

## 17. APPROVAL FOR ALLOCATION OF CAPITAL RECEIPTS TO FINANCE WORKS ASSOCIATED WITH THE ALDERN HOUSE ACCOMMODATION PROJECT ( MF )

### Purpose of the report

To seek approval for the use of capital receipts from the sale of Losehill Hall Bungalow to finance the re-structuring of the office space within Aldern House. This will optimise the accommodation on offer at Aldern House and allow for subsequent realisation of efficiency savings and additional income for the Authority.

### Key issues

- The Aldern House accommodation project has been approved by RMT (within delegated authority) on the basis that borrowing will be used to fund the £147,000 project costs if necessary
- The project is closely linked to the sale of Losehill Hall Bungalow in that one of the project aims is to release space for the staff currently located at the bungalow and allow its sale (or lease).
- The project will ultimately contribute £26,470 per annum toward efficiency savings and increased income in addition to addressing any increase in running costs and resource requirements arising as a result of the increased levels of occupation.

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### Recommendations

2. 1. That £147,000 capital funds from the sale of Losehill Hall Bungalow be allocated towards the Aldern House Accommodation Project

### How does this contribute to our policies and legal obligations?

3. Following the 2013/14 work on the strategic review of property commissioned by the Authority, it was agreed within the management response that Aldern House will be retained with the objectives of:
- Locating as many staff of the Authority at Aldern House as possible to improve the utilisation level;
  - Releasing as much space as possible for renting by an appropriate outside organisation;
  - Developing and implementing a business case for meeting the priority accommodation needs of services based at Aldern House

This report seeks to progress this area of work by securing appropriate funding to complete the project and realise the financial and operational benefits.

### Background

4. Resource Management Team has, in accordance with delegated authority, approved the expenditure of £147,000 on works associated with achieving the following:
- Accommodating Moors for the Future and Learning and Development Team staff currently housed within the Losehill Hall Bungalow within Aldern House
  - Reorganising the allocation of space within Aldern House to achieve better integration of teams and services within the building.
  - Creating accommodation that is more appropriate for a modern business operation and in-keeping with the Authority's values.
  - Creating appropriate space within the building for letting to external partners.

5. The total cost of the project is estimated to be as follows:
- Restructuring of offices to increase capacity while maintaining an appropriate working environment: £32,332
  - Additional storage facilities to allow more remote storage of files (but still at AH): £10,000
  - Costs associated with meeting particular needs of field services staff in new location (radios and weekend access): £4173
  - Costs associated with letting out space within the main building of Aldern House: £10,134
  - Costs associated with re-configuring the bungalow: £14,072
  - Costs associated with security and access changes to accommodate tenants: £23,060
  - Ancillary costs: £8,208
  - Contingency items (Potential builders works to main building rooms, project management and overall 10% contingency): £25,000
  - Digitisation of additional files to free up storage space within AH: £20,000
- Total project costs: £146,979**

6. The completion of the project will generate a number of annual income streams or savings for the Authority. The key streams are as follows:
- i. Lease of office accommodation within Aldern House and the Aldern House Bungalow
  - ii. Reduction in running costs paid for by the Learning and Development Team associated with the Losehill Hall Bungalow
  - iii. Release of opportunity cost paid as compensation for the lost income from the lettable space occupied by Moors for the Future staff.
- Total income and savings: £48,470 p.a.**

Once increases in costs, opportunity cost associated with housing Moors for the Future staff and an existing £3,500 income target are subtracted from the savings, the project will make **£26,470 p.a.** available to contribute towards other areas of expenditure/savings.

### **Proposals**

7. To approve the allocation of £147,000 capital from the sale of Losehill Hall Bungalow towards the accommodation project.

Should this sum not be allocated from capital sources, the project will continue to progress but will be based on borrowing with repayments made from income generated by leasing space to tenants. This will reduce the savings by £11,700 p.a.

### **Are there any corporate implications members should be concerned about?**

8. **Financial:**  
If Members approve the recommendation there will be capital expenditure on the Aldern House project at 31<sup>st</sup> March 2015, and possibly during 2015/16 depending on when the project is financially complete. This may need to be temporarily financed from the Capital Receipts Reserve balance (currently £425,597) unless the Losehill bungalow capital receipt is received at the same time. When the bungalow receipt is received it will be appropriated into the Capital Reserve in full, and the balance of the capital receipt will be available for other capital purposes. The use of capital monies for this project will reduce the total amount of capital the Authority has available.

However, the project compares favourably when compared against other existing proposals and the net revenue savings represent a good return on the investment. Using the same methodology as other potential capital projects, the total net present value of the project is approximately +£303,000 over a 30 year period and the project scores 3.1 on the profitability index (i.e. a return of £3.10 for every £1 invested in today's money). Of the costed projects we have to date, this project scores reasonably highly and is therefore one of the projects which would merit financing from the capital resources available.

9. **Risk Management:**

The primary risk is that the generation of income from letting space to tenants will result in a lower than anticipated return on investment. This risk is thought to be small and work on letting space to external organisations is progressing well. Our financial planning is working on achieving the necessary savings and income to achieve a balanced budget for 2015-16 and the income generation from this project is a component of that planning. Members have approved temporary cash resources to underwrite the risk in 2015-16 that necessary savings or income might not be achieved and these resources will allow this project risk to be mitigated temporarily if letting space is achieved to a slower profile.

10. **Sustainability:**

The more effective and efficient use of Aldern House as an office facility for a greater number of staff will contribute towards an overall reduction in our carbon emission and improvements in our environmental performance. The disposal or letting of the Losehill Hall bungalow is one of the projects listed in the current version of the Carbon Management Plan and is anticipated to contribute a 7 tonne reduction in carbon emissions.

11. **Background papers** (not previously published) –  
None

**Appendices -**  
None

**Report Author, Job Title and Publication Date**

Matt Freestone, Environmental Management Officer, 11 September 2014