supports Flexible Working	4	10	10	8	10	10	The majority of the current stock is inflexible for open plan working
Improved working and meeting environment	4	10	10	9	10	10	Whilst some of the current stock (Brockington) is pleasant to work in the majority of the space is dated
Business Continuity years 1 and 2	5	7	8	5	8	7	Under the Bath option staff would have to be housed within portakabins whilst new offices were built. In Base case and Plough Lane refurbishment would take place around staff
Environmental Sustainability	6	8	8	9	7	8	The current properties are not as environmentally friendly as a new new BREEAM excellent building would be. Rotherwas would encourage more car driving
Potential to increase economic activity in Hereford and surrounding areas	3	9	9	6	7	10	New build would mean new construction jobs. New offices in the city centre would concentrate staff spending power. A move to Rotherwas would draw over 1000 staff away from the city centre
Accessibility for Staff	8	8	8	8	5	8	Rotherwas would only be convenient to staff from the south
Staff satisfaction	4	8	8	7	8	8	Staff are likely to be more satisfied with new offices
Image and Branding	2	8	8	7	7	8	The current offices do not present a strong image for HPS.

Criteria	Option						
Option number	1	2	3	4	5	6	Reasoning
Description	Base Case	Bath Street	Gaol St	Plough Lane	Rotherwas	Blackfriars	
Deliverability by December 2010	3	6	6	6	6	6	It is envisaged that the new build would be done in phases so the Plough Lane staff could be accommodated by Dec 2010. However the whole building would be completed 2011
Future marketability of offices (whole or part)	6	7	7	6	6	7	Demand for offices is likely to be stronger in the centre than at Rotherwas
Cost Certainty	5	6	6	5	5	6	All costs at this stage are estimates
<b>Total Score (out of 120)</b>	<b>53</b>	<b>97</b>	<b>98</b>	<b>85</b>	<b>88</b>	<b>98</b>	