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Changes Planned

The document will be kept under review and modified as appropriate.

References

2015/16 Corporate Strategy

Working Flexibly Project 2014

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1.0 Introduction

1.1 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*'. The latter being achieved by delivering the Medium Term Financial Strategy which 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 location to include 'new build' and to consider an 'out of town' location.

2.0 Update on work streams

2.1 Further work has been undertaken to estimate the Council's future space requirements based on service manager's projection of their estimated staffing numbers in 2016/17 taking into account service changes, shared service arrangements, the potential to work flexibly i.e. hot-desking or homeworking and any other activity which may impact on staffing numbers. This resulted in a reduced estimate of space requirement to 30,000 ft² by 2016/17.

2.2 The Municipal Offices extends to 65,000 ft² hence currently the Council could be occupying less than half of the building. Unsuccessful attempts have been made to offer space to other tenants including public sector partners. This reflects the inflexibility and tired nature of the building and the lack of car parking space, which make it an unattractive option to prospective tenants.

2.3 The consideration of a new build option is enhanced by the Council's agreement to purchase the Shopfitters site from GCC which provides an opportunity for a new build combined with a car park. Two other sites with existing planning consents, namely Hatherley Lane and Jessop Avenue have also been considered.

2.4 A capital receipt from the disposal of the North Place & Portland Street car parks could help part fund an office acquisition.

2.5 Progression of the Cheltenham Transport Plan. The Traffic Regulation Order Committee recommended implementation of the whole scheme with the Boots Corner element being on an experimental 10 month trial basis. This may ultimately reduce traffic in Royal Well and generate 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.

3.0 Options Appraisal

3.1 The business case explores the following 5 options:

1. Remain in the Municipal Offices and implement the 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.

3.2 Each option is explored in more detail in the table below, including how each option contributes to the Corporate Strategy 2015/16.

	1. Remain in Municipal Offices and implement the planned maintenance programme	2. 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. New Build on Land by Asda	5. New Build at Honeybourne Place Jessop Avenue
Description	Existing location of council headquarters in iconic town centre building with inflexible space which does not meet existing or future needs of CBC or its partner organisations. Significantly over spaced.	Site currently part derelict and part car park. Potential BREEAM excellent new build Ability to build exact requirements for CBC needs.	Central building of c57,177ft ² purpose built 1990's office block. Includes 77 car spaces. Whilst more space than required by CBC allows sub-letting which generates income and shared costs of common areas.	Consented edge of town brownfield site with services already laid. Potential BREEAM excellent new build	Consented brownfield site Potential BREEAM excellent new build
Availability	CBC currently in occupation	Chelt Walk and Shopfitters now both owned by CBC. Proposal for demolition and temporary (up to 5 years) car park use initially, with option for new build in due course.	Building in ownership of a UK resident and confirmed willingness to entreat at a fixed price but would like speedy resolution of sale by 30/4/15.	Available now with an existing detailed planning consents (albeit for two buildings of 25,000 and 10,000ft ²) on a fully serviced plot. Car parking spaces to be confirmed.	Available now with an existing detailed mix use planning consent, circa 30,000 sq ft

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Council strategy Cheltenham's environmental quality and heritage is protected, maintained and enhanced	Remaining in occupation will result in the Municipal Office being protected to the extent of undertaking urgent remedial and H&S works but no enhancements unless significant investment is made.	Opportunity to improve a weak link between Royal Well and St James's areas of town through a demolition and new build strategy. Area is becoming an office hub for the town.	This proposal proposes re-using an existing office block and maintaining its use for employment. This will help reduce pressure for new build employment space in the green belt.	Utilises an edge of town site that is consented but not fully built out.	Utilises a site that is consented but not built out.
Council strategy sustain and grow Cheltenham's economic and cultural vitality	Town centre employment protected but no growth anticipated.	Whilst protecting town centre employment, this proposal also creates future potential employment and economic growth through the creative re-use of the existing Municipal Office building.	Whilst protecting town centre employment, this proposal also creates future potential employment and economic growth through the creative re-use of the existing Municipal Office building.	Protects employment but not in the town centre although it creates future potential employment and economic growth through the creative re-use of the existing Municipal Office building.	Protects employment land

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Contribution to wider economic benefit	Minimal opportunity to add economic value except for potential to add to the back of the building. Continued occupation by CBC precludes opportunity for redevelopment and hence ability to add further vitality to the west of the Promenade.	Combined site long overdue for improvement works – derelict site and poor quality surface car park. An office development would sit well with surrounding properties i.e. Jessop House, Festival House, St James’s House and create an office quarter. CBC would still retain a Town Centre presence and once the temporary car parking use on the Shopfitters site has expired it could be redeveloped for employment purposes.	Central location close to bus routes. Potential for a public sector hub but that would depend upon defined agreements to lease / appetite and alternative of sharing with commercial organisations. Retain spending of employees in town centre. Releases full redevelopment potential of Municipal Offices	Would bring into use a site that is readily available. Understood that there is other interest presently so potential third party displacement impact if CBC relocate to this site. Loss of spending of employees in town centre. Releases full redevelopment potential of Municipal Offices	Would bring into use a site that is readily available. Understood that there is other interest presently so potential third party displacement impact if CBC relocate to this site. Retains spending of employees in the town centre Releases full redevelopment potential of Municipal Offices

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		Remain within commercial heart of town. Retain spending of employees in town centre. Releases full redevelopment potential of Municipal Offices			
Opportunities	Vision 2020 project assumes a saving from accommodation rationalisation. If CBC remains in MO, this could become the central hub although few operational efficiencies will flow because of building configuration.	Potential for employment development on Shopfitters, once larger scheme shape and size determined.	Changes the ethos of the organisation, from a typical owner-occupier to one utilising its assets for wider investment benefit. Creates flexible options: attract partners into a public sector hub; commercial single / multiple tenants and further reduce costs; potential to support local	Leaves Chelt Walk and shopfitters as a further development opportunity once town centre car park needs established. Potential for residential development on Shopfitters	Leaves Chelt Walk and shopfitters as a further development opportunity once town centre car park needs established.

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			<p>economy through space for business start-up facilities (subject to cost/affordability).</p> <p>Leaves Chelt Walk and shopfitters as a further development opportunity once town centre car park needs established.</p> <p>Vision 2020 project assumes a saving from accommodation rationalisation, the delivery of which may be impacted if CBC commit to an alternative building. Given Cheltenham's central location in the county it may be that more staff are located in Cheltenham facilitating rationalisation of accommodation / delivery of savings in partner councils.</p>		

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Perceived dis-benefits	<p>Current building does not meet council's or customer's needs. It is too large for requirements and its configuration is not attractive for sub-letting opportunities.</p> <p>Poor treatment of rear facade unlikely to be addressed.</p> <p>Deferred planned maintenance over the last 5 years i.e. window frames need replacing, render repairs full external redecoration, flat roofs and coping stones would need to be financed in the short term.</p>	<p>Potentially reduces car park capacity and income in SW of town where CBC has least spaces. Building could include a decked car park but this would add further cost. For CBC question of site prominence.</p> <p>Public perception of new build given the current economic climate.</p>	<p>Acquiring a building that is already approaching 23 years in age, albeit reasonably well maintained, would not secure a BREEAM excellent rating. However, could target an energy performance certificate rating "B".</p> <p>If unable to secure or maintain tenants then risk of void "holding costs"; equally there are management costs associated with the tenanted space and managing the service charge.</p> <p>May have to undertake minimal property maintenance work in MO until relocation occurs.</p>	<p>Not central although on service D bus route. Car parking limited but within walking distance of the park & ride facility.</p> <p>May be too far from the civic heart of the town.</p> <p>Public perception of new build given the current economic climate.</p>	<p>Site prominence although close to Waitrose store.</p> <p>Public perception of new build.</p> <p>Cost of lease or purchase options.</p> <p>Lease option not acceptable and acquisition price is out of line with the market.</p>

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Timescales for delivery	Would require long term refurbishment programme to services and improve internal appearance and prevent further decay e.g. window replacement.	Acquisition of Shopfitters not yet completed. To secure advisers, determine specification, flood risk assessment, planning consent and contractor – allow 18 - 24 months followed by a 12 month build and a decant to a new building so may take at least 3 years. This would allow a disposal strategy for MO to run in parallel.	Possible to finalise deal by 30th April 2015. Newly negotiated sub-leases have rights of occupation. Objective would be to negotiate with head lessee to acquire space to coincide with vacation of the Municipal Offices which would allow a disposal strategy for MO to run in parallel or hold as an investment until to head lease expiry.	Time to negotiate specification and amend planning permission, select a contractor and construct - 18 months. Decant early 2017. This may prove challenging to deliver a disposal strategy for MO in parallel; risk of holding two buildings.	Time to negotiate specification and amend planning permission, select a contractor and construct - 18 months. Decant early 2017

4.0 Financial Analysis

4.1 The financial analysis of the options has utilised recent data and trends from specialist building cost consultants to establish realistic new build rates. For all options it has been assumed that, rather than secure a one-off capital receipt from the sale of the Municipal Offices, a permanent ground rent will be realised from a potential joint venture development providing a sustainable future income source which will help to protect and fund vital councils services to mitigate against further funding cuts.

4.2 A summary of the financial analysis and financial assumptions for each of the options is outlined in the table below and detailed in Appendix 3, part of which is exempt for commercial reasons.

	1. Remain in Municipal Offices and implement the planned maintenance programme	2. 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. New Build on Land by Asda	5. New Build at Honeybourne Place Jessop Avenue
Net Present Value (NPV)	£4.599m	£5.376m	£2.628m	£6.184m	£10.948m
NPV Ranking	2	3	1	4	5
Council strategy Transform our council so that it can continue to deliver our outcomes for Cheltenham and its residents	Does not deliver savings target. Additional revenue contributions (average £325k) per Appendix 3 to fund the £6.5m planned maintenance programme.	Does not deliver savings target. Additional cost to MTFS of £755k in 2016/17 reducing to £137k p.a. by 2020/21 onwards.	Acquisition part delivers savings target. Investment option delivers revenue saving of c£68k p.a. by 2024/25 (assuming retained third party tenant) to 2022/23.	Does not deliver savings target. Additional cost to MTFS of £819k in 2016/17 reducing to £200k p.a. by 2020/21 onwards.	Does not deliver savings target. Additional cost to MTFS of £1.2m in 2016/17 reducing to £578k p.a. by 2020/21 onwards.

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(Impact on MTFS / delivery of savings target of £200k by 2017/18)	but adds cost of circa £325k p.a. No potential additional business rates	Potential additional business rates of circa £200k	Potential additional business rates of circa £200k The acquisition can enhance and complement the CBC property portfolio whilst also creating a host of wider opportunities for the future	Potential additional business rates of circa £200k	Potential additional business rates of circa £200k
Acquisition / Build costs	In current ownership	Land costs for Shopfitters £400k - £587k plus 4% stamp duty & land tax (SDLT) but would aim to recoup some of this as part of a mixed use development. Build costs including fit out c£250ft ² for BREEAM excellent = £8.75m	CBC to secure freehold interest plus SDLT to which there would be further refurbishment costs over the life span of the building including appropriate “eco up grades” in line with sustainability ambitions. See exempt Appendix 3.	Land value c£725k per acre x 1.4 plus SDLT. Build costs c£250ft ² for BREEAM excellent = £9.75m	Total ‘turn key’ package is £15m

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Future running costs assumptions	Annual occupation / running costs c£390k. £6.5m maintenance programme over next 20 years.	As a BREEAM excellent aim to secure long term operational efficiencies and hence cost savings on utilities. Would drive down long term running costs.	All common parts to be shared, thereby reducing CBC direct costs. Allowances in refurbishment costs to secure long term running cost savings through eco improvement strategy. £342k maintenance programme over next 20 years.	As a BREEAM excellent aim to secure long term operational efficiencies and hence cost savings on utilities. Would drive down long term running costs.	As a BREEAM excellent aim to secure long term operational efficiencies and hence cost savings on utilities. Would drive down long term running costs.

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Funding proposals / viability	<p>£2.5m of capital receipt.</p> <p>Would need to build an add'n revenue contribution into MTFS (average £325k/yr) to fund £6.5m of PMP funded by savings / cuts in services</p> <p>Does not meet prudential borrowing test i.e. affordable / sustainable.</p>	<p>£2.5m of capital receipt.</p> <p>Plus future PWLB at higher interest rates if interest rates rise.</p> <p>Plus top slicing of £100k p.a. for property maintenance programme</p> <p>Does not meet prudential borrowing test i.e. affordable / sustainable.</p>	<p>£2.5m of capital receipt.</p> <p>An acquisition now at current prevailing low interest rates (@2.41%) fixed for 20years.</p> <p>Plus top slicing of £100k p.a. for property maintenance programme</p> <p>Meets prudential borrowing test i.e. affordable / sustainable.</p>	<p>£2.5m of capital receipt.</p> <p>Plus future PWLB (at higher interest rates)</p> <p>Plus top slicing of (£100k p.a. for property maintenance programme</p> <p>Does not meet prudential borrowing test i.e. affordable / sustainable.</p>	<p>£2.5m of capital receipt.</p> <p>Plus future PWLB at higher interest rates if interest rates rise</p> <p>Plus top slicing of £100k p.a. for property maintenance programme</p> <p>Does not meet prudential borrowing test i.e. affordable / sustainable.</p>

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Income assumptions	<p>Nil. CBC has been unable to attract tenants due to inflexibility of building and lack of car parking space.</p>	<p>The building would accommodate CBC and CBH but would not be built with surplus space for other tenants and would therefore not deliver a further income stream.</p> <p>Redevelopment of MO assumes no capital receipt but a rental stream from joint venture of Municipal Offices c£175k p.a.</p>	<p>Income projections based current third party head lease to 2022/23 and prudent projection of potential future rental streams from tenants beyond 2022/23 from surplus space.</p> <p>Redevelopment of MO assumes no capital receipt but a rental stream from joint venture of Municipal Offices c£175k p.a.</p> <p>Acquisition by CBC precludes another large office building becoming vacant once head lease lapses.</p>	<p>Nil. The building would accommodate CBC but due to location, may not be attractive to CBH.</p> <p>Redevelopment of MO assumes no capital receipt but a rental stream from joint venture of Municipal Offices c£175k p.a.</p>	<p>Nil. May not be able to house CBH.</p> <p>Redevelopment of MO assumes no capital receipt but a rental stream from joint venture of Municipal Offices c£175k p.a.</p>

Financial modelling / evaluation methodology

- 4.3** The Council already has an annual revenue budget of £390k for the cost of occupying the Municipal Offices which is the assumed baseline position. For each option, the financial projections include the financing costs of the acquisition or new build; refurbishment / fit-out and an estimate of the net impact on the MTFS measured against the baseline position of remaining in the Municipal Offices. Therefore, the models project the marginal impact of each option on the Medium Term Financial Strategy (MTFS), assuming projected utilities, NNDR and maintenance programme plus the cost of programme management (including potential space design). Some options include existing and potential income from partners or tenants based on prudent estimates of occupancy levels.
- 4.4** A discount rate has been applied to each model to determine a Net Present Value calculation for each option for comparison purposes.
- 4.5** Under the local rates retention scheme, although difficult to predict at this stage, there may be additional retained NNDR (40% of any business rates income growth) from the redevelopment for the Municipal Offices which may be in the order of £200k per annum. This is not currently built into any of the models.
- 4.6** The funding proposals include a combination of borrowing from the Public Works Loans Board and internal borrowing, use of part of the receipt from the sale of North Place and Portland Street car parks and use of existing funding to support the property maintenance programme. However, the 'Prudential Code' requires that any borrowing is both 'affordable and sustainable'.

Evaluation outcome

Option 1: Remain in the Municipal Offices and implement the planned maintenance programme – this would require implementing the £6.5m planned maintenance programme.

- 4.7** This option costs £6.5m which could not be funded by prudential borrowing since it is unlikely to qualify as capital investment which would impact on the MTFS annually by an average of £325k over a 20 year period and would have to be paid for by either savings elsewhere or cuts in services. There is no income from lettings to third parties. As such, this option would not deliver the savings target and would not deliver any potential additional business rates of circa £200k p.a.

Option 2: A new build on the amalgamated Chelt Walk and Shopfitters site.

- 4.8** This option costs £8.75m. There is income from lettings assumed from CBH only. This option not only does not deliver the savings target but would add to the MTFS by £755k reducing to £137k by 2020/21. It could deliver potential additional business rates from the

redevelopment of the Municipal Offices of circa £200k p.a. It would not meet the criteria for prudential borrowing criteria unless potential additional business rates were delivered.

Option 3: The acquisition of a town centre office initially as an investment property and negotiate with the head lessee to take space for CBC.

- 4.9** The cost of this option is contained in Appendix 3 which is exempt for commercial reasons. The building is currently let with a guaranteed income stream in excess of market rentals for 8 years which helps to finance the increased level of borrowing required. The head lessee has sub-let the entire top floor and most of the ground floor and the Council would inherit these leases. Projections are based on prudent assumptions about future rental streams, recognising the risk of “carrying” surplus space should it not be possible to sub-let after 8 years. The model assumes a very prudent view of the income from the ground rental from a redeveloped site of £175k per annum.

This option results in the best Net Present Value calculation and delivers a saving of £68k p.a. by 2024/25. It will meet the criteria for funding via prudential borrowing.

Although it is very difficult to model the future income stream from the redevelopment of the Municipal Offices, it is likely that there would be at least potential additional business rates from the redevelopment of the Municipal offices of circa £200k p.a. but could be considerably more.

In addition, comparing the annual ground rental income received by the Council of £475k from Regent Arcade, the ground rental income from a redeveloped Municipal Offices site could exceed the £175k modelled and could easily be in the order of £500k p.a.

Option 4: A new build option on the consented site next to Asda, off Hatherley Lane.

- 4.10** This option costs £9.75m. There is no income from lettings to third parties. This option does not deliver a saving but would instead add to the MTFS by £818k in 2016/17 reducing to £200k by 2020/21. It could deliver potential additional business rates from the redevelopment of the Municipal Offices of circa £200k p.a. It would not meet the criteria for prudential borrowing criteria unless potential additional business rates were delivered.

Option 5: A new build option on the consented site at Honeybourne Gate, Jessop Avenue.

- 4.11** This option costs £15m. There is income from lettings assumed from CBH only. This option not only does not deliver a saving but would add to the MTFs by £1.2m in 2016/17 reducing to £578k by 2020/21. It could deliver potential additional business rates from the redevelopment of the Municipal Offices of circa £200k p.a. since the additional income would not cover costs, it would not meet the prudential borrowing criteria.
- 4.12** The only option which delivers savings and income which prudently covers the borrowing cost is option 3 - the acquisition of a town centre building and is therefore the only viable funding option. A breakdown of the funding required is contained in Appendix 3 (exempt for commercial reasons).

Preferred option

- 4.13** **Based on a comparison of the financial models and Net Present Values, the best financial option is option 3 - the acquisition of a town centre office, initially as an investment property and negotiate with the head lessee to take space for CBC, 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 further opportunities for savings from the redevelopment of the Municipal Offices.**
- 4.14** 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. Key Risks

6.1 See separate risk assessment for the Accommodation strategy Programme, including the redevelopment of the Municipal Offices, at Appendix 4.

7. Other considerations:

7.1 The timescales for the acquisition are tight and complex. The objective would be to exchange contracts as soon as all necessary council consents were in place with a target completion as requested by the end of April 2015. Future funding requirement may have to be financed at higher loan rates, as interest rates rise.

7.2 The project has the ability to drive a step change in the way in which the Council operates. To achieve this, the council will need to engage with key stakeholders in order to deliver the best outcomes for itself and its partners including:

- Members – in order to consider facilities for council meetings, mayoral requirements (parlour) and member needs.
- Staff – impact on parking, travel and potential for development of green travel plan.
- Senior Management – to facilitate project resourcing and support for changes in working practices e.g. accelerate flexible working, paperless office, space planning.
- Key support services including ICT – to support step change in technologies proposed for new office location to support improved staff / members / external agencies ICT support.
- Ubico and Leisure and Culture Trust – promote vision for change in support services i.e. ICT.
- Trade Unions – to support for proposals to protect staff and services.
- CBH – future space needs and opportunities for sharing back office which may deliver further savings for CBC and CBH tenants.

- Partner councils – to assist in delivery savings aspirations for vision 2020 as central hub.
- Tenants of the proposed town centre building – to establish longer term future space requirements and commitment to longer leases.
- Media – as a vehicle for delivering vision for office move and redevelopment of Municipal Offices.
- Public – future vision for redevelopment of the Municipal Offices.