COUNCIL	AGENDA ITEM 7(iii)(b)
12 OCTOBER 2011	PUBLIC REPORT

CONSOLIDATION OF COUNCIL ASSETS

RECOMMENDATIONS
From: Councillor Cereste – Leader of the Council and Cabinet Member for Growth, Strategic Planning, Economic Development and Business Engagement
1. Council agrees to vary its budget and policy framework by the figures within table A2.7 of this report following a review of its operational property assets that has demonstrated that the ‘whole life costs’ of its existing operational property portfolio are in excess of projected budgets 2. Council endorses the preferred option of leasing a single, new, BREEAM[1] Excellent operational building 3. Council authorises the Head of Growth and Regeneration, in consultation with the Leader, the Cabinet member for Resources, and the Executive Director of Strategic Resources, to execute such agreements including leases and agreement to leases as are necessary to deliver this option 4. Cabinet is briefed on a quarterly basis as to progress

EXECUTIVE SUMMARY

The Council’s operational property portfolio is under increasing pressure from a variety of factors, including:

- rising energy costs
- outdated and inflexible internal layouts that limit the potential for implementing best working practices
- an increasing risk of failure in building plant and equipment.
- increased running costs (in the region of £71m over the next 25 years)

The core property assets no longer provide the best platform for service delivery, and do not meet Council ambitions for supporting our efficiency, sustainability and growth agendas.

Doing nothing to address these issues will be increasingly detrimental to service delivery and effectiveness. The Council has an opportunity to do more than simply address these problems, however: the right solution can not only provide a modern, flexible working environment but also one with leading environmental credentials, and that will support growth and development by triggering significant additional private investment in commercial buildings in the city. The recommended solution is to lease a new building, and a full rationale for this is provided in the main body of the report.

[1] BREEAM is the recognised best practice standard for sustainable building design, construction and operation, and is the most comprehensive and widely recognised measure of a building's environmental performance. ‘Excellent’ is the second highest possible level.

It is recommended that the Council retains the central portion of the Town Hall for ceremonial purposes but disposes of its administrative assets, including the office areas of the Town Hall, Bayard Place, and other leased in assets such as Stuart House.

This solution is not without risk to the Council, but these risks can be mitigated by a variety of activities. Importantly, these are mainly 'known' risks, whereas continuing 'as is' increasingly exposes the Council to risks that are difficult to quantify and more costly to mitigate. Securing a suitable lease will deliver a solution that addresses the major issues the Council's key operational assets face, whilst delivering additional benefits to both the Council and Peterborough.

1. ORIGIN OF THE REPORT

1.1 This report follows a request from the Leader of the Council to review the Council's operational property assets and current Asset Management Plan to determine whether the existing portfolio meets current and future accommodation, budgetary, growth and environmental requirements.

2. PURPOSE OF THE REPORT

2.1 The purpose of the report is to make Council aware of the findings of the review. It highlights the current weaknesses and vulnerabilities that the Council has been found to be exposed to – often driven by factors outside of the Council's control – and identifies opportunities available, seeking endorsement of recommendations designed to provide the best long-term balanced solution that addresses these.

3. BACKGROUND: REVIEWING THE FINANCIAL AND ENVIRONMENTAL COSTS OF THE COUNCIL'S OPERATIONAL PROPERTIES

3.1 The Council owns or leases properties for three reasons:

a) To use for its own operational purposes, such as Bayard Place, the Town Hall and Stuart House
b) To make them available to other organisations to use for operational purposes that the Council supports, such as Peters Court for use as the Eco-Innovation Centre
c) As investments, such as the retail units under the Town Hall

3.2 The operational portfolio should be configured affordably to meet the Council's operating requirements for the foreseeable future. Property takes a long time to acquire or divest, and the market reflects this through its pricing models – buyers achieve better unit prices for leases the longer the commitment they are prepared to make, but pay premium rents for shorter commitments. All organisations face difficulties in forecasting operational requirements, but arguably public sector organisations subject to continual waves of change such as the NHS and local government face particular difficulties in this regard. The Council's Asset Management Plan (AMP) is the document in which it sets out its plan for holding and adequately maintaining operational properties.

3.3 A number of well-known factors combined to prompt an early review of the AMP:

- Rapidly rising energy costs
- The end dates of existing leases such as Stuart House and Midgate House.
- Targets within the MTFS to reduce the Council's use of leased assets by consolidating into core assets when it is increasingly clear that the capacity of core assets is too limited to enable this to take place
- Recognition of the unaffordability of maintaining inefficiently configured buildings when money is so tight

- An intent further to realise the financial and operational gains from agile working environments as provided on the first floor of Bayard Place
- An intent to support the city's Environment Capital ambitions by achieving high standards of environmental stewardship across the operational property portfolio
- Forecast spikes in cost associated with probable further failures of plant in core assets (Bayard Place and the Town Hall) and known maintenance requirements for lifts, roofs, heating and electrical systems in the coming years for which the current budgetary provision may not be adequate

3.4 A review of the AMP has shown that:

- The reducing size of the Council coupled with complex and inflexible internal layouts means that the portfolio is effectively more than twice the size it needs to be.
- For operational purposes our exposure to the impact of rapidly rising energy costs is unnecessarily multiplied due to the oversize of our asset base.
- Energy costs have increased at an unprecedented rate, and are forecast to increase further, way beyond the projected amounts for energy in the budget.
- A decision needs to be made now over investment into our property portfolio to secure its medium to long term future.
- Failure to invest now will lead to significant failures of plant and building fabric with increasing frequency.
- Existing building leases are at a point where a decision has to be made regarding extension or termination.
- The Council should tackle the environmental and financial waste associated with its energy-inefficient portfolio, particularly given its Environment Capital ambition.

3.5 The key facts about the existing portfolio and its projected costs over the next 25 years are provided in the first section of the annex 2 table A2.3. In summary, annual operational costs rise from approximately £3m now to £7.5m in 25 years time.

3.6 If this report's recommendations are not agreed (in favour of 'a stay as you are' option) the budget and policy framework can reasonably be anticipated to be breached during financial year 2012/13, mainly as a result of unavoidable investment needed then to maintain the current primary assets. The increasing unaffordability involved in maintaining and necessarily refurbishing existing buildings so that they are fit for purpose is clear, and can be seen from the table in the Annex (A2.3).

4. GROWTH AND REGENERATION

4.1 In conducting this review, officers have been acutely aware of the extent to which it might be possible to achieve breakthroughs in the delivery of the city's growth strategy if decisions are taken to consolidate the Council's operational portfolio in order to reduce its costs, improve its efficiency, facilitate agile working and minimise its use of limited energy resources.

4.2 Our work with private investors and developers has made it absolutely evident that the Council's operational property requirement is of sufficient size to be used as the trigger for very significant private sector investment in new commercial buildings in the city, with the consequential delivery of new jobs, additional demand for housing, goods and services and tax revenues that will flow from the creation of those new jobs. The Council's key commitment is to the city's growth agenda, and our appraisal of the existing portfolio and of alternatives to it therefore also considered the extent to which each option would facilitate private investment in infrastructure in the city.

5. OPTIONS FOR THE FUTURE

5.1 The four options that have been considered are:

1) Stay as you are

2) Retain and invest in the existing portfolio to address its inefficiencies
3) Build new premises ourselves
4) Lease new premises built by the private sector

5.2 Staying as we are is not practically an option; as time progresses and without investment the portfolio would degrade to a point where its role in service provision is increasingly ineffective, ultimately failing altogether. Due to this, the first option is not considered further within this report.

5.3 The evaluation of the remaining three options has been based around which represents the best overall 'value' to the Council, balancing direct costs, the risks avoided by an option, the risks increased by an option, and the extent an option delivers additional benefits to the Council's stated growth and environmental agendas. The table at A1.1 in Annex 1 compares the factors that are non-financial, with more detailed commentary following that. Broadly, however, the following statements can be made:

a) The retention of our existing estate requires substantial investment in order to maintain it as fit for purpose over the coming twenty five years. This investment represents poor value, delivering little support for the Council environmental agenda and none for its growth agenda, whilst also still leaving the Council exposed to many of the risks associated with an aging estate.
b) Building new premises ourselves removes the risks associated with an aging estate and could provide strong support for our environmental aspirations. However, it would fail to stimulate substantial growth at a time when growth is highly desirable and necessary, and it places the Council in the position of a developer, a role far from its professional expertise and therefore very vulnerable to unexpected cost escalations that such development can bring.
c) Taking a lease from a third party means the Council avoids such development risk entirely. It also acts to positively stimulate growth, because a developer has a strong anchor tenant, which makes it commercially easier for them to regenerate a wider area than the Council would building for its own needs alone. An effect of this growth could be to introduce over £50m in additional disposal income to the city by 2021.

5.4 The delivery of the additional benefits from an advanced let, however, is not without some risk. The Council's operational requirement – which is about 100,000 square feet – is slightly too small for a developer to build in terms of commercial viability; 130,000 square feet is needed. The Council needs, therefore, to take somewhat more space than it strictly requires, and if it cannot sublet this space it has a financial risk. This risk is shown in the financial modelling of the options below, which include a financial range for 'optimistic' and 'pessimistic' scenarios for the advanced let option.

5.5 A whole life costs analysis has been undertaken on the remaining options and these are set out below. It should be noted that this is a tool to prioritise options and is based on assumptions that may or may not be true. However, key is that the same assumptions are made for each option so they are ranked consistently. The table below compares the costs of these options:

Options	**Costs**
1. Retain and invest in existing portfolio	£104m
2. Build new premises ourselves (100k sq ft)	£111m
3. Lease new premises from third party (130k sq ft)	£91m - £123m

5.6 The space requirements for options 2 and 3 differ because they reflect what would actually be built if each option progressed; we would only ever construct a building ourselves of 100k square feet because this is all the Council requires, but a third party must build for commercial viability, and this requires a somewhat larger building. The costs therefore reflect these different requirements, ensuring comparison can be made between what they are likely to cost for how they would most likely be taken forward in practice.

6 PREFERRED OPTION

6.1 The preferred option is the third, leasing new premises built by the private sector. This option delivers all the benefits required and capable of being delivered by the other options, but, crucially given the Council's growth ambitions, it is also expected to lever in to the city very significant additional private sector investment leading to new jobs and a series of economic and social benefits flowing from those new jobs, which will include additional local tax revenues. The risks associated with this option can also be more clearly mitigated than in the others, as is explored in 7.4 below.

7 METHOD OF PROGRESSING PREFERRED OPTION

7.1 In the current market, very little commercial space is being developed outside central London. Investors in commercial property look for stable yields over sustained periods of time, and the market in yields from investment properties contains a spread of prices at any time within which transactions can take place leading to the construction of new properties. The current market spread for commercial properties is around 5% to 8% in Peterborough.

7.2 However this is simplistic as it does not take into account the fact that any investor needs to generate a sufficient return from the investment. Therefore any investment in Peterborough will be competing with investments in London for a suitable return. Rentals in London are unsurprisingly by far the highest in the UK. A report compiled by Savills Research in winter 2010 forecast new lets in London ranging from £60 to £100psf, with other cities ranging from £21 to £30psf. In addition these are average values and do not take into account other factors such as whether or not the building is BREEAM excellent.

7.3 The Council's operational requirement, assuming that modern space requirements and agile working methods are adopted, is for circa 100,000 square feet of accommodation, which means that a consolidation project would reduce the current space utilised by around 60%. Soft market testing has shown that this is slightly smaller than is necessary to enable an investor to realise a yield sufficient to attract investment into the city; the investor's requirement is for 130,000 square feet.

7.4 In order to utilise the preferred option, therefore, the Council will need to commit to taking at least 130,000 square feet to enable the investment and construction to take place. This additional 30,000 square feet represents financial risk to the Council – enumerated in the table below – and this risk will be mitigated in the following ways:

- Sub-letting space to the firm which wins the Manor Drive Managed Service (MDMS) contract – discussions have taken place with both parties about their interest in sub-leasing space within any new premises, which would be in addition to the core MDMS requirement. We can take advantage of this to ensure that we maximise use of this BREEAM Excellent asset thereby promoting the establishment of the hub at one of the areas identified for growth.

- Continuing to progress discussions with central government departments and executive agencies about relocation to an environmentally excellent public services campus in the city (we know from the discussions to date that having something concrete to offer will make the difference in some cases from having discussions to entering into specific negotiations)

- Offering space to other local authorities and to our local public service partners, with whom discussions are also ongoing

- Offering space to others who have an aspiration to move into modern efficient space that contributes the Environment Capital aspirations of the city.

- Additional space requirements from the absorption of Adult Social Care into the Council. At present space requirements are unclear but where practicable they will be factored into the space requirement, and thereby reduce the risk associated with the requirement to lease the additional space

7.5 The new premises will provide the highest possible levels of flexibility, making it straightforward logistically for the Council to decrease (or, indeed, increase!) its floor space as requirements change in coming years.

7.6 The Council will only enter into an agreement with investors and developers regarding the delivery of new premises if those premises are part of a wider plan for regeneration that brings significant improvements to an important part of the city, and if the scheme itself is the first stage of a wider scheme which will bring significant further private investment into the city. Discussions with investors and developers have been taking place with a view to securing the inward investment required.

8 CENTRAL GOVERNMENT APPROACH TO GROWTH

8.1 Central government sees growth as the principle vehicle by which the financial outlook for the country will improve. This is being reflected in both current and emerging policy. GVA – a company with widespread experience in this area – reviewed some emerging options for encouraging growth.

8.2 To date schemes such as the New Homes Bonus have emerged, but GVA especially highlighted the proposed Tax Incremental Finance scheme as important. This allows the Council to borrow against future tax revenues, using the borrowing to invest in infrastructure that brings growth and regeneration forward, delivering the tax revenues that the initially borrowing was made against.

8.3 Historically, in the UK the TIF approach has been blocked by the current tax laws in place; at present all Business Rates are collected locally but pooled nationally, and as a result there is no way to ring-fence a local increment in value to retain over a long time period thus allowing funds to be raised by securitising this revenue. Currently, the Department for Communities and Local Government are looking at the way local authorities are funded with a view to providing more incentives to stimulate growth at a local level, including the possible local retention of business rates. This consultation was considered by Cabinet at their meeting of 26th September 2011.

8.4 This potential local retention of business rates may mean that TIF schemes could be considered in the future to support growth. The business rate consultation is scheduled to end in October 2011 with a further consultation on TIF specifically to follow shortly afterwards.

8.5 The proposals in this report are not predicated on TIF coming forward, but it could prove to be a useful tool in future.

9 LEGAL OFFICERS' COMMENTS

9.1 The Council has power to enter into leases under sections 122 & 123 Local Government Act 1972. The detail of the lease(s) will be finalised with the assistance of legal services, once a particular building is selected.

10. FINANCIAL IMPLICATIONS

10.1 A full financial analysis of the options is included in annex 2. In developing this analysis, it has been necessary to forecast many elements over nearly 30 years e.g. property costs, fuel costs, building condition and potential rental opportunities.

10.2 The costs of using and maintaining the existing property estate will soon exceed the available funding. This gap will continue to grow over time as further investment is necessary to maintain condition. This gives the Council the opportunity to consider how to best utilise its estate to support its objectives.

10.3 The exact cost of the preferred option will depend crucially on whether the Council can let the space vacated in Town Hall as well as the surplus space in the let property. If this can be achieved, then this option should provide savings over keeping the current estate, as well as contributing to growth objectives. There remains a risk, if this space cannot be let, that the preferred option could be more costly. A 'medium' scenario between these two extremes is broadly the same cost as the current estate.

10.4 The preferred option requires additional sums to be included in the medium term financial strategy (as per recommendation 1 of this report). This is based on the 'medium' scenario. The impact on the overall financial position of the Council will need to be considered as part of the refresh of the MTFS.

11. BACKGROUND PAPERS

- Asset Management Plan
- Medium Term Financial Strategy
- "UK Office Market Report – Winter 2010", Savills Research

Annex 1: Benefits Assessment

A1.1 The table below provides an assessment of the key pros and cons of the different options discussed in this report. Single ticks (✓) represent some benefit or risk; double ticks (✓✓) represent significant benefit or risk. More detailed explanation of the pros and cons within the table is provided after it.

	Stay as you are	**Retain and invest existing portfolio**	**Self-build of 100k new offices**	**Lease of 130k of new offices**
Pros				
a) Limits exposure to potential failures in existing estate		✓	✓✓	✓✓
b) Provision of the first BREEAM excellent class building in the region, boosting environmental credentials			✓✓	✓✓
c) Kick-starts a regeneration area in the city, supporting growth				✓✓
d) Regeneration boosts economy through jobs and increased consumer expenditure levels				✓✓
e) Provides floor space layouts well-suited to modern, agile working practices			✓✓	✓✓
f) Significant reduction in energy costs compared to 'as is' position			✓✓	✓✓
g) Opportunities for existing assets to be put to alternative use			✓✓	✓✓
Cons				
h) More space than Council currently requires, requiring mitigations to avoid financial exposure	✓✓	✓✓		✓✓
i) Significant practical and financial exposure to potential building failures in next 25 years	✓✓	✓	✓	
j) Potential for cost escalation due to scope creep and other unanticipated factors and risks		✓	✓✓	

a) Both of the new build options (the lease and self-build options) will have an infrastructure and building fabric that is guaranteed for a defined period. For the advanced let this will be for a period 25 years; for the self- build this will be dependent upon the initial specification. However, in both instances we will have certainty over future maintenance liabilities. The 'retain and invest option' will reduce exposure but only to an extent as it will still be dependent upon the interaction renewed components have with other, aging components in the building.

b) As stated in the main body of the report, the provision of a BREEAM Excellent building of this scale will be a 'first' for the eastern region, showcasing the Council's commitment to the city being Home of Environment Capital. The achievement of BREEAM Excellent can be specified both for a self-build option and for an advance let, but the ability to achieve it by investing in our existing portfolio is more difficult; some elements (such as making best use of natural sunlight from building orientation) are clearly impossible to retrofit, limiting what improvements can be made.

c) A long-term local authority lease provides surety of income for a developer. This means that wider development can be 'anchored' around the initial provision of a building leased only by the local authority. The scale of any development is obviously dependent upon the site and scale of buildings brought forward in subsequent phases, but it is entirely possible that 500,000 square feet could be provided on a single site. This anchoring is not possible in the 'retain and invest' or 'self-build' options.

d) Analysis of economic modelling data provided by Experian reveals significant positive impacts to Peterborough's wider economy from such development as would be enabled from an advanced let. Housing around 5,000 jobs itself, the development would through multiplier effects generate in the region of 350 further jobs in the local economy, and raise the level of annual disposable income across Peterborough by £56m in real terms by 2021. Consumer expenditure throughout the city would be similarly enhanced, rising by roughly £78m as a result of this type of 'kick-started' development. These benefits can only be achieved through the impetus an advanced let delivers to the wider regeneration of an area.
e) Existing floor layouts of the Town Hall and Bayard Place means that there is significant unusable space that is difficult to reconfigure to bring into use, of which a perfect example is the Bayard Place atrium. The corridor and small office layout of the Town Hall is far less efficient in terms of work station layout than is possible in new, open plan environments.
f) As energy costs are predicted to continue to rise, it is increasingly costly to have inefficient buildings. Both the self-build and advanced let options would be constructed to far higher energy efficiency standards than the Council's existing core assets, reducing consumption – and the cost – of running these substantially.
g) If existing assets are vacated they can be sold, leased, or otherwise redeveloped as part of the city centre regeneration. This is obviously not possible if they are current occupied and used as operational offices.
h) The current core operational portfolio totals around 260,000 square feet. This is substantially more than the 100,000 square feet the Council needs if it is able to consolidate into space that offers efficient workstation layout and implements flexible, agile working practices. Over-provision beyond this smaller figure requires mitigation, or it will inevitably cost the Council more than is strictly necessary.
i) As assets age the infrastructure becomes more susceptible to failure. We have already seen problems with this over the previous years at Bayard Place (air conditioning) and the Town Hall (standby generators). Without significant and major investment the rates of failure will increase. This is compounded by the obsolescence of equipment and infrastructure; whilst new parts can be manufactured there comes a point where this is no longer viable and without replacement the systems fail entirely. This unplanned failure leads to a direct disruption of Council services and increased long term costs.
j) The Council is inexperienced at acting as a commercial developer, and such inexperience creates an inevitable risk of scope creep were we to undertaken our own office development. Conversely, this risk can largely be transferred to a third party in the event of a lease.

Annex 2: Financial Models and Underpinning Assumptions

A2.1 A range of assumptions have necessarily been made in assessing options and developing the financial models within this report. These are detailed below.

a) **Capital cost assumptions:** The capital costs associated with the refurbishment of existing assets have been derived from well-respected sources, including various pricing guides. These have been identified on a cost per square foot basis and included within the appraisal. Key to identifying cost within reasonable tolerances has been to consider the condition of the existing assets and future requirements. Whilst PCC as the owner carries full maintenance liabilities for Bayard Place and the Town Hall, we also carry liabilities for those assets we rent and these will be recovered through the service charge. The capital costs included within the financial appraisal have considered the condition of the assets and the potential for components to fail. Given this, the costs which have been developed from the sources outlined above are front loaded for Bayard and the Town Hall and profiled differently for those assets that we lease as they are in a better basic condition. It needs to be recognised that forward planning on assets of this age inevitably introduces a degree of uncertainty into estimated costs.

   New Build proposals have been considerably easier to develop. Again a unit rate has been used as the basis of the cost, but in this instance additions have been made for factors such as Land Tax, and the termination of leases. The costs also reflect a premium for providing an asset that meets the standard required for BREEAM Excellent.

b) **Capital receipt and rental assumptions:** In the current economic climate, the ability to dispose of property is highly uncertain. The figures within this report therefore do not make assumptions about the Council's ability to obtain a capital receipt from the sale of vacated assets, rather choosing a more pessimistic 'worst case' assessment. Rental income from leasing 50% of the Town Hall is shown in the 'optimistic' scenario for a advanced let as this is considered more likely to be realised than a disposal; the worst case assumes no rental. Where rental has been assumed, it has been assumed at a rate of £9 per square foot. In the event disposals were made, the capital receipt from these would only improve the positions within this report.

c) **Assumptions behind requirements for 100k square feet of space**: The council has approximately 1,179 staff, which includes those staff that have the potential to move to the Manor Drive Management Services Contract. A 60% occupancy level requires approximately 707 Workstations, which at 110Sqft per workstation leads to a requirement of approximately 77,000 square feet. To this space must be added for breakout areas, meeting rooms, refreshment areas etc. Given that this building will require significant adoption of flexible working, a higher than average allowance need to be made to the provision of these areas. Generally an addition of 25% will cover this, which brings the total area required to approximately 97,000sqft. As the floor plates will dictate the final area and it is likely that this would be in multiples in the region of 25,000Sqft, a net requirement of 100,000Sqft emerges.

   This figure makes certain assumptions regarding the way in which Councils will deliver services in the future, such as the increased focus on agile and flexible working. It does not, however, include any assumptions regarding the status of Adult Social Care. Whilst initial discussions have taken place the proposals are too immature at the moment to determine the longer-term space requirements, but when this is possible clear consideration will need to be given as to how this can be absorbed into the proposals whilst maintaining services to customers.

d) **Inflationary pressures:** The financial models assume an average inflation of operational costs in options of 2.5% per annum, except for energy costs – known to be rising substantially above inflation – for which a rate of 12% has been assumed for the first five years, reducing to increases of 5% per annum thereafter. Rents have been assumed to rise at 3% per annum on a compounded basis.

e) In the optimistic scenario for an advanced let, the Council will have a tenant for the potentially surplus 30,000sqft; in the pessimistic scenario it is assumed the space is vacant.

f) Infrastructure of the new build under an advanced let will be guaranteed by a third party.

g) Under an advanced let there will be no dilapidations, and where dilapidations would apply in other options these are covered in finances.

h) Negotiation will take place with existing landlords to extend leases to a suitable point where necessary.

i) Where practicable existing furniture will be re-used to reduce costs.

j) Agile working will be adopted, and working practices changed to facilitate a move to the government's recommended space of $8m^2$ per workstation.

A2.2 **Comparison of operations costs between the options.** (Figures are in hundreds of thousands of pounds.)

	1	2	3	4	5	6	7	8	9	10	11 - 15	16 - 20	21 - 25	26 - 29	TOTAL	
	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/27	2027/32	2032/37	2037/41		NPV
Retain & Refurbish existing																
Total cost	3,020	3,235	3,493	3,738	4,045	4,296	4,524	4,828	5,101	5,347	31,482	39,177	54,545	39,368	206,200	103,823
Addition to MTFS	136	351	608	854	1,161	1,411	1,640	1,944	2,217	2,463	17,060	24,756	40,124	27,830	122,555	55,480
New Build																
Total cost	2,998	3,119	4,687	6,478	6,052	6,117	6,184	6,253	6,323	6,396	33,354	37,537	42,778	41,858	210,133	110,758
Addition to MTFS	113	235	1,803	3,593	3,168	3,233	3,300	3,368	3,439	3,512	18,932	23,115	28,356	30,321	126,488	62,415
Advanced Let (pessimistic case)																
Total cost	2,998	3,119	3,843	6,637	6,419	6,586	6,742	6,903	7,069	7,240	38,943	44,310	50,563	44,926	236,300	123,341
Addition to MTFS	113	235	959	3,753	3,535	3,701	3,858	4,019	4,185	4,356	24,522	29,889	36,142	33,389	152,655	74,999
Advanced Let (optimistic case)																
Total cost	2,998	3,119	3,843	5,824	4,590	4,706	4,810	4,918	5,028	5,144	27,599	31,333	35,638	31,478	171,029	91,076
Addition to MTFS	113	235	959	2,940	1,706	1,822	1,926	2,033	2,143	2,260	13,178	16,912	21,217	19,941	87,384	42,733
Advanced Let (medium scenario)																
Total cost	2,998	3,119	3,843	6,231	5,094	5,224	5,344	5,468	5,595	5,727	30,765	34,986	39,893	35,335	189,622	100,297
Addition to MTFS	113	235	959	3,346	2,209	2,340	2,460	2,583	2,710	2,843	16,344	20,565	25,471	23,798	105,977	51,955

A2.3 Financial Model for Retain and Invest Option

	1	2	3	4	5	6	7	8	9	10	11 - 15	16 - 20	21 - 25	26 - 29	TOTAL	
	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/27	2027/32	2032/37	2037/41		
Town Hall	1,047	1,047	1,047	1,047	1,047	1,047	1,047	1,047	1,047	1,047	5,233	5,233	5,233	4,187	30,353	
Bayard Place	1,100	1,100	1,100	1,100	1,100	1,100	1,100	1,100	1,100	1,100	5,502	5,502	5,502	4,401	31,910	
Midgate House	238	238	238	238	238	238	238	238	238	238	1,192	1,192	1,192	954	6,913	
Stuart House	499	499	499	499	499	499	499	499	499	499	2,495	2,495	2,495	1,996	14,468	
Current operating costs	2,884	2,884	2,884	2,884	2,884	2,884	2,884	2,884	2,884	2,884	14,422	14,422	14,422	11,537	83,645	
Increase in operating costs	113	235	364	503	653	769	891	1,019	1,152	1,291	8,800	13,539	19,848	21,996	71,174	
Revised operating costs	2,998	3,119	3,249	3,388	3,537	3,654	3,776	3,903	4,036	4,175	23,221	27,961	34,270	33,533	154,819	
Capital Investment required	1,000	2,200	1,200	2,200	2,173	1,000	2,361	2,000	1,000	2,000	6,507	5,773	8,650	1,500	39,564	
Revenue Impact	22	116	244	351	508	642	748	926	1,065	1,172	8,260	11,216	20,276	5,835	51,381	
Required Increase in MTFS	136	351	608	854	1,161	1,411	1,640	1,944	2,217	2,463	17,060	24,756	40,124	27,830	122,555	NPV £55m
Total Costs																
Town Hall	1,092	1,141	1,193	1,250	1,311	1,359	1,408	1,461	1,516	1,574	8,867	10,950	13,859	14,039	61,019	
Bayard Place	1,145	1,192	1,242	1,297	1,355	1,400	1,447	1,497	1,548	1,602	8,916	10,749	13,188	12,913	59,490	
Midgate House	247	257	267	278	290	299	308	317	327	337	1,844	2,148	2,509	2,312	11,741	
Stuart House	514	529	545	562	580	596	612	628	645	663	3,595	4,114	4,715	4,269	22,568	
Sub-Total	2,998	3,119	3,249	3,388	3,537	3,654	3,776	3,903	4,036	4,175	23,221	27,961	34,270	33,533	154,819	
Revenue impact of investment	22	116	244	351	508	642	748	926	1,065	1,172	8,260	11,216	20,276	5,835	51,381	
Total cost	3,020	3,235	3,493	3,738	4,045	4,296	4,524	4,828	5,101	5,347	31,482	39,177	54,545	39,368	206,200	NPV £104m

A2.4: Financial Model for Self-Build Option

	1	2	3	4	5	6	7	8	9	10	11 - 15	16 - 20	21 - 25	26 - 29	TOTAL	NPV
	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/27	2027/32	2032/37	2037/41		
Current operating costs (see A2.2)	2,884	2,884	2,884	2,884	2,884	2,884	2,884	2,884	2,884	2,884	14,422	14,422	14,422	11,537	83,645	
New Build				1,738	1,797	1,847	1,898	1,950	2,005	2,060	11,198	12,868	14,812	13,466	65,641	
Cost increase / decrease for existing buildings	113	235	364	-2,884	-2,884	-2,884	-2,884	-2,884	-2,884	-2,884	-14,422	-14,422	-14,422	-11,537	-74,280	
Relocation activity			500	500	0	0	0	0	0	0	0	0	0	0	1,000	
Retained costs				800	800	800	800	800	800	800	4,000	4,000	4,000	3,200	20,800	
Retained costs Bayard				366	376	385	395	405	415	425	2,290	2,591	2,931	2,620	13,197	
Retained costs TH etc				277	284	291	298	306	313	321	1,731	1,959	2,216	10,931	18,927	
Change in operating costs	113	235	864	797	373	439	507	576	648	722	4,797	6,996	9,538	18,680	45,285	
Revised operating costs	2,998	3,119	3,749	3,682	3,257	3,323	3,391	3,461	3,533	3,607	19,219	21,417	23,959	30,217	128,930	
Capital Investment																
Acquisition & Build costs			41,815												41,815	
Refurbishment											1,000	6,525	1,000	0	8,525	
Capital Investment required	0	0	41,815	0	0	0	0	0	0	0	1,000	6,525	1,000	0	50,340	
Revenue Impact of capital			939	2,796	2,795	2,794	2,793	2,792	2,791	2,790	14,135	16,119	18,818	11,642	81,203	
Required Increase in MTFS	113	235	1,803	3,593	3,168	3,233	3,300	3,368	3,439	3,512	18,932	23,115	28,356	30,321	126,488	NPV £62m
Operating costs	2,998	3,119	3,749	3,682	3,257	3,323	3,391	3,461	3,533	3,607	19,219	21,417	23,959	30,217	128,930	
Revenue impact of investment	0	0	939	2,796	2,795	2,794	2,793	2,792	2,791	2,790	14,135	16,119	18,818	11,642	81,203	
Total cost	2,998	3,119	4,687	6,478	6,052	6,117	6,184	6,253	6,323	6,396	33,354	37,537	42,778	41,858	210,133	NPV £110m

A2.5: Financial Model for Advanced Let Option (Pessimistic Scenario)

	1	2	3	4	5	6	7	8	9	10	11 - 15	16 - 20	21 - 25	26 - 29	TOTAL	NPV
	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/27	2027/32	2032/37	2037/41		
Town Hall	1,047	1,047	1,047	1,047	1,047	1,047	1,047	1,047	1,047	1,047	5,233	5,233	5,233	4,187	30,353	
Bayard Place	1,100	1,100	1,100	1,100	1,100	1,100	1,100	1,100	1,100	1,100	5,502	5,502	5,502	4,401	31,910	
Midgate House	238	238	238	238	238	238	238	238	238	238	1,192	1,192	1,192	954	6,913	
Stuart House	499	499	499	499	499	499	499	499	499	499	2,495	2,495	2,495	1,996	14,468	
Current operating costs	2,884	2,884	2,884	2,884	2,884	2,884	2,884	2,884	2,884	2,884	14,422	14,422	14,422	11,537	83,645	
Advanced Let Rentals				2,455	2,529	2,605	2,683	2,763	2,846	2,932	16,032	18,585	21,545	19,682	94,657	
Advanced Let other operating costs				2,187	2,260	2,336	2,401	2,467	2,536	2,606	14,161	16,268	18,719	17,012	82,953	
Cost increase / decrease for existing buildings	113	235	364	-2,884	-2,884	-2,884	-2,884	-2,884	-2,884	-2,884	-14,422	-14,422	-14,422	-11,537	-74,280	
Relocation activity			500	500											1,000	
Retained costs				800	800	800	800	800	800	800	4,000	4,000	4,000	3,200	20,800	
Rates and other savings on empty portion				-231	-111	-114	-117	-120	-123	-126	-678	-767	-868	-776	-4,031	
Retained costs Bayard				366	376	385	395	405	415	425	2,290	2,591	2,931	2,620	13,197	
Retained costs TH etc				277	284	291	298	306	313	321	1,731	1,959	2,216	1,981	9,977	
Change in operating costs	113	235	864	3,470	3,253	3,419	3,576	3,737	3,903	4,074	23,114	28,213	34,122	32,181	144,273	
Revised operating costs	2,998	3,119	3,749	6,354	6,137	6,303	6,460	6,621	6,787	6,958	37,535	42,635	48,543	43,719	227,918	
Capital Investment																
Fit-Out (£20psf) - Cat B			2,600												2,600	
Others			75												75	
Fees			325												325	
SDLT			427												427	
Dilapidations			300												300	

Council Initiatives			500												500	
Refurbishment											1,000				1,000	
Capital Investment required	0	0	4,227	0	0	0	0	0	0	0	1,000	0	0	0	5,227	
Revenue Impact of capital			95	283	283	282	282	282	282	282	1,408	1,675	2,020	1,208	8,382	
Required Increase in MTFS	113	235	959	3,753	3,535	3,701	3,858	4,019	4,185	4,356	24,522	29,889	36,142	33,389	152,655	NPV = £82m
Operating costs	2,998	3,119	3,749	6,354	6,137	6,303	6,460	6,621	6,787	6,958	37,535	42,635	48,543	43,719	227,918	
Revenue impact of investment	0	0	95	283	283	282	282	282	282	282	1,408	1,675	2,020	1,208	8,382	
Total cost	2,998	3,119	3,843	6,637	6,419	6,586	6,742	6,903	7,069	7,240	38,943	44,310	50,563	44,926	236,300	NPV = £130m

A2.6: Financial Model for Advanced Let Option (Optimistic Scenario)

	1	2	3	4	5	6	7	8	9	10	11 - 15	16 - 20	21 - 25	26 - 29	TOTAL	NPV
	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/27	2027/32	2032/37	2037/41		
Town Hall	1,047	1,047	1,047	1,047	1,047	1,047	1,047	1,047	1,047	1,047	5,233	5,233	5,233	4,187	30,353	
Bayard Place	1,100	1,100	1,100	1,100	1,100	1,100	1,100	1,100	1,100	1,100	5,502	5,502	5,502	4,401	31,910	
Midgate House	238	238	238	238	238	238	238	238	238	238	1,192	1,192	1,192	954	6,913	
Stuart House	499	499	499	499	499	499	499	499	499	499	2,495	2,495	2,495	1,996	14,468	
Current operating costs	2,884	2,884	2,884	2,884	2,884	2,884	2,884	2,884	2,884	2,884	14,422	14,422	14,422	11,537	83,645	
Advanced Let Rentals				2,455	2,529	2,605	2,683	2,763	2,846	2,932	16,032	18,585	21,545	19,682	94,657	
Advanced Let other operating costs				2,187	2,260	2,336	2,401	2,467	2,536	2,606	14,161	16,268	18,719	17,012	82,953	
Cost increase / decrease for existing buildings	113	235	364	-2,884	-2,884	-2,884	-2,884	-2,884	-2,884	-2,884	-14,422	-14,422	-14,422	-11,537	-74,280	
Relocation activity			500	500	0	0	0	0	0	0	0	0	0	0	1,000	
Retained costs (saving extraction)				800	800	800	800	800	800	800	4,000	4,000	4,000	3,200	20,800	
Income from 30,000 sq ft				-1,044	-1,119	-1,151	-1,185	-1,220	-1,257	-1,291	-7,010	-8,074	-9,377	-8,490	-41,218	
Retained costs Bayard				366	376	385	395	405	415	425	2,290	2,591	2,931	2,620	13,197	
Retained costs TH etc				277	-538	-552	-565	-580	-594	-609	-3,281	-3,712	-4,200	-3,754	-18,107	
Change in operating costs	113	235	864	2,657	1,423	1,539	1,644	1,751	1,861	1,978	11,770	15,236	19,197	18,733	79,001	
Revised operating costs	2,998	3,119	3,749	5,541	4,307	4,423	4,528	4,635	4,745	4,862	26,191	29,658	33,619	30,270	162,646	
Capital Investment																
Fit-Out (£20psf) - Cat B			2,600												2,600	
Others			75												75	
Fees			325												325	
SDLT			427												427	
Dilapidations			300												300	
Council Initiatives			500												500	

Refurbishment											1,000				1,000	
Capital Investment required	0	0	4,227	0	0	0	0	0	0	0	1,000	0	0	0	5,227	
Revenue Impact of capital			95	283	283	282	282	282	282	282	1,408	1,675	2,020	1,208	8,382	
Required Increase in MTFS	113	235	959	2,940	1,706	1,822	1,926	2,033	2,143	2,260	13,178	16,912	21,217	19,941	87,384	NPV = £43m
Operating costs	2,998	3,119	3,749	5,541	4,307	4,423	4,528	4,635	4,745	4,862	26,191	29,658	33,619	30,270	162,646	
Revenue impact of investment	0	0	95	283	283	282	282	282	282	282	1,408	1,675	2,020	1,208	8,382	
Total cost	2,998	3,119	3,843	5,824	4,590	4,706	4,810	4,918	5,028	5,144	27,599	31,333	35,638	31,478	171,029	NPV = £91m

A2.7: Financial Model for Advanced Let Option (Balanced Case)

	1	2	3	4	5	6	7	8	9	10	11 - 15	16 - 20	21 - 25	26 - 29	TOTAL
	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/27	2027/32	2032/37	2037/41	
Current operating costs	2,884	2,884	2,884	2,884	2,884	2,884	2,884	2,884	2,884	2,884	14,422	14,422	14,422	11,537	83,645
Advanced Let Rentals				2,455	2,529	2,605	2,683	2,763	2,846	2,932	16,032	18,585	21,545	19,682	94,657
Advanced Let other operating costs				2,187	2,260	2,336	2,401	2,467	2,536	2,606	14,161	16,268	18,719	17,012	82,953
Cost increase / decrease for existing buildings	113	235	364	-2,884	-2,884	-2,884	-2,884	-2,884	-2,884	-2,884	-14,422	-14,422	-14,422	-11,537	-74,280
Relocation activity			500	500	0	0	0	0	0	0	0	0	0	0	1,000
Retained costs (saving extraction)				800	800	800	800	800	800	800	4,000	4,000	4,000	3,200	20,800
Income from 15,000 sq ft				-522	-559	-576	-592	-610	-628	-646	-3,505	-4,037	-4,689	-4,245	-20,609
saving on op costs 15,000 sq ft				-116	-56	-57	-58	-60	-61	-63	-339	-384	-434	-388	-2,016
Retained costs Bayard				366	376	385	395	405	415	425	2,290	2,591	2,931	2,620	13,197
Retained costs TH etc				277	-538	-552	-565	-580	-594	-609	-3,281	-3,712	-4,200	-3,754	-18,107
Change in operating costs	113	235	864	3,064	1,927	2,058	2,178	2,301	2,428	2,561	14,936	18,889	23,451	22,590	97,595
Revised operating costs	2,998	3,119	3,749	5,948	4,811	4,942	5,062	5,186	5,313	5,445	29,357	33,311	37,873	34,127	181,240
Capital Investment															
Fit-Out (£20psf) - Cat B			2,600												2,600
Others			75												75
Fees			325												325
SDLT			427												427
Delapidations			300												300
Council Initatives			500												500
Refurbishment											1,000				1,000
Capital Investment required	0	0	4,227	0	0	0	0	0	0	0	1,000	0	0	0	5,227

Revenue Impact of capital			95	283	283	282	282	282	282	282	1,408	1,675	2,020	1,208	8,382	
Required Increase in MTFS	113	235	959	3,346	2,209	2,340	2,460	2,583	2,710	2,843	16,344	20,565	25,471	23,798	105,977	NPV = £52m

Operating costs	2,998	3,119	3,749	5,948	4,811	4,942	5,062	5,186	5,313	5,445	29,357	33,311	37,873	34,127	181,240	
Revenue impact of investment	0	0	95	283	283	282	282	282	282	282	1,408	1,675	2,020	1,208	8,382	
Total cost	2,998	3,119	3,843	6,231	5,094	5,224	5,344	5,468	5,595	5,727	30,765	34,986	39,893	35,335	189,622	NPV = £100m

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