# Chichester District Council

**THE CABINET** **6 February 2018**

# East Pallant House Options Appraisal

## 1. Contacts

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## 2. Recommendation

**3.1 That Chichester District Council continues to use East Pallant House as the primary office accommodation for the organisation.**

**3.2 That officers continue to identify opportunities to provide office accommodation for partners, voluntary sector or commercial organisations as those opportunities arise to ensure office space is fully utilised and operating costs are kept to a minimum.**

## 3. Background

4.1 At its meeting on 7 February 2017, the Cabinet approved an initial project proposal document (IPPD) to prepare an options appraisal for the future use of East Pallant House (EPH). This options appraisal was based on the following factors:-

(a) As a result of the New Ways of Working initiative (NWOW) and staff being enabled to work remotely, the office space requirements at EPH reduced and in 2014 the North Wing was leased on a commercial basis.

(b) NWOW also enabled staff to work at any workstation within EPH. This resulted in the current ratio of 8 desk:10 staff and 9 desks :10 FTE. An analysis of desk occupancy undertaken as part of this options appraisal demonstrates this ratio could be further reduced to 0.7 desks:FTE, This could potentially release a further 400sqm (4,300sq ft) of office space assuming that the listed former Georgian merchants' house was the area vacated.

(c) The North Wing that is currently leased is excluded from the options appraisal.

4.2 As part of this project a local firm of commercial property advisors, specialising in the investment and development of commercial property were retained to advise the project team on likely asset valuations, income and development potential.

## 4. Outcomes to be Achieved

5.1 EPH net internal area is 3,380sqm (36,380 sq ft) of usable office space on a site of 0.35 hectare (0.86 acres). Chichester District Council (CDC) owns the freehold of EPH therefore the costs of ownership are operational and maintenance costs and NNDR. One of CDC's key objectives is the prudent management of resources and the requirement to ensure best value for money is achieved. The outcome of the options appraisal was therefore to investigate whether an opportunity exists to either use EPH in a more economical way, or whether disposal of the site could realise a capital receipt to provide additional income in addition to funding alternative accommodation.

## 5. Proposal

6.1 This report outlines the options considered and recommends CDC retains the site but further develop the NWOW concept to maximise office space and seek to reduce operational costs through commercial letting of identified space where opportunity exists. This proposal is based on the analysis of forecasted capital receipt/commercial rent and the projected costs associated with an alternative location.

## 6. Options Considered

7.1 The following options were appraised. A cost analysis for each option is attached as Appendix 1 to this report (Part II exempt information).

<u>Option 1: Do Nothing</u>

7.2 Prior to the NWOW project, CDC's operating costs, including asset replacement, NNDR, maintenance contracts, facilities staff and utilities were £885,000. Following initiatives as part of NWOW, these costs have been reduced to £663,000 pa. As there is potential to explore further opportunities of this nature with a workforce now equipped to work flexibly, this option was not considered to meet the Council's objective of managing our resources prudently.

<u>Option 2: Retain EPH site and review options for future potential gains from further development of flexible working.</u>

7.3 As stated above, there is potential to reduce the desk:FTE ratio still further and to lease out additional office space to partners, voluntary sector or commercial organisations basis to off-set some of the existing operational costs. This would require retaining the larger office spaces to support flexible workstations and vacating some of the smaller offices (in the Georgian building) for letting as serviced offices. Rents for serviced offices in Chichester currently range from £269 - £323sqm (£25-30 per sq ft.) (inclusive of service charges). Consultants have advised that rental income in excess of £25.00 per sq ft would be achievable, provided the accommodation is refurbished to a good standard. The

project team have identified potentially 400sqm (4,300 sq ft) that could be made available with potential income of £108,000 pa being achieved (before voids). The capital cost of refurbishment (estimated at £130,000 total which could be phased) could be funded by provision already within the asset replacement programme. This would require a carry-forward of these funds to 2018-2019. Serviced offices tend to be relatively short term leases (up to 3 years) which would require an allowance of 40% voids to be built into the business model. This would provide a 2 year pay-back. This option would not provide a reduction in the repairs and maintenance budget since CDC, as landlord would still be required to maintain these serviced offices to an acceptable standard. Provision is made within the repairs and maintenance budget for EPH of which a proportion would be allocated to maintain these serviced offices.

7.4 If EPH is retained, there is also opportunity to reduce operational costs further by implementing a programme of works to fund improvements that reduce costs with a 3-5 year payback. These works will be taken into account as part of the repairs and maintenance programme for EPH.

7.5 In addition to the above, the project team have been in discussion with another interested tenant which could provide the opportunity to generate further income by leasing meeting room space.

<u>Option 3: Appraise option of disposing of all or part of the EPH site and achieving a capital receipt to fund future investment to finance alternative accommodation and revenue income</u>

7.6 EPH is designated as a building for commercial office space in planning terms. Consultants advised a sale value of £3.4m if sold as a commercial office space; however over recent years several larger office occupiers in the city have downscaled and the majority of enquiries for office premises in Chichester are typically for smaller sites of between 93sqm – 186sqm (1,000-2,000 sq ft). A higher sale value of £3.7m may be achieved if sold as a residential site; however to satisfy local planning policy requirements CDC would be required to market the site as a commercial premises for 2 years to demonstrate any lack of interest before a change of use to residential could be applied for. Other types of use were explored with consultants, including hotel and nursing home, none of which indicated a better land value than the residential option.

7.7 The project team investigated the costs associated with relocating to alternative premises to vacate EPH. New build costs were discounted as the cost of capital investment required was in excess of the forecasted capital receipt. Rental options were investigated with the requirements that any alternative would need to be located near public transport links with easy access for staff and customers and adequate space for committee and meeting rooms. The space requirement would be approximately 2,230 sqm (24,000 sq ft) (excluding reception space) and the project team sought to identify commercial or partner opportunities.

7.8 Discussions were held with WSCC which currently owns and occupies Northleigh House in the city centre (2,787sqm/30,000 sq ft) with potential to share the WSCC Council Chamber for formal committee meetings. Detailed rental costs have not been provided, however WSCC does have a similar arrangement with a comparable public body and applying those rental terms did

not make the option financially viable once the costs of relocating, undertaking adaptations and re-siting of the ICT infrastructure were factored into the cost model.

7.9 The forecasted income and costs associated with this option are based on comparable headline consultant advice which is supported by the CDC Estates Service. From an investor or developer perspective EPH would provide a rare and untested opportunity for Chichester and consultants anticipate there would be high levels of interest and the property could achieve a figure in excess of those reported, particularly if there was a competitive situation, although it is likely that any bids for alternative uses would be conditional on obtaining a successful planning consent. The only way to fully test the market and obtain an accurate capital appraisal would be to speculatively market the site.

## 8. Resource and Legal Implications

8.1 Option 2 does not raise any legal implications for the organisation. Any third party leases would be prepared by CDC Legal Services and managed by the CDC Estates Service. Management of serviced offices would require resources from within the Estates team and Facilities Team. These resources would be assessed dependent upon the number of serviced offices provided. Any adaptations would be internal to the building and whilst they would not require planning permission, listed building consent may be required depending upon the extent of the adaptations.

## 9. Consultation

9.1 The Joint Employee Consultative Panel has been advised of progress at each meeting during the options appraisal process. At its meeting on 14 December 2017 the staff side were advised that option 2 would be recommended to the Cabinet. The JECP supported this option. All staff were presented with an update on the work of the project at the last round of staff briefings.

9.2 The Overview and Scrutiny Committee at its meeting on 16 January 2018 resolved to support Option 2.

## 10. Community Impact and Corporate Risks

10.1 With the current political environment there is increased uncertainty in relation to many factors which have historically acted as drivers of the property investment, development and letting markets. CDC could invest in the refurbishment of office space and not find the interest from organisations to enter into a short-term let. The potential capital receipt from the site could be in excess of the consultant's forecast of £3.7M or indeed, could be less. Without entering into a competitive environment this potential is unknown in any positive form. Entering into a leasehold situation where CDC no longer own the accommodation they occupy, could put the organisation in a position of vulnerability.

## 11. Other Implications

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| **Crime and Disorder** | | None |
| **Climate Change** A programme of works to reduce operational costs would focus on lowering energy levels which would have an environmental impact. | Yes | |
| **Human Rights and Equality Impact** The advantage of option 2 is that customers will be unaffected in terms of access to services. | | None |
| **Safeguarding and Early Help** | | None |
| **Other** | | None |

## 12. Appendices

Appendix 1 – Cost Analysis of Options – Part II Exempt

## 13. Background Papers

None