

# **Business Case**

*Joint Customer Services Hub (Blueschool House)*

**VERSION HISTORY**

<b>Version</b>	<b>Date Issued</b>	<b>Status (draft, approved, signed off)</b>	<b>Author</b>	<b>Change Description</b>
D0.1	12/05/2016	Draft	Rob Ewing	First draft
00.1	13/05/2016	Approved	Peter Robinson	Approved

**DISTRIBUTION LIST**

<b>Name</b>	<b>Organisation</b>	<b>Job title / Role</b>
Tony Featherstone	Herefordshire Council	Head of Corporate Asset Management
Suzanne Raymond	Herefordshire Council	Assistant Accountant
Gareth Rees	Herefordshire Council	Finance Manager (ECC)
Rob Ewing	Herefordshire Council	Commissioning Programme Delivery Manager

## **BUSINESS CASE**

**Prepared by** – Tony Featherstone, Head of Corporate Asset Management

**For the attention of** – Peter Robinson, Director of Resources

### **1 OUTLINE BUSINESS CASE**

#### **1.1.1 Background**

By working with the Department of Work and Pensions (DWP) the joint customer service hub project will offer improved service and convenience to customers and a better return from the council's investment. Cooperation and cost sharing allow the council to improve its property estate which will also support the regeneration of the Edgar Street Grid (ESG). The intention is that Blueschool House will become a facility that will draw people to an area that is currently under used. This could potentially encourage further development in the neighbouring area.

The council has a requirement for a centrally located customer services facility in Hereford that is open to the public. The DWP also operates a Job Centre at St Nicholas' House on the outskirts of Hereford city. The two organisations have a similar set of clients meaning that collocation offers opportunities to provide better, more convenient, and more efficient services. This has been recognised by the Chancellor and integration of Job Centres into local authority premises has been part of government policy since the autumn statement in 2015. There are 25 examples of such joint working in the midlands area, including at Ross on Wye.

The creation of a joint customer services hub, combining the resources of both organisations, will allow the council and DWP to get better value from their investment in the new facilities. Work to identify a suitable location in Hereford has been underway since 2014.

The opportunity to refurbish Blueschool House as a customer service centre will provide suitable accommodation for both the council and the DWP in a facility that is conveniently located for their customers. The property will need to be refurbished before it can welcome customers. Once refurbished, given its capacity and location, the facility will also meet

the needs of the DWP. Working with the DWP, carrying out jointly funded refurbishment and sharing the running costs by charging the DWP rent, is an important contributing factor to the viability of this project.

Blueschool House is well placed on the inner ring road on the ESG in Hereford city centre. The council owns the freehold to the property; however, the Homes and Communities Agency (HCA) have a retained interest in the property as they provided the money for its purchase in 2007. Since then the council has paid rent to the HCA. This rent is intended for reinvestment to support the ESG delivery plan. The total current annual rent paid by the council and commercial lets to the HCA is approximately £160k per year (for Blueschool House and a number of other properties). The investments made with these funds are agreed through consultation between the HCA and the council in accordance with the ESG delivery plan. This plan includes a contribution of £300k to the refurbishment of Blueschool House. The HCA's objective for the refurbishment of Blueschool House is to contribute to the overall regeneration of both Blueschool Street and the wider ESG area.

Blueschool House is in a prominent position but is unattractive and is not energy efficient. Given its important location, the building's refurbishment will make it a much more valuable and flexible asset for the city of Hereford. The property currently houses the council's regulatory services. Converting its use from a largely back-office function to a customer facing facility will support the ESG development plan's objective to promote economic growth and regeneration.

The proposed project is intended, therefore, to meet the needs of the council for a centrally located customer service centre, the objective of collocation with the Job Centre, and to allow Blueschool House to contribute to ESG regeneration in line with the aims of the HCA.

The council's customer services are currently located at Franklin House. Although Franklin House, like Blueschool House, is convenient for customers, it is also a valuable asset situated in the city centre. It would, therefore, be suitable for a number of redevelopment purposes, including higher education.

### 1.1.2 Business Options

Option

Analysis

Option	Analysis
Do nothing	This will not deliver the corporate property strategy 2016-2020 approved by cabinet on 11 February 2016 or the accommodation savings in the medium term financial strategy (MTFS). It will also not allow the council to free up Franklin House for redevelopment or a potential site for the development of university accommodation.
Council only solution	Remain in Blueschool House (BH) but not offer co-location with Department for Work and Pensions (DWP) but dispose of Franklin House. This is not recommended because the wider benefits to customers of co-location would not be achieved, and the financial efficiencies of co-location could not be delivered.
Dispose of BSH	Remain in Franklin House but not offer co-location with DWP and dispose of BSH. This is not recommended because the wider benefits to customers of co-location would not be achieved, and the financial efficiencies of co-location could not be delivered.
Shared customer service hub	Jointly fund the refurbishment of a shared customer service centre at Blueschool House with the DWP and dispose of Franklin House.

### 1.1.3 Return on Investment

Benefit	Initial Analysis (£000)	Comparison / References
Gross revenue benefit (Blueschool House)	1,000	Project Financial Model compared to current state
Capital borrowing costs	(300)	
Net 10 year revenue benefit / (dis-benefit) in respect of Blueschool House	700	
10 year revenue benefit / (dis-benefit) from vacating Franklin House	1,210	
Total 10 year project benefit	1,910	

## 1.1 DETAILED BUSINESS CASE

### 1.1.4 Expected Benefits

Expected Benefit	Comments
Increased integration of services aimed at DWP and council's shared customers	Collocation will support increasing integration and efficiency of services delivered in a way that is more convenient for the customer
Release of a valuable asset	Franklin House is suitable for a variety of purposes including higher education
Enhance the value of BH	A building that is currently unattractive and energy inefficient will be refurbished in a way that would be difficult for the council to justify without working with a partner
Reduce operational property costs	The running costs of BH will be less than those of FH (with the contribution from DWP)
Creation of more flexible office space able to be utilised for various purposes	BH will be developed into a more flexible working space (in a more attractive building)
Support for the ESG development plan	The new facility will draw people into an area of the ESG that is under used. This will contribute to the regeneration of the ESG and may encourage development of surrounding sites

### 1.1.5 Expected Dis-benefits

Expected Dis-Benefit	Comments
The length of the agreement with DWP will reduce the council's future flexibility in respect of BH	This is an inevitable consequence of the single public estate
Revised FM arrangements may need to be implemented	Custodian and security cover may need to be revisited

### 1.1.6 Expected Costs

The proposed refurbishment would require capital investment, as well as one-off costs of vacating the existing properties.

Capital Investment (Project)	Cost (£000)
Gross capital expenditure	950
DWP contribution	(400)
HCA revenue reserve balance	(300)
<b>Total Capital Requirement</b>	<b>250</b>

The Financial Model assumes indexation of costs, but for illustrative purposes the average revenue costs are listed below. Loan periods for capital borrowing vary between each option.

Annual Revenue Costs	Current Costs			Proposed Cost (shared customer service hub)	Annual Saving
	(Existing Blueschool House)	(Existing Franklin House)	(Existing Model)		
	£000	£000	£000	£000	£000
Rent	91	40	131	91	40
Repairs and Maintenance	20	23	43	20	23
Utilities	23	23	46	23	23
Rates	76	24	100	76	24
Cleaning/Facilities Management	16	9	25	16	9
Other Premises Costs	3	2	5	3	2
Annual income from DWP	-	-	-	(100)	100
<b>Sub-Total</b>	<b>229</b>	<b>121</b>	<b>350</b>	<b>129</b>	<b>221</b>
Capital Repayments*	-	-	-	30	(30)
<b>Average Annual Total</b>	<b>229</b>	<b>121</b>	<b>350</b>	<b>159</b>	<b>191</b>

\*Expires following 10 year loan period

### 1.1.7 Major Risks

The following have been identified as major risks at the project's outset:

- RISK: Project costs escalate and spend goes beyond the approved budget; RESPONSE: An estimate of the cost of the scheme has been provided by the council's property services team. A fixed price quote will be sought via the framework provider at the earliest opportunity (once the decision to proceed has been made). **Impact – moderate, likelihood – moderate.**
- RISK: that Franklin House takes longer to sell than anticipated meaning savings not delivered, e.g. Bath Street and Brockington took longer to sell than estimated; RESPONSE: Disposal plans for Franklin House will be developed and mobilised as early as possible (after the decision to vacate the property is approved) in order to minimise the risk that savings are affected. **Impact – moderate, likelihood – moderate.**
- RISK: The project is not delivered on time; RESPONSE: The fixed price quote from the framework provider will be accompanied by a robust implementation plan. This plan will be subject to rigorous project management. The implications of any potential delay will be included in any agreement with the DWP. **Impact – high, likelihood – low.**
- RISK: HM Treasury withdraws £400k contribution from DWP. The DWP have to give 12 months' notice on their present accommodation in June 2016. Failure to do so will not necessarily prevent the scheme from going ahead, but the £400k time limited contribution is likely to be at risk; RESPONSE: Ensure that the council is in a position to support the DWP in its decision on future accommodation and is able to deal with any potential outcome. **Impact – high, likelihood – low.**
- RISK: There is a risk that HCA may not agree to provide their £300k contribution to the capital enhancements; RESPONSE: This is considered a low risk until a formal agreement is signed, but the proposal is consistent with the objectives of the current and soon to be refreshed ESG delivery plans. **Impact – high, likelihood – low.**
- RISK: Refurbishment plans are not granted planning consent; RESPONSE: Consultations have taken place with the planning department. Approval will be sought as soon as the decision to proceed, and the related decision by the DWP, has been approved. **Impact – high, likelihood – low.**
- RISK: There is a risk that the joint arrangement will not work; RESPONSE: This risk is considered low as the scheme is similar to other joint operations across the West Midlands, 25 in total, and there has been a successful Herefordshire based pilot in Ross-on-Wye. **Impact – moderate, likelihood – low.**
- RISK: There is a risk that the preparation for and relocation of services will disrupt service delivery and business continuity arrangements. RESPONSE: The project team will work with affected services to effectively plan moves to minimise disruption to service and identify better ways of working to ensure accommodation changes are successfully achieved. Business Continuity arrangements will be reviewed with each service to ensure they remain fit for purpose throughout. **Impact – moderate, likelihood – low.**
- RISK: There is a risk that the lease terms are not acceptable to DWP. RESPONSE: Heads of terms have been agreed between the parties in order to reduce this to a low risk. **Impact – low, likelihood – low.**



**1.1.8 Investment Assumptions**

Model	Assumptions
Do Nothing	-
Shared customer service hub	<ul style="list-style-type: none"><li>- Gross capital costs £950k</li><li>- DWP capital contribution £400k</li><li>- HCA revenue reserve contribution to capital £300k</li><li>- 10 year prudential borrowing, 3.5% interest</li><li>- Annual DWP revenue contribution £100k</li></ul>

## 1.2 BENEFITS REVIEW PLAN

### 1.2.1 Measures

Measure description	Baseline Measure	Target Measure	Measurement Method and responsibility
Increased integration of services aimed at DWP and council's shared customers	No current baseline as services are offered independently at separate locations	To secure complete integration by July 2017	HC customer services manager and DWP transformation manager
Release of a valuable asset	Current valuation of Franklin House	Vacant occupation of Franklin House	Head of Corporate Asset Management
Enhance the value of BSH	Current valuation at current use	Post refurbishment valuation	Head of Corporate Asset Management
Reduce operational property costs	£229k pa	£100k pa	Property Services spend
Creation of more flexible office space able to be utilised for various purposes	Net internal area (NIA) before refurbishment	NIA after refurbishment	Increase in available space and flexibility of potential use
Support for the ESG development plan			As per business case in ESG development plan

### 1.3. Financial Summary

#### 1.3.1 Financial Summary

<u>Summary</u>	£000
Annual Revenue Saving (A + C)	191
10 year Project Savings (B + D)	1,910

<u>Revenue Saving - Franklin</u>	£000	
Franklin House average annual running costs	121	A
10 Year project benefit	1,210	B

<u>Revenue - Blueschool</u>	Annual	
	£000	
Blueschool House average running costs	229	
DWP annual contribution	(100)	
Capital repayments	30	
<i>10 year borrowing, 3.5%</i>		
Net Council project cost per annum	159	
Current revenue budget	229	
Annual project savings	70	C
10 Year project benefit	700	D

<b>Capital - Blueschool</b>	
	<b>£000</b>
Gross Capital Expenditure	950
DWP capital contribution	(400)
HCA capital contribution	(300)
<b>Net capital requirement</b>	<b>250</b>