

Slough Borough Council

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| Report To: | Cabinet |
| Date: | 18 September 2023 |
| Subject: | Observatory House – Strategic Business Case |
| Lead Member: | Councillor Chahal, Deputy Leader of the Council – Financial Oversight, Council Assets, Procurement and Revenue & Benefits |
| Chief Officer: | Pat Hayes, Executive Director Property & Housing |
| Contact Officer: | Mark Halligan – Assistant Director (Property) |
| Ward(s): | Central |
| Key Decision: | <u>YES</u> |
| Exempt: | NO, except Appendices 1 and 2 – Paragraph 3 of Schedule 12A of the Local Government Act 1972 – contain financial and business information of the Council. |
| Decision Subject To Call In: | <u>YES</u> |
| Appendices: | Appendix 1 – Confidential Montagu Evans report – Optimising the value for money benefits of Observatory House Appendix 2 – Confidential Strategic Outline Business Case |

1. Summary and Recommendations

1.1 This report assesses options for the future use of Observatory House to optimise benefits and value for money. It recommends developing the business case, to enable a robust recommendation to be made, based on further evidence

Recommendations:

1.2 Cabinet is recommended to:

- a) Approve the strategic outline business case attached at Appendix 2 and agree to the preparation of a full business case including all six of the identified options.
- b) Note that a report will be brought back to Cabinet in Spring 2024 to agree a further developed business case on the future use of Observatory House.

Reason

- 1.3 Clarifying the future of Observatory House is critical to the Council's recovery, as it enables other decisions to be made, which have wide reaching impacts; such as in the development of the Digital Strategy and Customer Access Strategy.
- 1.4 The Council's financial position means that it has to be clear about the future use of its assets as a number of these need to be disposed of to stabilise its budget and meet the requirements of the Capitalisation Direction agreed with DLUHC.
- 1.5 The ultimate decision on the future use of Observatory House is a significant one and needs a robust business case to support it.

Commissioner Review

- Given the strategic importance of the future decisions on the use of Observatory House, challenges facing the Councils over the coming years to ensure limited resources are targeted effectively and achieve financial sustainability, it is necessary to ensure the recommendations are underpinned by good evidence.
- All of the options outlined in this report would meet the Councils success criteria and it is therefore necessary to demonstrate that the Council has selected the option which best meets its existing and future needs and optimises value for money. As such, the options need to be evaluated with more detailed work on the costs, financial and non-financial benefits, to provide a value for money assessment and identification of delivery risks. This can be undertaken in the outline / full business case stage but must be prior to narrowing the list to a preferred way forward and the comprehensive analysis and recommendation for transition to implementation phase.

2. Report

Introduction

- 2.1 Members are aware the Council received a formal direction from DLUHC made under s.15(5) and (6) of the Local Government Act 1999, including a direction that prescribed functions are to be exercised by Commissioners; and the appointment of Commissioners from 1 December 2021.
- 2.2 A key component of the Directions is the need for the Council to demonstrate it is able to achieve financial sustainability.

- 2.3 A review of the Council's assets has been undertaken so that decisions are able to be made on their future. Separate reports have been submitted to Cabinet on the development of an Estates Strategy and for the second phase of the Asset Disposal Programme. The future of Observatory House needs to be considered in this context.

3 Options considered

- 3.1 A Strategic Outline Business Case (Appendix 2) outlines potential options for the future use of Observatory House. These can be summarised as:
- Option 1 – Do nothing
 - Option 2 – Sell the freehold and exit to another Council building
 - Option 3 – Sell the freehold and exit to another building, via a freehold or leasehold acquisition
 - Option 4 – Sell the freehold and leaseback three floors only
 - Option 5 – Sell the freehold and leaseback the whole building, but only occupy three floors
 - Option 6 – Retain the freehold interest and reduce the Council's occupation down to three floors
- 3.2 Appendix 2 sets out the market considerations associated with the options that involve selling Observatory House.
- 3.3 In addition to the financial aspect, any decision on the future use of Observatory House needs to be considered against the potential non-financial benefits that could be realised. These are outlined in Appendix 2, which includes:
- Better engagement with residents
 - A better, more efficient working environment
 - Integration of services
- 3.4 Any final decision needs to be subject to due diligence and a more detailed business case. At this stage it is proposed to limit the full business case to Options 4, 5 and 6 for the reasons set out in Appendix 2.

Background

- 3.5 The Council acquired Observatory House in July 2018 and it became fully operational as the Council's new headquarters in September 2019. The majority of staff moved from the council's previous offices at St Martins Place.
- 3.6 The building has 6 floors currently allocated as follows –
- Ground Floor – reception, Council Chamber, political offices, customer call centre, office space for Slough Children First Ltd.
 - First, Second and Third Floors – SBC staff
 - Fourth Floor – Slough Children First
 - Fifth Floor - vacant
- 3.7 The original intention had been to sub-let two floors. However, in March 2020 the national lockdown was implemented and the vast majority of Council staff worked from home alongside other office workers. The office market has been significantly impacted by the changes to working arrangements resulting from the Covid 19 pandemic and many businesses have increased the amount of hybrid working offered to their staff.
- 3.8 The council is planning to consult with its workforce on a review of the current hybrid working arrangements to bring the council in line with the approach of many other organisations to more of a balance between home and office based working. As the largest of the council's buildings, Observatory House provides the most capacity to accommodate a significant proportion of the workforce.
- 3.9 The central location of the building and proximity to the rail station and motorways is a key benefit for council staff as well as prospective tenants and purchasers.
- 3.10 The local office market is also considered in Appendix 1. Businesses are looking for quality office space as part of their hybrid working arrangements and details of the local and national market for such spaces is considered in this appendix.

4 Implications of the Recommendation

Financial implications

- 4.1 There are no immediate financial implications arising from this report. The cost of developing the full business case will be funded from within existing resources and has been subject to the internal expenditure control panel process to ensure that funding is available and that the proposed approach is compliant with appropriate procurement processes.

4.2 The outcome arising from the development of a full business case will have significant implications for the financial recovery plan of Slough Borough Council, recognising that the potential spectrum of outcomes range from the retention of Observatory House as a wholly owned asset through to the realisation of a significant capital receipt.

4.3 Finance officers will continue to work closely with Housing, Property & Planning colleagues to ensure that the full business case and the covering report fully reflects the financial implications of the recommended approach, in relation to capital and revenue accounts and the best value that such outcomes represent.

Legal implications

4.4 The Council requires suitable accommodation to deliver its services and to host member level meetings. There is no requirement for the Council to own these buildings or that they are all in one place and many other authorities have services and civic functions delivered across a range of buildings.

4.5 In February 2023, Grant Thornton, the Council's external auditors, issued a statutory recommendation report to the Council in respect of its decision to purchase Observatory House. This followed an objection to the statement of accounts for the relevant financial year. Grant Thornton decided not to uphold the objection or issue a public interest report, however it did raise concerns in the way the decision to acquire the property was taken and in particular the limited information made available to members at the Cabinet meeting. The auditors confirmed their expectation that a more detailed business case should have been prepared and provided to elected members given the value and strategic importance of the project. This should have included the specification and quantification of the benefits of the acquisition, consideration of alternatives, greater sensitivity analysis and clarification on financial assumptions, including VAT and letting of floors. There was also a lack of clarity on the Council's own occupancy needs and the interaction with the development of neighbourhood hubs.

4.6 The Council fully accepted Grant Thornton's recommendations and it is imperative that future decisions on the use of Observatory House are made on the basis of detailed business cases considered and approved by elected members at critical stages in the project. At this stage, members are being advised to limit the options, based on professional advice and an outline business case. This allows the preferred options to be explored in more detail at final business case stage.

4.7 The Council has a best value duty to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. Under this duty, the current best value guidance confirms that economic, environmental and social value should be considered. The Government has consulted on draft guidance on best value standards and intervention and the draft guidance sets out best value themes, including one on use of resources. This confirms that a well-functioning

authority should have human resources and fixed assets that are managed efficiently and effectively.

4.8 If the Council has surplus physical assets, it can dispose of these or manage them in a different way. Section 123 of the Local Government Act 1972 provides a power of disposal, which includes sale of freehold interest, granting a lease or assigning any unexpired term of a lease. In general, any disposal must be for the best consideration reasonably obtainable, except in the case of short tenancies, unless the Secretary of State has consented to the disposal. Some of the options to be considered include sale of the freehold and leasehold back. This will be a disposal and the Council must satisfy itself that it meets its duties under s.123.

Risk management implications

4.9 The table below sets the key risks

| Risk | Summary | Mitigations |
|--------------|---|--|
| Financial | Achieving Best Value | The full business case will contain a comprehensive cost benefit analysis of the options presented. This will underpin the recommendations made regarding Member decisions. |
| Legal | The Council does not meet its statutory duties or misused its powers when making decisions on the future of Observatory House. | . Professional advice is sought, including from external advisors, on the full range of options, sufficient information is provided to members, including in a comprehensive business case and an independent opinion is sought to inform any proposal disposal. |
| Reputational | The Council has been criticised for the manner in which the original decision to purchase the building was taken and the cost of purchase and fitting out | A more comprehensive and transparent approach to the decision about the future use of the building |

Environmental Implications

4.10 Consolidating around Observatory House provides opportunities to further reduce the Council's property portfolio, which creates environment benefits, such as a reduced energy consumption. Investing in Observatory House also provides the opportunity to improve its environmental performance as part of the initial capital works..

Equality implications

4.11 The Council has a duty contained in section 149 of the Equality Act to have due regard to the need to:

(a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;

(b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;

(c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

The protected characteristics are:

- age
- disability;
- gender reassignment;
- pregnancy and maternity;
- race;
- religion or belief;
- sex;
- sexual orientation.

The broad purpose of this duty is to integrate considerations of equality into day-to-day business and to keep them under review in decision making, the design of policies and the delivery of services.

Procurement implications

4.12 One of the Directions includes specific reference to the procurement and contract management function. Any element of this project that requires procurement will be subject to compliance with the Council's Contract Procedure Rules and procurement law.

Workforce implications

4.13 The key implication for the workforce is the extent to which the decision on the future use of Observatory House is retained as the council's headquarters. With the lifting of lockdown rules and reviews of hybrid working there is more of a shift towards staff spending more time in the office.

4.14 A consultation with staff is planned to agree the principles and refresh approach to hybrid working.

Property implications

4.15 The decision on the future of Observatory House is a key decision to be taken in the wider context of our Estates Strategy and Asset Disposals plan which are also presented to Cabinet in separate reports.

5 Background Papers - None