

Appendix 2 – Corporate Property Strategy – business case for the acquisition of Elgar House

Executive Summary

This paper examines the future accommodation needs of the council and recommends a preferred approach to meeting those needs that is in line with the corporate property strategy.

A set of planning assumptions has been agreed with representatives from each directorate. The planning assumptions cover the period of the revised property strategy. These planning assumptions have been used to create a high level picture of the council's future accommodation needs.

Consultation has been started, at a level appropriate to the time available, to ensure that the accommodation programme fully meets the needs of the directorates and delivers the efficiencies required by the organisation as a whole. This consultation will be continued and extended in developing the change programme required to implement the new property strategy.

In line with the corporate property strategy, the recommended approach will see the continued rationalisation of the operational property estate, with fewer properties focused on particular service user or staff needs. The council will withdraw from a number of properties that are either unsuitable for its future needs or will require significant investment to make them suitable. There is a need to replace some of this capacity in order to meet the accommodation requirements anticipated by the council's directorates, which take into account planned reductions in staff numbers and more efficient working practices. Analysis has indicated that vacating the unsuitable properties will cause a predicted shortfall in capacity of 180 workstations. The council's strategic asset management team has identified the opportunity to acquire Elgar House on the outskirts of the city of Hereford. The property provides good quality office accommodation over three floors sufficient to meet the shortfall with parking and good public access.

A business case has been undertaken which compared three options:

- Do nothing – continue with the current accommodation, upgrading as necessary
- Do minimum – find a replacement for the Bath Street (new media centre) only
- Elgar House- five year and ten year solutions analysed – assumes that the capacity will replace Bath Street (new media centre), number 8 and 10 St Owen Street (the wings at either side of the town hall) and Moor House. These properties are currently occupied by children's wellbeing staff, however, the accommodation programme that will be

developed to implement the property strategy will identify the most appropriate location for each team.

Given the forecast shortfall in capacity in the operational estate, the findings of the financial case, and following the principles of the revised property strategy for 2016 to 2019, it is recommended that the council complete the acquisition of Elgar House to provide suitable, modern accommodation within the city of Hereford that will be used as a base for a number of council staff.

Business Options

The proposed lease for Elgar House is initially intended to be a 10 year commitment. The following business options were considered using the 'do the minimum' option as a baseline:

Option	Analysis
Do nothing	Continue with Bath Street, 8 / 10 St Owen Street and Moor House. <i>Not deliverable – Bath Street lease expires September 2018 and an extension is unlikely to be accepted by the lessor.</i>
Do the minimum	Seek replacement property for New Media Centre (Bath Street). 'Existing Model'.
5 year solution	Create new solution for operational Children's and Adult Services, to be replaced after 5 years.
10 year solution	Create new solution for operational Children's and Adult Services, to be replaced after 10 years.

Preferred Option

Elgar House is on the outskirts of Hereford city (it is 15 minutes' walk from the city centre) and has more limited public transport connections as a result. However, the capacity that it offers is more modern and flexible than the accommodation that it would replace and it offers the opportunity to move from dispersed locations across the city to an integrated facility with appropriately sized workstation areas planned within corporate targets for desk to staff ratios. The rationalised operational estate that this creates will support improved working practices between teams and with other agencies.

Also, both the five year and ten year solutions offer financial benefits when compared to the 'do the minimum' option.

The following table illustrates in detail the cost profile comparison of the existing premises costs against the premises costs of a 10 year occupancy of Elgar House.

		Yr 0	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10	10 Yr
		2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	Total
		£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Existing Model (without Elgar House)	'Do minimum' capital Spend (1)		650	300	750								1700
	Revenue budget (4)	277	281	286	303	322	327	333	339	348	356	364	3,536
	Capital repayments			218	218	218	218	218	218	218	218	218	1,962
	10 year equivalent	277	281	504	521	540	545	551	557	566	574	582	5,498
Elgar House included in operational estate	Capital spend on operational estate (3)	269	855	133									1,257
	Revenue budget (2) (4)	333	468	219	222	228	230	234	237	240	244	249	2,904
	Capital repayments		148	148	148	148	148	148	148	148	148	148	1,480
	10 year Solution	333	616	367	370	376	378	382	385	388	392	397	4,384
Comparison 'Elgar' vs Existing Model		56	335	(137)	(151)	(164)	(167)	(169)	(172)	(178)	(182)	(185)	(1,114)

Notes: Greyed areas illustrate the breakdown and timing of spend

- 1 Capital spend on current set of properties (do minimum) could be delayed until 2016/17 onwards
- 2 Cost includes maintaining current properties alongside Elgar until disposal (assumed by end of 2016/17)
- 3 Capital spend on vacated properties (make good Bath Street and Moor House) and operational estate together with Elgar House refit and changes required to existing estate
- 4 Overall revenue budget includes: rent; maintenance; cleaning; utilities; rates

Both a 10 year lease or remaining in the existing properties would require capital investment, the financing costs for which are illustrated in the above table. The capital investment for Elgar House would begin during 2015/16, whereas for existing premises the investment could be held until 2016/17. It would also be necessary to incur running costs for Elgar House alongside the existing properties in the project scenario. Those two factors result in an adverse revenue position for 2015/16 and 2016/17 – relative savings would be achieved from 2017/18 and would be ongoing.

Therefore, given the forecast shortfall in capacity in the operational estate and following the principles of the revised property strategy for 2016 to 2019, It is recommended that the council complete the acquisition of this Elgar House to provide suitable, modern accommodation within the city of Hereford that will be used as a base for a number of its administrative teams. The preferred solution is therefore the acquisition of a 10 year lease of the property known as Elgar House, Holmer Road, Hereford, at an annual rent of £87k.

CONFIDENTIAL