

**BETTER UTILISATION OF PROPERTY ASSETS (BUPA) - PHASE 1 PROJECT  
BUSINESS CASES**

*To:* **Cabinet**

*Date:* **24<sup>th</sup> November 2009**

*From:* **Corporate Director (Finance, Property and Performance)**

*Electoral division(s):* **All**

*Forward Plan ref:* **2009/006**

*Key decision:* **Yes**

*Purpose:*

- **Cabinet is asked to consider the BUPA phase 1 projects Business Cases and supporting information. (provided separately for Cabinet)**

*Recommendation:* **Members are asked to:**

- i) **Approve the continuation to design and implementation stages of the suggested options, (at which time formal consultation will take place with any service users / staff impacted by the proposed changes).**

**a) Shire Hall Project**

**Business case OA, i.e. to carry out sufficient maintenance and upkeep to give the campus ten year's further life whilst continuing to maximise the use of the site through Workwise.**

**b) Fenland Project**

**Business case 1, i.e. to provide appropriate and extended facilities in Wisbech in combination with continued use of Authority facilities in March and Fenland District facilities in Whittlesey and Chatteris.**

**c) Corporate Storage and Distribution Project**

**Business case 3b, i.e. to review all stock holding policies to ensure only minimal stock is kept and use existing spare accommodation in a consistent and co-ordinated way to meet stock holding needs.**

- ii) **Approve the Property Acquisitions Strategy in advance of subsequent phases of delivery.**

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## 1. BACKGROUND

- 1.1 Project Business Cases have been produced for three Better Utilisation of Property Assets (BUPA) projects (a further three are being prepared for consideration in January). The Business Cases are driven by the Authority's priorities and service principles as well as reflecting the cost/benefits of options as well as an assessment of a number of non-financial criteria, (Including sustainability, regeneration and partnership working).
- 1.2 Over the long term, it is required that the considerable benefits of BUPA will be realised by the Council. Sequencing of projects will be key to ensuring that the balance of investment and returns on investment is optimal. BUPA continues to represent value for money to the organisation despite the lower values that will be realised on properties compared to the high point of the market.
- 1.3 The process for selecting priority projects began with the Suitability Survey in 2007. This was followed by involvement from service through workshops. The Programme Board and Team have worked through the original ideas to develop the scope of the projects which has resulted in combination of some where this was deemed to make sense.
- 1.4 Further projects are emerging and there will be a continuing process of assessment at Cabinet.
- 1.5 The Property Acquisition Strategy is included for consideration. This Strategy will ensure a consistent approach to the acquisition of property as part of the BUPA Programme.

## 2. MAIN ISSUES

- 2.1 A total of 4 First Phase Projects have been carried forward to Business Case stage.
- 2.2 Business Cases were produced with the collaboration of services with regard to specific schemes and in relation to input into the Programme Board. A considerable amount of data was collected in each case to inform the creation of a number of options. Each option was subject to a financial assessment that demonstrated the Net Present Value/Cost, Revenue Cost, Operating Cost, Capital Cost and Affordability. In each case, a number of sensitivities were identified for testing and the resulting analysis is represented in each Business Case.
- 2.3 In addition, options were assessed against a number of standard objectives (Non-financial scores) linked to the council's vision and targets including

environmental performance, contribution to regeneration, service improvement etc (see Business Cases for complete list). In nearly all instances the rank ordering of options on a financial and non-financial basis does not overlap.

2.4 Where reference is made to ‘the sub-group’, this group was convened to carry out a more detailed assessment by Members ahead of this report to Cabinet. The Members attending were Cllr John Reynolds, Cllr Sir Peter Brown and Cllr David Harty.

2.5 The complete Business Cases are attached as appendices included as part of a separate information pack to Cabinet Members and Group Leaders. Summary information is shown in Sections 2 and 3 of this report.

## 2.6 Shire Hall Project

2.6.1 Cambridgeshire County Council has recognised that its principal office building located on the Shire Hall Campus is no longer entirely fit for purpose for the delivery of 21<sup>st</sup> century services.

2.6.2 There are a number of key drivers including:

- Outstanding maintenance requirements that in total would be:
  - Years 1 to 5 - £6.4m.
  - Years 6 to 10 - £15.7m.
- Current annual operating costs of £2.6m.
- Issues of public access and the functional suitability of some of the space.
- The potential to aggregate with other BUPA projects such as Corporate Storage and Distribution and Learning and Development Facilities.

2.6.3 Table 1. Summary of the Options Considered in the Business Case for Shire Hall.

	Option 0A	Option 0B	Option 2	Option 3
<b>Description</b>	Stay on site – current level of occupation and maintenance	Stay on site – rationalise into fewer buildings	Relocate to single site	Split site (retain Shire Hall)
<b>Net Present Cost (40 Year) (including operating expenditure)</b>	£57.6m	£66.6m	£84.9m	£93.1m
<b>NET operating expenditure (at year 11)</b>	£2.9m	£1.7m	£2.4m	£3.0m
<b>Non-financial score</b>	218	210	341	316

2.6.4 Sensitivities were tested including headcount, land values and design quality. The results of the sensitivity analysis demonstrated that to reduce the cost of the off-site options to the level of the baseline options would require several factors to be at maximum levels. This included factors beyond the Council’s control.

2.6.5 As demonstrated, the key risks to the project would only manifest through Options 2 and 3. The main risks to the preferred Options, 0A and 0B have been identified as:

- Increased build costs imposed as a result of higher sustainability standards introduced through new Building Regulation in 2013.
- Increased costs over and above the £12 per tonne for carbon credits as part of the Carbon Reduction Commitment are not included.

These and other identified risks in this project and the others will be managed using the council's recognised processes for risk management.

2.6.6 The suggested option for this business case is OA, i.e. to carry out sufficient maintenance and upkeep to give the campus ten year's further life whilst continuing to maximise the use of the site through Workwise. In practice this approach is governed by current conditions in the property market, and keeping the campus operational at the lowest possible cost. It is in essence a holding and do minimum approach and has a Net Present Value cost of £57.6m including a capital spend over ten years of up to £24.4m. In practice officers would try to "sweat the asset" harder as a result of the investment and remain alert to market opportunities.

2.6.7 The sub group expressed no significant concerns in respect of this option other than the use of the site should be maximised (by closing other facilities in and around Cambridge and transferring staff bases as appropriate).

2.6.8 In the medium to long term decisions will need to be made around the benefits of a redevelopment of the existing campus measured against the benefits of relocation to a site such as Northstowe (as part of a civic hub).

## 2.7 Fenland Project

2.7.1 Many of the property holdings of the County Council in Fenland are in poor condition, not fit for purpose and in the wrong locations. This project provides an opportunity to vacate a number of such properties and provide new, fit for purpose accommodation designed with services to meet their requirements.

2.7.2 There are a number of key drivers including:

- The unsuitability of several buildings for service delivery.
- The opportunity to contribute to the regeneration of the area.
- The cost of a number of leases amounting to almost £100K per annum.

2.7.3 Table 2. Summary of the Options Considered in the Business Case for Fenland.

	Option 0	Option 1	Option 2	Option 3
<b>Description</b>	Baseline – continue as current	Wisbech Hub	Wisbech Hub and Hereward Hall extension	Wisbech Hub, HH extension and Chatteris and Whittlesey facilities
<b>Net Present Cost (40 Year) (including operating expenditure)</b>	£6.4m	£18.4m	£19.7m	£18.3m
<b>NET operating expenditure (at year 11)</b>	£235k	£458k	£465k	£567k
<b>Non-financial score</b>	158	264	269	238

2.7.4 The sensitivity analysis for the Fenland Project focused on the potential amount of additional space that could be provided above that required to house the council's employees in the area. Partners or CCC employees moved from elsewhere in the county could occupy this additional space. The options as shown in Table 2 assume an additional 100 people working from Fenland buildings at a desk ratio of 5:10.

2.7.5 The main risks to delivering options 1-3 include:

- Disruption to service delivery.
- Partner involvement impacts on scale and scope and the preparation of staff for and the management of any relocation.
- Opportunity to realise full regeneration benefits missed.

2.7.6 The suggested option for this business case is 1, i.e. to provide appropriate and extended facilities in Wisbech in combination with continued use of Authority facilities in March and Fenland District facilities in Whittlesey and Chatteris. There is a possibility that the Wisbech scheme would form part of a larger regeneration project. Associated with this approach would be some capacity to transfer further services and staff to Fenland to promote job opportunities in that area. The proposed option has a Net Present Value cost of £18.1m including a net capital cost of £8.2m. The option will also increase revenue costs £214k per annum (rectifying a historic under investment in the area and ensuring longer opening hours for the facilities).

2.7.7 The sub group recognised the need to invest in Fenland and the alignment of the project with the Authority's priorities. The sub group noted that this project in particular had significant partnership involvement. Some concerns were expressed around the timing of the project, whether staff currently based elsewhere would relocate to Wisbech and some concerns over business risk if the project grew into a major regeneration scheme.

## 2.8 Corporate Storage and Distribution Project

2.8.1 Cambridgeshire County Council currently stores a wide range of items in a variety of locations across the County. The majority of items are from the Library and Archaeological services, but other services have requirements that have been scoped in to this project. There are no common processes for storage, administration, transportation, or disposal. The locations vary from poor quality e.g. sheds, to bespoke storage in parts of buildings.

2.8.2 There are a number of key drivers including:

- The unsuitability of a number of sites used for storage.
- The need to reduce the current volumes of un-necessary storage.
- Increasing and unchecked storing in some areas.

2.8.3 Table 4. Summary of the Options Considered in the Business Case for Corporate Storage and Distribution.

	Option 0	Option 1	Option 2	Option 3a	Option 3b
<b>Description</b>	Baseline – continue as current	Own and operate new 2000m2 storage facility	Procure Storage and Distribution through external partner	Own and operate new 1000m2 storage facility	Reduce storage to Legal and Statutory requirements
<b>Net Present Cost (40 Year) (including operating expenditure)</b>	£8.5m	£9.2m	£12.0m	£7.4m	£2.4m
<b>NET operating expenditure (at year 11)</b>	£492k	£317k	£588k	£270k	£70k
<b>Non-financial score</b>	131	196	180	200	196

2.8.4 Sensitivity analysis focused on the impact on Option 1. These included increasing/reducing space provided, as well as reducing acquisition or management costs.

2.8.5 The main risks associated with Option 3b are:

- Insufficient space provided for current and future need.
- Storage space not provided in the best location leading to difficulty in management, access and distribution.

2.8.6 The suggested option for this business case is 3b, i.e. to review all stock holding policies to ensure only minimal stock is kept and use existing spare accommodation in a consistent and co-ordinated way to meet stock holding needs. In practice this approach is designed to reflect the fact that most items currently treated as stock or stored need not be, e.g. archaeology logical collections should be representative rather than catch all, library book stock should be rotated faster between libraries etc.

2.8.7 The sub group expressed some concern that the abrupt changes in stock holding policies may be difficult to implement. To ensure this option is viable, project personnel and affected services will need to work together on effective policies and solutions for storage needs.

## 2.9 Property Acquisitions Strategy

This strategy underpins BUPA and other Estate requirements.

2.9.1 The County Council has no single current strategy clearly setting out the Council's approach to the acquisition of property. The disposal policy was approved in September 2003. Therefore the opportunity was taken to develop such a strategy under the governance of the BUPA programme.

2.9.2 In 2005 Cambridgeshire was awarded Beacon Council status for best practice Asset Management. The acquisition strategy has been formulated to ensure good practice continues and to provide guidance for officers who may become involved with the acquisition of property.

2.9.3 The strategy relates to the BUPA Programme and the combined objective is

to ensure that Council assets meet long-term service needs by being in the right location, and providing the right facilities whilst ensuring value for money.

### 3. SIGNIFICANT IMPLICATIONS

#### 3.1 Resources and Performance

- The following tables overleaf summarise the financial impact of the proposed options, separating net capital expenditure, project costs let asset sales (capex) and net revenue costs, new costs of operation less current costs of operation (revex).

**Table 6. Capital Receipts and Expenditure for the Preferred Options.**

	2009/10	2010/11	2011/12	2012/13	2013-18	Total
	Net Capex	Net Capex	Net Capex	Net Capex	Net Capex	
Shire Hall Option 0A	£590,000	£690,000	£600,000	£610,000	£2,660,000	£5,150,000
Fenland Option1				£3,101,000	£2,660,000	£5,761,000
Storage Option 3b			£1,278,000	£10,000	-£1,561,000	-£273,000
<b>Total</b>	<b>£590,000</b>	<b>£690,000</b>	<b>£1,878,000</b>	<b>£3,721,000</b>	<b>£3,759,000</b>	<b>£10,638,000</b>

**Table 7. Revenue Implications of Preferred Options.**

	2009/10	2010/11	2011/12	2012/13	2013-18	Total
	Net Revex	Net Revex	Net Revex	Net Revex	Net Revex	
Shire Hall Option 0A	£2,573,000	£2,573,000	£2,573,000	£2,573,000	£12,865,000	£23,157,000
<i>Baseline</i>	<i>£2,573,000</i>	<i>£2,573,000</i>	<i>£2,573,000</i>	<i>£2,573,000</i>	<i>£12,865,000</i>	<i>£23,157,000</i>
Fenland Option1	£314,000	£317,000	£319,000	£462,000	£3,950,000	£5,362,000
<i>Baseline</i>	<i>£238,000</i>	<i>£238,000</i>	<i>£238,000</i>	<i>£238,000</i>	<i>£1,275,000</i>	<i>£2,227,000</i>
Storage Option 3b	£597,000	£597,000	£655,000	£227,000	£394,000	£2,470,000
<i>Baseline</i>	<i>£492,000</i>	<i>£492,000</i>	<i>£492,000</i>	<i>£492,000</i>	<i>£2,460,000</i>	<i>£4,428,000</i>
<b>Total</b>	<b>£3,484,000</b>	<b>£3,487,000</b>	<b>£3,547,000</b>	<b>£3,262,000</b>	<b>£17,209,000</b>	<b>£30,989,000</b>
<i>Baseline</i>	<i>£3,303,000</i>	<i>£3,303,000</i>	<i>£3,303,000</i>	<i>£3,303,000</i>	<i>£16,600,000</i>	<i>£29,812,000</i>

- In terms of net capital costs the BUPA programme over its ten-year life was planned to yield a net cash benefit of £18.6m, the majority of this benefit coming from the full Shire Hall replacement project and non-ring fenced asset sale proceeds. The programme cash flow and budget allows for net capital spend amounting to £10.1m up to and including 2010/11 with significant sales proceeds being delivered from 2012/13. In an overall cash flow approach the proposed options are affordable provided asset sales yields as originally envisaged are delivered over the period 2013/18 (considered a manageable risk as property values should recover from the current position over that frame).
- In terms of revenue implications the BUPA Programme was not reliant on any revenue savings when initially approved though revenue savings were expected to be generated that could be applied to improve the management of the facilities (e.g. support longer opening times). Some net

additional revenue costs have been identified from the programme for the first three projects however further savings are likely to be driven out as the business cases progress and further projects are brought forward.

### 3.2 Statutory Requirements and Partnership Working

- To obtain the maximum benefits from projects, it is proposed that in all cases solutions are shared with partners. A number have already provided an expression of interest and consultation is ongoing. The involvement of partners will shape solutions to the wider benefit of communities and open up opportunities to deliver services together.

### 3.3 Climate Change (Includes any climate change, greenhouse gas emissions and environment implications and where significant, they are set out below)

- It is expected that any new building will be designed to meet BREEAM Very Good standard. In addition, buildings are to be designed to comply with emerging building standards on sustainability.

### 3.4 Access and Inclusion (*includes inclusion, crime and disorder, the voluntary Sector, equality and diversity and transport implication and where significant, they are set out below*)

There are no significant implications for any of the headings within this category.

### 3.5 Engagement and Consultation (*includes community engagement and public consultation and where significant, they are set out below*)

There are no significant implications for any of the headings within this category.

Source Documents	Location
BUPA Shire Hall Campus Project Business Case. BUPA Fenland Project Business Case. BUPA Corporate Storage and Distribution Business Case. BUPA Technical Brief (Companion document for Business Cases). The Property Acquisition Strategy.	Room 300, Shire Hall, Cambridge