

**Cheltenham Borough Council**  
**Cabinet - 14 April 2015**  
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**Accommodation strategy**

<b>Accountable member</b>	<b>John Rawson, Cabinet Member for Finance</b>
<b>Accountable officer</b>	<b>Mark Sheldon, Director of Resources</b>
<b>Ward(s) affected</b>	<b>All</b>
<b>Key Decision</b>	<b>Yes</b>
<b>Executive summary</b>	<p>The Council has had a long term aspiration to relocate to modern, more flexible office accommodation which meets both existing and future needs, improves customer experience and provides better value for money for the tax payers of Cheltenham. This was restated at the Council meeting of 31<sup>st</sup> March 2014.</p> <p>The report and supporting business case outlines the case for relocation and considers how each option meets the Council's desired outcomes.</p>
<b>Recommendations</b>	<p><b>Cabinet resolves:</b></p> <ol style="list-style-type: none"> <li>1. To acknowledge that remaining in the Municipal Offices is not a viable option for the future.</li> <li>2. To acquire the freehold interest in the property described in Appendix 3, at a price not exceeding the budgets set out in Appendix 3, and subject thereto authorises the Head of Asset and Property Management to negotiate terms for the acquisition and the Borough Solicitor prepares such documents as she considers necessary or appropriate to conclude the acquisition</li> <li>3. To authorise officers to investigate options for the future of the Municipal Offices, including the process for securing a partner to enter into a joint venture for the redevelopment of the Municipal Offices as per section 5 of the report.</li> </ol> <p><b>Cabinet recommends that Council:</b></p> <ol style="list-style-type: none"> <li>4. Allocates the budgets for financing the acquisition and refurbishment as detailed in Appendix 2 and 3.</li> </ol>

<b>Financial implications</b>	<p>As outlined in the report and supporting business case.</p> <p><b>Contact officer: Mark Sheldon</b>  <u><a href="mailto:Mark.sheldon@cheltenham.gov.uk">Mark.sheldon@cheltenham.gov.uk</a></u> 01242 264123</p>
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<p><b>Legal implications</b></p>	<p>The Authority has a statutory power to acquire property for the purposes of its operation. There is a general obligation to act prudently with regard to the price paid and the asset acquired. Any acquisition would be subject to legal checks to ensure the Authority obtains good title.</p> <p>Stamp Duty Land Tax (SDLT) will be payable on the purchase price (currently 4% where the purchase price is £500,000 or more). VAT implications would also have to be considered.</p> <p>It is too early to make specific legal comments in respect of the possible future of the Municipal Offices. Any disposal of the freehold, or lease of more than 7 years, would have to be at best consideration unless the Secretary of State's consent is obtained (whether general or specific). Detailed legal comments will be forthcoming when clearer proposals for the building are available.</p> <p><b>Contact officer: Rose Gemmell, <a href="mailto:rose.gemmell@tewkesbury.gov.uk">rose.gemmell@tewkesbury.gov.uk</a> 01684 272014</b></p>
<p><b>HR implications (including learning and organisational development)</b></p>	<p>The programme will require significant HR resource which has yet to be properly assessed. An office move will have a significant impact on staff which will require engagement and consultation with directly employed staff, the recognised trade unions and our shared service / service delivery partners.</p> <p><b>Contact officer: Julie McCarthy, <a href="mailto:julie,mccarthy@cheltenham.gov.uk">julie,mccarthy@cheltenham.gov.uk</a> 01242 264355</b></p>
<p><b>Key risks</b></p>	<p><b>See risk assessment at Appendix 1 and Appendix 4.</b></p>
<p><b>Corporate and community plan implications</b></p>	<p>The options are assessed against the Council's corporate plan objectives in the business case at Appendix 2.</p>
<p><b>Environmental and climate change implications</b></p>	<p>The proposals have the potential to reduce the Council's carbon footprint through the relocation to a purpose built office which can be adapted to deliver environmental benefits.</p> <p>The decision between new build and use of an existing building needs to consider the benefits of utilising an asset that may become vacant against potential energy savings from new build technologies.</p>
<p><b>Property/Asset Implications</b></p>	<p>The Council has an obligation to demonstrate value for money for taxpayers and best consideration in terms of any purchases it makes. The Net Present Value demonstrates clearly that, financially, the option which minimises cost for the council is the acquisition of a town centre office. The rationale is outlined in the business case.</p> <p><b>Contact officer: David Roberts, <a href="mailto:david.roberts@cheltenham.gov.uk">david.roberts@cheltenham.gov.uk</a> 01242 264151</b></p>

An equalities impact assessment of the preferred option is outlined at Appendix 5.

## 1. Background

- 1.1 Cheltenham Borough Council (CBC) has had a long term aspiration ***‘to relocate to modern, more flexible office accommodation which meets both existing and future needs, improves customer experience and provides better value for money for the tax payers of Cheltenham’***. The Budget Strategy assumes a savings target from the accommodation strategy project of £100k in 2016/17 rising to £200k per annum by 2017/18.
- 1.2 At the full Council meeting held on 31st March 2014, members agreed to widen the brief for an alternative office location to include ‘new build’ and to consider an ‘out of town’ location. At this meeting members expressed widespread support for a move away from the Municipal Offices, potentially bordering on frustration that this strategy is taking so long to come to fruition. In the minutes of the meeting, it was noted by the Cabinet Member for Finance that there had been a change in attitude from both the public and councillors over the last three years in favour of relocating the council offices. The policy outlined in the report received almost unanimous support from members, with just one abstention being recorded and no votes against.
- 1.3 The accommodation strategy also has the potential to assist in the delivery of the Corporate Strategy. Given that key elements of this strategy include enhancing the built environment, building strong and sustainable communities and contributing to wider economic benefit, it can be seen that relocation could add value to all elements. The release and re-use of the Municipal Offices would certainly add greater value to the economic performance of the town than a half occupied public building. Equally, the Council retaining a central location adds value by retaining office based employment, which evidence suggests helps support the vitality of the High Street and retail core.
- 1.4 CBC has operated from a cluster of former houses (originally 5 but ultimately 13) for nearly a century. Fit for purpose office space could deliver significant benefits especially in terms of the total quantum of space required to deliver services. Equally modern flexible spaces can assist in greater integration between delivery teams, currently extremely difficult because of the cellular nature of the building.
- 1.5 Officers have been exploring various options over a considerable period of time with some being discounted at an early stage. These include:
- (i) Having a split site with an out of town solution and a town centre “shop” presence. This is not justifiable on cost and staffing grounds as the scale of overall operation diminishes and a retail style presence would be prohibitive on cost grounds.
  - (ii) Separating the existing Municipal Offices vertically. This would be hugely costly as all of the service and utility runs are horizontal and even if achieved still results in old cellular space in contradiction of the vision set out in 1.1 above.
- 1.6 The detailed business case at Appendix 2 and financial appraisal at Appendix 3 (part of which is exempt as a result of commercially sensitive information), articulate the case for the relocation by CBC. In summary, relocating to new offices provides a range of potential benefits including
- Delivering the Medium Term Financial Strategy (MTFS) savings target.
  - Contributing towards the delivery of the outcomes in the Corporate Strategy.
  - Creating a fit for purpose office base for CBC and, potentially, space for partners in a public hub model.
  - Adopting a commercial approach to property holdings, by having space from which to develop a rental income stream and (depending upon location) to facilitate regeneration.
- 1.7 Further work has been carried out on the 2020 vision approach across the four authorities of CBC, Cotswold, Forest of Dean and West Oxfordshire which is helping to clarify the

organisations' direction of travel. This work is in its early stage but the need for a CBC presence in Cheltenham will continue into the future. The options under consideration offer the potential for more flexible space which may expand or reduce according to changing future needs and help to drive out savings across the 4 partner councils through accommodation rationalisation.

## **2. Update on work streams**

- 2.1** Work has been undertaken to estimate the Council's future space requirements based on projected staffing numbers in 2016/17 taking into account service changes, shared service arrangements, the potential to work flexibly i.e. hot-desking which has resulted in a reduced estimate of space requirement to 30,000 ft<sup>2</sup>. The Municipal Offices is 65,000 ft<sup>2</sup>, hence currently the Council could be occupying less than half of the building.
- 2.2** CBC has been keen to adopt a more commercial approach to its office space. However, attempts to offer empty space within the Municipal Offices to other tenants including public sector partners have been greatly hampered by the inflexibility and tired nature of the building and the lack of car parking space, which make it an unattractive option.
- 2.3** Further investigation has been undertaken into existing buildings including the Quadrangle, John Dower House, ex. Kraft HQ, the ex HMV premises on the High Street and Cheltenham House. These have been ruled out for the following reasons:
- The Quadrangle has recently been sold to Aviva and is therefore now not an option.
  - John Dower house has been viewed and requires significant work and presents very similar problems to the Municipal Offices i.e. old cellular building at the front with a 1960s addition at the rear requiring significant expenditure but has now been sold for elderly residential development.
  - Ex Kraft HQ is a poor building which presented similar issues to the Municipal Offices but has now been sold for elderly residential development.
  - Former HMV store – very poor building requiring significant expenditure.
  - Negotiations over the potential acquisition of Cheltenham House ceased as a result of the owners deciding not to sell the building.
- 2.4** The decision to consider a new build option was a factor in the Council agreement to purchase the Shopfitters site from Gloucestershire County Council (GCC). This site provides an opportunity for a new build option combined with a car park, but equally it has other potential for long term development when considered with the CBC owned Chelt Walk car park.
- 2.5** The sale of North Place and Portland Street car parks provides a capital receipt which could help part fund an office acquisition.
- 2.6** The Cheltenham Transport Plan, if adopted, will reduce traffic in Royal Well and generate additional options to facilitate the redevelopment to the rear of the existing Municipal Offices. However the business case cannot be predicated upon that outcome as it is subject to a formal statutory process being progressed by GCC as highways authority.

### **3. Summary options appraisal**

**3.1** Currently, we are left with exploring 5 options:

1. Remain in the Municipal Offices and invest in planned maintenance programme;
2. A new build on the amalgamated Chelt Walk and Shopfitters site;
3. Acquisition of a town centre office initially as an investment property and negotiate with the head lessee to take space for CBC.
4. A new build option on the consented site next to Asda, off Hatherley Lane; and
5. A new build option on the consented site at Honeybourne Gate, Jessop Avenue.

The full business case for relocation and the appraisal of the options which meet the brief is contained in Appendix 2.

- 3.2** All of the options considered recognise that there are major cultural and change impacts to be managed as a result of any relocation but the Senior Leadership Team are fully supportive. Whilst these need sensitive handling they also bring with them major benefits such as providing the platform and justification for accelerating the IT delivery infrastructure upgrades.
- 3.3** Equally there will need to be a strategy for dealing with civic activities and member facilities. This could include utilising other borough historical assets, such as the Pump Room or Town Hall subject to negotiation with the Cheltenham Trust. Meeting rooms will be dealt with by creating flexible spaces that can normally be used for smaller meetings but opened up to create large spaces where necessary e.g. for a full Council meeting or, in some of the options, be used for other organisations to bring in further income. This approach removes the anachronistic separation of electors and members and would bring CBC in line with many other councils.
- 3.4** Any option allows time for these questions and issues to be resolved long before any relocation is enacted. In fact a reasonable lead-in time is beneficial as it also allows for the effective marketing of the Municipal Offices. However, the plan would be to push forward the redevelopment of the Municipal Offices as soon as possible.
- 3.5** The table below summarises the analysis of the options explored in more detail in the business case at Appendix 2, including how they meet the outcomes in the Corporate Strategy for 2015/16.

	<b>1. Remain in Municipal Offices (MO) and invest in planned maintenance programme</b>	<b>2. New build on amalgamated Chelt Walk and Shopfitters site</b>	<b>3. Acquisition of a town centre office initially as an investment property and negotiate with the head lessee to take space for CBC</b>	<b>4. New Build on Land by Asda</b>	<b>5. New Build Honeybourne Gate</b>
Availability	Yes	Yes	Yes	Yes	Yes
Council strategy - enhance built environment	No	Yes	Yes	Yes	Yes
Council strategy – strong & sustainable community	No	Yes – re-use of MO	Yes – re-use of MO	Yes – re-use of MO	Yes – re-use of MO
Contribution to wider economic benefit	No	Yes	Yes	Partial	Yes
Future opportunities	Limited	Yes - will incl. CBH	Yes – public sector hub	No	Limited
Dis-benefits	Does not meet CBC & customer needs	Public perception of new build	Relies on letting spare space	Perceived poor access as out of town centre. Public perception of new build.	Public perception of new build. May not allow partner sharing.
Timescale for delivery	2016 onwards	2018	Depends on negotiations	2017	2017

#### **4. Financial evaluation and recommendations.**

- 4.1 The financial analysis of each option is detailed in Appendix 3 (summarised below) which is partially exempt for commercial reasons.

	<b>1. Remain in Municipal Offices (MO) and invest in planned maintenance programme</b>	<b>2. New build on amalgamated Chelt Walk and Shopfitters site</b>	<b>3. Acquisition of a town centre office initially as an investment property and negotiate with the head lessee to take space for CBC</b>	<b>4. New Build on Land by Asda</b>	<b>5. New Build Honeybourne Gate</b>
<b>Net Present Value (NPV)</b>	<b>£4.599m</b>	<b>£5.376m</b>	<b>£2.628m</b>	<b>£6.184m</b>	<b>£10.948m</b>
<b>NPV Ranking</b>	2	3	1	4	5
<b>Meet savings target of £200k by 2017/18</b>	No	No	Yes following redevelopment of MO.	No	No
<b>Savings in running costs</b>	Same	Yes	Yes	Yes	Yes
<b>Viable funding proposals</b>	No	No	Yes	No	No

### **Preferred option**

- 4.2 Based on a comparison of the financial models and Net Present Values, the best financial option is option 3 - the relocation to a town centre building, initially as an investment option, which delivers annual savings of £68k per annum by 2024/25. As well as these savings, it is the only option which truly meets the 'prudential' borrowing criteria and meets the programme outcomes, as well as providing opportunity for further savings from the redevelopment of the Municipal Offices.
- 4.3 The target savings from the Accommodation Strategy are £200k by 2017/18. It is anticipated that negotiations with the head lessee to relocate CBC into the buildings earlier will bring forward the savings generated by the acquisition. It is anticipated that the balance of the savings target will be delivered from a combination of savings from the rationalisation / sharing of facilities management, additional business rates and ground rental income from a redeveloped Municipal Offices site. Based on 'off market' discussions in respect of the potential for redevelopment of the Municipal Offices, officers are of the view that the savings target could be significantly exceeded.

## **5. Recommendations**

- 5.1 **To acknowledge that remaining in the Municipal Offices is not a viable option for the**

future.

- 5.2 To acquire the town centre building, initially as an investment property, with the third party lease in place for 8 years.**
- 5.3 Following acquisition, the council will negotiate with the head lessee to take up the space it requires once the council has a clearer understanding of timelines for the vacation of the Municipal Offices, providing it is mutually beneficial to both parties.**
- 5.4 To commence the process of securing a partner to enter into a joint development for the redevelopment of the Municipal Offices.**

## **6. Municipal Offices**

- 6.1** It must be recognised that the infrastructure of the Municipal Offices is deteriorating. Whilst the maintenance programme ensures that health and safety issues and public areas are maintained, the building is showing signs of age and needing further investment e.g. the cost of a new swipe card door entry system alone is £30k and the Public Services Network (PSN) process highlighted the suggestion that the cabling around the building should be encased which may be very costly. Ultimately, whatever is spent on upgrading will still result in an inefficient office layout as reconfiguring the site to a more open-plan environment is undeliverable due to historical constraints such as listing; equally an upgraded office space will not attract partners to rent surplus space due to the configuration.
- 5.2** Any relocation option would allow the release of the existing Municipal Offices for alternative use. Clearly the simplest option would be a reversion to residential dwellings, remembering that the current suite of offices was converted from 13 former houses. However, this would not necessarily produce the greatest benefits for the town. Its location on the High Street / Promenade "T" puts it in the heart of the prime commercial zone, and long term it is likely that greatest benefit for the town will be achieved by pursuing a mixed use strategy that complements the existing ambience of the Promenade. Whilst a conversion to residential may secure the highest short term capital receipt, a commercial or mixed use solution could secure long term benefits for the whole borough through a revenue stream.
- 5.3** Councillors as well as residents of the town are concerned to ensure that the Council retains a high degree of control over the present Municipal Offices building in the future. Whether in use as council offices or not, it will remain a very important part of the town's built heritage. For that reason, a straight market disposal, necessarily involving a loss of control of such a highly prominent, sensitive and critical site, is not considered appropriate. For the same reason, it is also essential that the existing Municipal Offices building should not be left vacant for any significant length of time and that remodelling of the building should start as soon as the Council moves out.
- 5.4** Another reason for rejecting the idea of a straight market disposal is the potential income stream that the Council could gain from the current Municipal Offices building in the future. Off-market soft testing of the site along with some detailed analysis, critically of the historic context of the site, has produced some solid interest, including interest on the part of potential commercial partners in the possibility of a joint venture approach.
- 5.5** Because of the importance of the Municipal Offices to the town and its potential financial value to the Council, it is proposed that any decision to relocate is aligned with a disposal strategy. The nature of any proposal is not fixed but a revised brief was approved in 2013 which allows significant flexibility within the constraints of the historic environment. Further work and Cabinet support would be required to finalise a strategy but much of the preparatory work has already



been undertaken. It is anticipated that an exercise would be undertaken to secure a potential joint venture partner based upon a range of factors including previous credible experience and delivery on sensitive sites; financial capacity and a base-line proposal that accords with the town's ambitions. The selection of a partner would then allow for detailed joint working to deliver a fully consented scheme within the timescales identified for relocation.

- 5.6** A further issue to be factored in to any decision will be an Equality Impact Assessment. It is recognised that the current Municipal Offices are not compliant with the current legislation. A formal independent report was commissioned under the former Disability Discrimination Act 1995. This Access Audit prepared by Evans Jones in 2005 identified significant access challenges mainly arising from the historic nature of the site, and whilst some of those recommendations or reasonable adjustments were not implemented as a result of the building's listed status, it is very clear that the building does not project an inclusive image with particular access challenges for people in three distinct groups within the community:- people with disabilities; older people / children and young people; pregnancy and maternity. It is a given that any relocation option needs to improve upon this situation. An assessment of the preferred option is set out at Appendix 5 but is exempt for commercial reasons.

## **7. Reasons for recommendations**

- 7.1** The business case and financial analysis demonstrates that the acquisition of a town centre office meets the objectives of the accommodation strategy and is the best option for the Council. As such, it is recommended that the Council agree to purchase a town centre office for an alternative office location.
- 7.2** The plan would be to push forward the redevelopment of the Municipal Offices as soon as possible. The vision for the Municipal Offices is to deliver a mixed use development e.g. a potential hotel, retail and leisure activities achieved by reconfiguring the Municipal Offices at the rear, removing the unsightly additions to the original building and the creation of a new public space to complement the Royal Crescent. Rather than sell the building for a one off capital sum, it may be more prudent to secure a longer term annual income stream, through a ground rent or performance share, to help support the Council's revenue budget and funding gap. The outcome, yet to be determined, may be a combination of revenue and a one off capital sum. Accordingly, it is recommended that Council agree to commence the process for securing a partner to enter into a joint venture for the redevelopment of the Municipal Offices.

## **8. Alternative options considered**

- 8.1** As outlined in the business case.

## **9. Consultation and feedback**

- 9.1** The Budget Scrutiny Working Group, Asset Management Working Group and Group Leaders have been consulted.
- 9.2** The Cheltenham Development Task Force have been very much involved and an integral part of the project and are fully supportive of a relocation which triggers the redevelopment of the Municipal Offices and potential improvement to the public realm in Royal Well.
- 9.3** The timescales for the acquisition are tight and complex as they involve three contracting parties i.e. the current ownership, CBC and the current long leaseholder. The objective would be to exchange contracts as soon as all parties have secured necessary consents. The other contracting party wishes to complete by 30<sup>th</sup> April 2015.
- 9.4** The project has the ability to drive step change in the way in which the CBC operates. As such, CBC will need to engage with key stakeholders in order to deliver the best outcomes for CBC and

its partners including members, staff, Senior Management, key support services, Ubico and the Cheltenham Trust, Trade Unions, partner councils, town centre businesses, media and the public.

**9.5** CBC undertakes annual consultation as part of the annual budget setting process on its approach to setting the annual budgets and the longer term strategy for closing the funding gap. The public are keen to see valuable front line services protected from cuts. There has been very little adverse comment about the desire to reduce the cost of the administrative overhead of CBC. The proposal is likely to deliver savings in the budget strategy and therefore help protect services. The recent consultation undertaken in respect of the potential use of the receipt from the sale of North Place/Portland Street car parks showed a high level of support for an office relocation and redevelopment of the Municipal Offices. Of the projects listed, it registered the fifth highest level of support.

## **10. Performance management – monitoring and review**

**10.1** Via regular operational programme board reports to the Senior Leadership Team, the Budget Scrutiny Working Group, Asset Management Working Group and members briefings.

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<b>Appendices</b>	<ol style="list-style-type: none"> <li>1. Risk Assessment</li> <li>2. Business case</li> <li>3. Financial projections / funding proposals</li> <li>4. Detailed programme risk assessment</li> <li>5. Equalities impact assessment of preferred option</li> </ol>
<b>Background information</b>	<ol style="list-style-type: none"> <li>1. Budget Strategy 2015/16- 2018/19</li> </ol>

**Risk Assessment**

**Appendix 1**

The risks for each option are set out in the business case. However, the headline risks for each option are summarised below.

	<b>1. Remain in Municipal Offices</b>	<b>2. New build on amalgamated Chelt Walk &amp; Shopfitters site</b>	<b>3. Acquisition of a town centre office initially as an investment property and negotiate with the head lessee to take space for CBC</b>	<b>4. New Build on Land by Asda</b>	<b>5. New Build Honeybourne Place Jessop Ave</b>
<b>Key risks</b>	<p>Bridging the Gap savings targets are not met resulting in need to find cuts in services to compensate.</p> <p>Unable to deliver key corporate strategy targets for the economy.</p> <p>Reputational impact of staying in MO i.e. building becoming shabby.</p>	<p>Building in central conservation area and likely level of public scrutiny may cause costs to escalate.</p> <p>Risk of holding two buildings.</p> <p>Ensuring that value for money criteria is demonstrated. This will include consideration of a range of factors including new build costs per ft<sup>2</sup>, changing the approach of CBC to a more commercial one and releasing the existing MO.</p> <p>Assumes regeneration proposals for MO remain attractive to commercial developers and that an</p>	<p>Too large for CBC requirements therefore will rely on rental stream from tenants.</p> <p>Risk of holding two buildings.</p> <p>Ensuring the value for money criteria is demonstrated which considers a range of factors including a purchase price greater than “red book” valuation, but cheaper than new build costs per ft<sup>2</sup>, changing the approach of CBC to a more commercial one and releasing the existing MO.</p> <p>Assumes regeneration proposals for MO remain</p>	<p>Risk of holding two buildings.</p> <p>Ensuring that value for money criteria is demonstrated. This will include consideration of a range of factors including a “red book” valuation, new build costs per ft<sup>2</sup> and releasing the existing MO.</p> <p>Assumes regeneration proposals for MO remain attractive to commercial developers and that an acceptable planning consent can</p>	<p>Building in central conservation area and likely level of public scrutiny may cause costs to escalate</p> <p>Risk of holding two buildings.</p> <p>Ensuring that value for money criteria is demonstrated. This will include consideration of a range of factors including a “red book” valuation, new build costs per ft<sup>2</sup>, and releasing the existing MO.</p> <p>Assumes</p>

		acceptable planning consent can be secured. (Worst case would be permitted development rights to convert a former office into residential – subject to government continuing such rights)	attractive to commercial developers and that an acceptable planning consent can be secured. (Worst case would be permitted development rights to convert a former office into residential – subject to government continuing such rights)	be secured. (Worst case would be permitted development rights to convert a former office into residential – subject to government continuing such rights)	regeneration proposals for MO remain attractive to commercial developers and that an acceptable planning consent can be secured. (Worst case would be permitted development rights to convert a former office into residential – subject to government continuing such rights)
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**Explanatory notes**

**Impact** – an assessment of the impact if the risk occurs on a scale of 1-5 (1 being least impact and 5 being major or critical)

**Likelihood** – how likely is it that the risk will occur on a scale of 1-6

(1 being almost impossible, 2 is very low, 3 is low, 4 significant, 5 high and 6 a very high probability)

**Control** - Either: Reduce / Accept / Transfer to 3rd party / Close