

Director: Ben Still, Managing Director
Author: Angela Taylor



Report to: West Yorkshire Combined Authority

Date: 29 June 2017

Subject: WYCA Accommodation Options

Is this a key decision?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Is the decision eligible for call-in?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Does the report contain confidential or exempt information?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
If relevant, state paragraph number of Schedule 12a, Local Government Act 1972, Part 1	

1. Purpose

- 1.1 To provide information on options for the HQ office accommodation for the West Yorkshire Combined Authority (WYCA) and agree a way forward.

2. Information

- 2.1 The Chair of the WYCA asked the Managing Director to look at options for accommodation for WYCA to support changing the culture of the organisation and providing fit-for-purpose facilities. This was incorporated into the 'One Organisation' change programme being run by the Managing Director to create a single organisation to meet the needs of the WYCA and the LEP.
- 2.2 The accommodation challenge facing the WYCA is tricky. On the one hand the case for moving out of WYCA's current accommodation is compelling, in order to provide the right facilities and the right culture for an organisation that is new and needs to espouse values of public sector transformation and partnership with the private sector. There is also a need to ensure that the accommodation is readily accessible to WYCA and its partners.
- 2.3 On the other hand, the cost of moving is significant and the value of Wellington House has been independently assessed and is less now than when it was purchased (due to a lack of investment in the building facilities and fabric). Independent real estate estimates suggest that a sale in the current climate would result in a loss. Such a sale would not be prudent, and the building requires very significant refurbishment to make it attractive to the current market. On top of this the property values around Wellington House are likely to rise considerably once there is more certainty around development opportunities in this part of Leeds. A wider

review of WYCA's assets and how they are best utilised is underway and Wellington House will form an important part of this longer term strategy.

- 2.4 This paper explores the options open to the WYCA in some depth, and concludes that WYCA should look to sell the building when prices rise in the coming years, but in the immediate term refurbish the building and remain in situ.

Current Accommodation

- 2.5 WYCA currently has 3,800 square metres of office accommodation in:
- Wellington House (3,360m²), which it owns, in central Leeds, but which is in a poor state – having been under-invested in since the building was purchased in 1988 for £7m;
 - A lease of part of a floor of higher quality office space in City Exchange (450m²) above the Trinity Centre in central Leeds.
- 2.6 366 of WYCA's staff currently work in central Leeds and the remaining 105 work on the transport network, or from home, or at the Authority's bus stations and travel centres in Leeds, Bradford, Dewsbury, Huddersfield, Halifax, Castleford, Pontefract and Keighley. The small office spaces in these bus stations are occupied by bus station managers, retail units and partners such as the Police or bus company staff.
- 2.7 WYCA also currently hosts about 25 staff in Wellington House from the Urban Transport Group (UTG), Rail North and Transport for the North (TfN) partners, together with visiting staff and suppliers to these organisations. These partners' contributions offset 7% of the costs of Wellington House. However, TfN and Rail North will be leaving WH by July due to them expanding beyond the available space (they are expecting to have about 60 staff in Leeds by year end).

Option Analysis

- 2.8 There are a number of reasons why WYCA accommodation needs immediate attention:
- the split site between Wellington House and City Exchange is hampering our ability to build a single culture because of the perpetuation of 'old' ways of working;
 - the lease on City Exchange is coming to an end and a substantive new solution needs to be found for the staff there;
 - Wellington House is in urgent need of investment – in the facilities (toilets, lifts, water supply, ICT), quality of the office environment and furniture, and entrance/meeting room quality;
 - the shabby nature of Wellington House is contributing to perpetuation of old cultures;

- with an increasing number of external partnership meetings, the facilities in Wellington House (meeting room, webcasting, wifi, break out areas etc) radically need improving.
- 2.9 There is a further issue to consider in terms of the uncertain future of WYCA in the absence of a clear devolution outcome, and whether WYCA will be called upon to undertake more (or less) activities. This uncertainty cannot preclude action (for the reasons cited above), but it should mean that any option pursued requires future proofing and/or a minimum of risks and constraints.
- 2.10 A review of the available options for accommodating WYCA has been carried out within the One Organisation Programme, as part of ensuring best use of resources and to support the cultural change necessary to develop an effective officer organisation for the Authority. The review considered options against the issues set out above, and which led to the following principles:
- Partnership: The WYCA site needs to be highly accessible to partners from across the city region and the north. Initial soundings from Members, stakeholders and staff indicates that this requires the public transport accessibility of central Leeds, close to the railway station. Leeds is the most accessible point on the public transport network, and works for both inter and intra-city region connections. Additionally the accommodation has to be 'owned' by all partners such that they should feel free to use it when they wish and have drop-in provision – an office in central Leeds would best fulfil this requirement.
 - Cost minimisation: WYCA does not have any significant reserves that can be invested in buildings. However, on top of this the revenue costs of Wellington House, of £0.7m pa, are much less than the £2.5m pa that our property advisors indicate WYCA would have to pay to lease higher quality accommodation on another site in central Leeds.
 - New culture: the accommodation should reflect the new values and culture of WYCA.
 - Future proofed: an uncertain future means WYCA should avoid locking itself into overly constraining leasing or other arrangements. This also requires flexibility in the use of space, so that, for example, a Mayor's office could be created if required.
- 2.11 A key issue is whether the WYCA HQ functions could be split, e.g. moving 'back office' functions somewhere cheaper, and hence making savings as a smaller space could be used in central Leeds. However, from the perspective of creating 'One Organisation' this is not desirable, and the dislocation between City Exchange and Wellington House is already impeding the one-culture programme and outwardly confusing the relationship between WYCA and LEP.
- 2.12 Nevertheless, work has been undertaken to review how many staff need not be based in a central location. Depending on the definition of 'back office' this could involve relocating approximately 180 staff in service and corporate resources

functions outside of Leeds. This would still leave some 185 staff needing to be in central Leeds, aside from the challenges of achieving joined-up working between sites.

- 2.13 A second issue arises because WYCA owns Wellington House. The advice from two independent property agents, Lambert Smith Hampton and Savills, is that sale of the building in its current condition is likely to realise somewhat less than its book value, based on recent sales of similar properties in similar condition in central Leeds. Putting this sale value in context, it would be equivalent to only 2.5-3 years of leasing costs for a Grade A property of similar size in central Leeds.
- 2.14 This valuation is significantly below the value of grade-A office accommodation in central Leeds, reflecting the awkward nature of the building and site, and the costs of major work needed on the building to bring it up to an attractive standard, both with regard to the quality of the refurbishment and required works to the fabric of the building - a condition survey has indicated that significant investment is required for works to the roof, ventilation and other parts of the building.
- 2.15 City Exchange will cost WYCA c. £155,000 per annum in rental and other associated costs. In the options City Exchange would be vacated, and the savings used to offset future costs.
- 2.16 Taking these factors into account, the following accommodation options have been considered:
- **Option A: Sell up, stay in central Leeds** Relocation of all of WYCA into another building in central Leeds, and disposal of Wellington House;
 - **Option B: Sell up, split site** Disposal of Wellington House and a move to a split site solution, with a smaller HQ in Leeds and a back office function at a cheaper location in Leeds or elsewhere in the city region;
 - **Option C: Sell up, single site not central Leeds** Relocating WYCA into a single building to a cheaper Leeds location or in one or more sites across the other West Yorkshire cities, and disposal of Wellington House;
 - **Option D: Refurbish, sell later** Refurbishing Wellington House to a higher standard to meet the need for more efficient working as far as possible within funding available, and consolidating all of WYCA (or the vast majority of staff) on this site.
 - **Option E: Let out Wellington House, move somewhere cheaper.**
- 2.17 Each of the options offers a different mix of benefits and costs. In summary:
- **Option A (Sell up, stay in central Leeds)** is the best of the available options in terms of meeting the quality requirements, is most symbolic of a 'new start' for the organisation, in the most accessible location, but is the most expensive by a significant margin at an extra £1.8m in revenue costs per year, or less if capital

receipts from sale of Wellington House are used to offset the additional leasing costs. This option of selling and moving to better accommodation should remain a long term goal, but represents poor value for money at present until property values increase, or Wellington House is worth more to let out.

- **Option B (sell up, split site)** still involves sizeable additional costs in central Leeds as at least 170-185 staff would need to be located there, together with provision of significant public meeting space. There are then the additional costs of the lower-cost space alongside the financial issues of selling for a low valuation in the current market. The cost estimate is therefore an additional £1.1m per year. As a result, inherently, this is a less attractive and more expensive option than a solution involving using Wellington House as the HQ, but significantly cheaper than Option A.
- **Option C (Sell up, single site not central Leeds)** this option has been explored in depth using analysis from Lambert Smith Hampton, which did not find many suitable locations that are currently vacant or available. The option meets some of the quality requirements through relocating to a relatively low cost building at in Huddersfield or on the York ring road, at an additional revenue cost of £0.6 - 0.8m per year. However, arguably, if WYCA is not in a highly accessible location then it will cease to be the place where collaboration and interaction takes place. This neither works for the Boards nor the business.
- **Option D (Refurbish, sell later)** is viable for the organisation in the light of TfN/ Rail North moving out. It would enable provision of 375 workstations, which on a flexible working and desk-sharing ratio of up to 7 workstations for every 10 people would enable us to base over 500 staff in Wellington House. However, it will still involve spending c.£4m on a combined programme of refurbishment and dilapidations. Over the longer term, though, this could be the most cost-effective option, since these additional costs would eventually pay back through avoiding the costs of leasing space in City Exchange or elsewhere, and potentially more quickly if the market for commercial property in Leeds improves and values rise due to HS2. It also retains the central accessible location. The compromise is quality and a lack of flexibility and facility associated with more modern buildings.
- **Option E: (Let Wellington House, move somewhere cheaper)** both of our property advisors do not recommend trying to let the building at the moment, because, without investing significantly to raise it to the highest standards, we are unlikely to be able to find a tenant in the current market. The revenue cost of a move into leased accommodation compounds the issue of the low value of Wellington House.

2.18 The preferred accommodation choice to meet WYCA's and its partners' needs is a new single site of grade A quality in central Leeds. This would provide the right facilities and the right culture for an organisation that is new and needs to live values of public sector transformation and partnership with the private sector. Unfortunately the current sale value of Wellington House and WYCA's financial reserves are too low to fund this option. This option may be more viable within the

next five years as property values rise with the coming of HS2. Other cheaper sites involve compromising on connectivity and a joined-up organisation, and are still expensive relative to our current costs.

- 2.19 The recommended approach is therefore to reach the preferred accommodation solution via the interim step of option D, refurbishing Wellington House to a higher standard (grade B) to meet needs as far as possible within funding available, and to raise the value of the building for in future years. Initial feasibility work suggests that the required workspace and meeting rooms could be accommodated within a refurbished Wellington House. The next step is to progress to a detailed design, costs and plan to enable a final approval to be sought early in 2018 to commence works.

3. Financial Implications

- 3.1 The costs of the various accommodation options are:

- **Option A: Sell up, stay in central Leeds** - £1.8m pa increase in revenue costs.
- **Option B: Sell up, split site** - £1.1m pa increase in revenue costs.
- **Option C: Sell up, single site not central Leeds** - £0.6 – 0.8m pa increase in revenue costs.
- **Option D: Refurbish, sell later** – one-off capital cost of up to £4m.
- **Option E: Let out Wellington House, move somewhere cheaper** – costs as per Options B or C, depending on location, plus dilapidations work to Wellington House, unlikely to be offset by rental income for a lengthy period.

- 3.2 The recommended option D is expected to cost up to £4m. This will enhance the utility of Wellington House to WYCA and increase its value as a saleable asset. The cost will be expected to pay back in the longer term through ending lease payments for office space in City Exchange, or earlier if property values rise. This is the lowest cost option spread over a five year period.

- 3.3 The costs of the refurbishment could be met from a combination of capital receipts, use of cash balances and reserves and savings against future lease costs – including the saving from not needing City Exchange.

4. Legal Implications

- 4.1 Planning restrictions may reduce the financial return that can be obtained from a sale of Wellington House, and this is factored into the estimated capital receipts.

5. Staffing Implications

- 5.1 Each option has impacts on WYCA employees. WYCA terms and conditions state *'You will be based in Leeds but your base location may be changed at the discretion of WYCA to anywhere in West Yorkshire.'* HR advice is that formal consultation will be

required if a change of location is proposed as it is a change to term and conditions. Several employees have been based in Leeds for between 10 to 30 years and as such it is arguable it is an implied term of the contract that they are based in Leeds. This situation does not prevent us from changing the location following consultation.

6. External Consultees

- 6.1 West Yorkshire Chief Executives and the LEP chair have been consulted on this report.

7. Recommendations

- 7.1 That option D of retaining and investing in Wellington House, until its value rises sufficiently to get a return on the investment, is progressed to a detailed design, costs and plan, and that any constraints in the building could be overcome. That an immediate sum of up to £100k is made available from reserves to progress this work which will be subject to the WYCA Project Assurance processes.

8. Background Documents

- 8.1 None.