

**PALACE GREEN HOMES (ECTC) – OFFICE ACCOMMODATION REVIEW  
(FINAL REPORT)**

Committee: Finance and Assets Committee

Date: 7 June 2020

Author: Director Commercial

[W18]

**1.0 ISSUE**

- 1.1 The future office accommodation requirements of Palace Green Homes (ECTC).

**2.0 RECOMMENDATIONS**

- 2.1 Members are requested to approve the continuation of the tenancy at Fordham to 18<sup>th</sup> December 2024 and instruct ECTC to seek to reduce future accommodation costs by sub-letting part of the building.

**3.0 BACKGROUND**

- 3.1 The Asset Development Committee in December 2018 (ref: Agenda Item 11) approved the relocation of Palace Green Homes (ECTC) to offices at Fordham House Estate. The Committee further agreed that this would be subject to a review by 31 December 2020.
- 3.2 At its meeting on 26 November 2020, Finance & Asset Committee noted a report on an Interim Review of office accommodation requirements. Officers were instructed to provide a further and final report by 31 May 2021. This report sets out the final findings of the review.
- 3.3 The current six-year, full repairing and insuring, lease to occupy the 1600 sq.ft office at Fordham has an option to break the lease on 19 December 2021. This is subject to six months' notice being issued prior to the break date i.e. 18 June 2021.
- 3.4 In considering the future office accommodation requirements of Palace Green Homes, Members should consider the following issues, specifically:
- is there evidence of need for Palace Green Homes to make any changes to its current requirements and arrangements based on an evaluation of future operations and potential alternatives;
  - if there is a case for change, there should be evidence that the sequential test has been followed based on the presumption that preference should be given to Council owned assets before considering alternatives;
  - consideration of the asset management and financial implications for the Council.

#### 4.0 OPTIONS/ARGUMENT

- 4.1 The Fordham office is a well designed, modern, accessible, energy-efficient building that provides meeting space for clients and staff. As an operational location, Fordham works well for the company, considering the location of its development sites and the home addresses of its staff. Prior to COVID 19 restrictions, it accommodated up to 15 staff, and on occasions up to 20 people were working from there at any one time. Under COVID 19 secure arrangements no more than 15 staff can be accommodated in the building.
- 4.2 The future office accommodation requirements of Palace Green Homes will be dependent on a number of factors, specifically:-
- the effectiveness and demand for home working in light of recent working practices and the impact on spatial requirements;
  - the future business plans of the company and its impact on medium and long term office accommodation requirements.
- 4.3 Palace Green Homes currently has 8 members of staff that require an office base. Given the continuing risks associated with COVID 19, all employees need to be provided with accommodation that can offer COVID-safe work facilities with appropriate social-distancing.
- 4.4 The COVID 19 pandemic has led to a re-evaluation of the ways that things are done at Palace Green Homes. The team has shown that they are able to work completely remotely for short periods, either from home or from offices located on its two development sites at Ely and Haddenham, without detrimental impact on the day-to-day business.
- 4.5 However, there are longer-term downsides to enforced remote-working. By not sharing a physical location, it has been harder to work collaboratively, learn from others and hold the spontaneous conversations that lead to new ideas or help to overcome issues that are faced in a working day. Coupled with this, isolation from one another, can lead to deterioration of staff morale and mental health.
- 4.6 Additionally, the physical office provides facilities for training, essential face-to-face meetings with customers and suppliers, and access to specialist technical and IT equipment.
- 4.7 Going forward, it is expected that Palace Green Homes will adopt a hybrid pattern of working with staff spending most of the week at an office base, with occasional home-working and remote working from sites.
- 4.8 Analysis indicates that Palace Green Homes should be able to work effectively with 50% of the current office space (around 800 sq.ft) based on the expected work programme included in the Business Plan and anticipated COVID-safe space requirements. Based on the space requirement, there are options to:
- i) consider alternative office locations, or
  - ii) remain at Fordham but re-configure the current office to allow part to be sub-let, leading to a reduction in annual office costs.

- 4.9 If the requirement for alternative office locations is the preference of Members, the presumption is to initially consider ECDC owned assets. Current opportunities to relocate Palace Green Homes to Council owned assets in December 2021 (based on current availability) are very limited, specifically:-
- The Grange itself is currently subject to COVID 19 restrictions, the availability of surplus space is unlikely based on an evaluation of the Council's office requirements;
  - other potential ECDC owned assets will be dependent on the outcome of the market exercise at 70 Market Street, Ely and opportunities at e-Spaces North and South.
- 4.10 70 Market Street is currently under offer and is expected to be occupied prior to December 2021.
- 4.11 E-Space South is fully let. E-Space North has one small unit that is currently available (650 sq.ft), however this is smaller than the current office requirement for Palace Green Homes. Analysis has shown that the current total cost of office accommodation at Fordham (including rent, rates, insurance, utilities, cleaning, etc) equates to £31 per square foot. In comparison, the expected cost of E-Space north is a little higher at £33 per square foot. However, E-Space north is not as well located as Fordham when the locations of the current development projects at Haddenham and Ely are considered, and staff travel-to-work distances are greater.
- 4.12 There is potential to sub-divide the Fordham office and use surplus space to create three smaller independent offices. The largest of these could continue to be occupied by Palace Green Homes, with the other two smaller offices being sub-let on an 'all-inclusive rent' basis. All users of the office would share the existing reception, kitchen / WC and meeting room facilities, with sub-tenants booking to use the meeting room as required, on the payment of additional fees. The works required to sub-divide the office are costed at around £8,000. There will be a requirement to make good any structural changes made once the lease is terminated and the cost of this is not currently known, but is expected to be less than the cost to implement.
- 4.13 This strategy would reduce the annual office costs to the ECTC by 26% (£12,914) per annum, and allow Palace Green Homes to continue at Fordham without business interruption to the lease expiry date in December 2024.
- 4.14 The table below shows how the costs of the building could be apportioned to each office, and all-inclusive rents charged would reflect the proportioned cost (i.e. the company would not seek to profit from the arrangement). The offices at the front of the building would be sub-let, with Palace Green Homes occupying the rear office.

<u>Net areas</u>	<u>Net areas</u> <u>(sqft)</u>		<u>Proportioned</u> <u>cost</u>		<u>Lettable</u> <u>areas</u> <u>(sqft)</u>		<u>Proportioned</u> <u>'all-inclusive'</u> <u>rent</u>
Front Office (A) - RHS	218	13.7%	£ 6,852		218	17.4%	£ 8,716
Front Office (B) - LHS	105	6.6%	£ 3,300		105	8.4%	£ 4,198
Meeting room	167	10.5%	£ 5,249		167	13.4%	£ 6,677
Rear Office	760	47.8%	£ 23,889		760	60.8%	£ 30,387
WC / Kitchen / Circulation	340	21.4%	£ 10,687		0		
	<b>1,590</b>		<b>£ 49,978</b>		<b>1,250</b>		<b>£ 49,978</b>

4.15 A formal offer has been received from a prospective tenant to rent Office A for the duration of the lease (to Dec 2024). This alone would reduce the annual office costs by 17.4% (£8,714). Palace Green Homes is also aware of other businesses that are interested in sub-letting Office B, but have yet to make a formal offer.

4.16 It is therefore recommended that Palace Green Homes remain at the Fordham office for the duration of the lease but progress the opportunities that exist to reduce annual accommodation costs through sub-letting.

## 5.0 FINANCIAL IMPLICATIONS/EQUALITY IMPACT ASSESSMENT

5.1 At this point, there are no financial implications for the Council arising from this report.

5.2 The cost of the current lease (including service charges) at Fordham is £6,468 per quarter and this cost is borne entirely by ECTC. Relocation to Council owned property would provide ECDC a rental income dependent on agreed terms.

## 6.0 APPENDICES

6.1 None

Background Documents	Location	Contact Officer:
Asset Development	Room 103	Emma Grima
Committee – December	The Grange	Director, Commercial
2018 - Agenda Item 11	Ely	(01353) 616960
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