

Report to Executive

2 November 2010

Report of the Director of City Strategy

Accommodation Project – Update Report

Purpose of Report

- 1 This report is in response to a request from Executive of 20th July to provide
 - An update regarding the detail of all current accommodation lease termination and break clause dates
 - Information regarding the strategy for dealing with dilapidations
 - The strategy to minimise the period of time between the council's departure from the buildings and the lease termination dates
 - Information on the move to the new premises confirming that there will be minimal disruption and risk to council services
 - Information on the financial benefits in a simple form

Background

- 2 The vacation of those properties currently occupied as part the administration accommodation portfolio is an important element of the Accommodation Project. An Exit Strategy has been approved and is in the process of being implemented. This report provides an update on various aspects of this implementation following specific requests for information.

Update

- 3 An update regarding the detail of all current accommodation lease termination and break clause dates

The table below details all the current leased accommodation detailing the relevant dates

Property Address	Lease Termination Date	Break Clause Dates (if any)
De Grey House	March 2015	March 2011
Mill House	September 2012	Anytime after June 2010
10-12 George Hudson Street (see note 1)	June 2016	May 2011
20 George Hudson Street	July 2012	May 2011
18 Back Swinegate	June 2016	September 2013
1a/b Swinegate East	June 2016	May 2011
50 York Road, Acomb	May 2017	May 2012
St Leonards Place & 2/4 Museum Street	October 2013	Anytime after October 2010
11 Little Stonegate	June 2015	June 2012,2013,2014

4 Information regarding the strategy for dealing with dilapidations

Property Services have adopted 2 options for dealing with dilapidations at the end, or at the break date for any lease.

Option A (the preferred option) – negotiate a cash settlement with the landlord in lieu of carrying out the works. The advantages of this option are

- The cash sum is known and so budgeting is easier
- The service can remain in occupation longer which minimises the disruption of a possible temporary occupation elsewhere and also the building remains vacant for a shorter period before the end of the lease

Option B – carry out the works necessary to hand the property back in a state of repair in accordance with the terms of the lease. The landlord does have the right to insist on this approach but the disadvantages to the Council are

- Uncertainty over the level and amount of work required to satisfy the landlord which can lead to delay, uncertainty as to the costs of the work and ultimately the possibility that, where the Council has sought to exercise a break clause, this is not valid and so substantial additional rent and other costs are incurred
- The occupying service would have to vacate several months before the termination date of the lease or break clause to give Property services time to arrange for the works to be done. This will result in the accommodation being vacant and also the possibility of having to find temporary accommodation if necessary.

5 The strategy to minimise the period of time between the council's departure from the buildings and the lease termination dates

Property Services Strategy can be summarised as follows:-

- Keep the landlords of the various leased properties advised on an ongoing basis of the Council's future intentions concerning the exercise of break clauses and the vacation arrangements near the end of the lease so the landlord can decide on it's future options for the space and, if an opportunity arises, early vacation can be agreed
- Negotiate with the landlord on an ongoing basis on lease related matters such as dilapidations to ensure there needs to be a minimum 'vacant' period to carry out works to meet vacation requirements.

Examples of this strategy in operation are outlined below

De Grey House – Notice to break now served. In negotiation with York Conservation Trust, the landlord, on dilapidations. Third party already showing interest in the space

Mill House – already talking to the landlord about the vacation date in 2013 and landlord looking now at options for future use of the property

18 Back Swinegate – In contact with landlord concerning vacation date in 2013 and arranged a meeting for them and planning section to discuss options

20 George Hudson Street – Advised the landlord of our vacation date. They are discussing about refurbishment of the building with Planning Conversation as it is a listed building

10-12 George Hudson Street – given the landlord the vacation date so that they can plan for the future of the building

St Leonards Place – the owners, Rushbond, are aware of the vacation date.

Swinegate Court East – break clause to be served for vacation in May 2011. Landlords are already looking to re-let the space and interest has been shown from third parties.

6 Information on the move to the new premises confirming that there will be minimal disruption and risk to council services

The final strategy for the staff relocation to the new build is still to be finalised but the following comments provide an indication how the project will minimise the risk of disruption to council services.

The intention is to operate a phased move over a period of weeks in order to minimise disruption, allow service areas to get familiar with their new surroundings and to enable the move team to identify areas for improving the process for implementation during the following phases.

The space planning process will identify, in advance, the location of individual service areas within the new building, down to individual workspaces in some cases.

7 Information on the financial benefits in a simple form

The Capital costs of the Administrative Accommodation project remain at £43.804m.

Up to this point, the focus on the financial model has been the Net Present Value. This was relevant in terms of the decision to proceed with the new HQ, and is recognised as a key measurement in terms of making long term decisions.

However, the calculation of NPV is also something that can be confusing to many people, and as we progress with the project it is felt that a simpler presentation of the financial information is now relevant.

It is proposed that in the future the focus will be on the actual cash savings that are being generated, and not to bring in discounted factors which the calculation of NPV does.

As with any major project the overall financial implications will inevitably move in time, and presenting changes in actual cash sums, and highlighting the years in which they occur is felt to be a better way of presenting information that people will understand.

Over the next 25 years, the project is estimated to make a cash saving of £17m. The £17m is the net total of undiscounted annual savings and costs from the date at which the West Offices project gets underway, i.e. 2010/11. These savings and costs are calculated using the cost of the West Office project minus the cost of the Do Nothing option. By providing the data in this way the real scale of annual cash savings are shown. These annual savings are attached in Annex A. The table below illustrates how the annual savings are made up, using 2023/24 as an example.

	£000's
Efficiencies from Moving #	505
Rents	1,908
Rates	(142)
Running Costs	206
Prudential Borrowing	(1,567)
Rental Income	70
Total Annual Net Saving	980

The efficiencies from Moving include savings from a number of activities including portorage and internal post costs, the reduction of external hire of room costs, ICT savings and savings in the cost of printing & stationary.

This calculation is based upon the very latest information regarding various assumptions regarding the project. It is inevitable that the figures will change in time.

In terms of comparing the cash value of £17m with the original NPV, clearly the cash value is “undiscounted” and over a 25 year period this has significant impact. It should also be noted, that based upon a refresh of the assumptions in the model, the revised NPV would be some £7.4m

Further opportunities are being looked at in terms of additional efficiencies that may be achievable from the new HQ building. Given the financial climate it is crucial that we maximise the financial benefits, and review how services will operate within the building to deliver maximum value for money. This work is ongoing currently and may lead to further improvement in the overall financial benefits of the new HQ.

Implications

8

- Financial – The financial implications are contained in the main body of this report and annex.
- Legal – Close liaison is taking place with legal services to ensure any notices and agreements are completed in a timely manner
- Property – the corporate landlord’s comments are included in this report
- Information Technology, HR, Equalities and Crime and Disorder – There are no significant implications here.

Risk Management

9 There is a risk that the allocated budget for the Exit strategy will be inadequate. This risk has been assessed as **Medium**. The risk is contained in the risk register for the Accommodation Project and the Corporate Risk Register. The risk is monitored by the Accommodation Board and also the Corporate Asset Management Group on a monthly basis.

Recommendations

10 The Executive is asked to note the details of the Property Exit Strategy for the Accommodation project contained in this report

Reason

To provide further endorsement of the actions already taken and proposed to take to minimise the cost and disruption of the move to West Offices

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Background Papers

None