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# The future of West Street House

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<b>Committee considering report:</b>	Executive
<b>Date of Committee:</b>	2 November 2023
<b>Portfolio Member:</b>	Councillor Iain Cottingham
<b>Date Portfolio Member agreed report:</b>	14 September 2023
<b>Report Author:</b>	Richard Turner
<b>Forward Plan Ref:</b>	EX4319

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## 1 Purpose of the Report

- 1.1 West Berkshire Council successfully implemented its agile working arrangements (Timelord 2) in July 2022. This brought colleagues based in the Newbury offices into the council's Market Street office, freeing up West Street House (WSH) and West Point House (WPH). This has resulted in a financial saving of £135,000 per annum of revenue costs, reduced the energy costs for the council's core office buildings by 40% and also reduced the council's operational carbon footprint by 3.6%.
- 1.2 WBC Executive has approved the conversion of WPH to create five residential units as part of the Local Authority Housing Fund (LAHF) project to deliver housing units for displaced persons. There is now opportunity to consider the future of WSH and how the site can best contribute to Newbury town centre, with the potential to dispose of the site and redirect any capital receipt into important transformation projects benefitting council services for West Berkshire residents.
- 1.3 This report seeks to offer a number of potential options for the WSH site, to prompt discussion and decision as to the preferred option.

## 2 Recommendations

- 2.1 To resolve to delegate to the Executive Director of Resources, having consulted the Executive Portfolio Holder for Finance and Corporate Services:
  - (a) Place WSH on the open market for the sale of the freehold of the asset, in its current condition, use (office) and with vacant possession;
  - (b) To run in parallel an exercise to submit a pre-application to offer a strong indication of the potential for the demolition of WSH and redevelopment;

- (c) In circumstances where the freehold sale is proving to be prolonged, and the pre-application offers positive outcome, WBC to:
- obtain planning consent for demolition and redevelopment for residential use;
  - then proceed with the demolition of WSH;
  - then place WSH on the open market as a vacant brownfield development site with consent attached for residential development.

### 3 Implications and Impact Assessment

Implication	Commentary
<p><b>Financial:</b></p>	<p><b>Debt</b> - WBC has debt on the original purchase of WSH and continues repayments on the loan as well as minimum revenue provision (MRP).</p> <p>The disposal of assets, would initially have no effect on our Capital Financing Requirement (CFR) and Minimum Revenue Position (MRP) would still be required to pay debt balances down. However, capital receipts generated from the disposal would then be available which could be set aside to reduce the CFR going forward in future years, i.e. reduce the need for future borrowing against the capital programme.</p> <p>The basis of the MRP write down could still follow assumptions as per original MRP (based on useful economic life (UEL) of assets), even though we would no longer own that asset as the debt itself would remain outstanding.</p> <p>Where new debt is created by capital investments needed of individual options, this debt would fall within the council's Capital Finance Requirement (CFR) and would not be linked to a specific asset and the term would thus not be co-terminus with a specific asset life. Such debt has been modelled on a 20 year annuity basis at the current Public Works Loans Board (PWLB) rate of 5.29% with Minimum Revenue Provision (MRP) offering a total annual cost to the council's General Fund.</p> <p><b>Vacant building</b> - By closing WSH the revenue cost of the building has reduced from levels required for full occupation to a level necessary to maintain the building in vacant condition.</p> <p>The closure of WSH has avoided the expected capital maintenance cost for condition issues identified in condition surveys.</p> <p><b>New operational use</b> – Should an alternative operational use be found for the building the revenue costs to operate the building would return to previous levels.</p>

	<p>In operational use WBC would need to plan for the capital condition issues previously identified in condition surveys.</p> <p><b>Lease out</b> – Would require capital investment (with annual revenue cost implications) to bring to a lettable standard and would bring annual rental income.</p> <p><b>Office hub</b> – Models differ across different organisations and market conditions but a typical model could be, WBC to make capital contribution for the fit-out and receive a percentage of actual desk revenue over a five or ten year period.</p> <p><b>Freehold disposal (existing use)</b> – Sell on the open market in existing condition with vacant possession offering a gross capital receipt.</p> <p>Open market disposal is expected to also attract residential developers seeking to develop by way of permitted development for conversion to residential.</p> <p><b>Demolish and redevelop</b> – Sell as a development site with full planning consent for residential development, having first demolished the WSH structure. This would require one-off revenue for demolition of WSH. WBC would receive the capital receipt for the sale.</p> <p><b>Self development &amp; sale</b> – Based on WBC developing the site itself, and selling all units on the open market. Demolition and redevelopment would have a capital cost and create a capital receipt. Redevelopment based on permitted development for conversion to residential would equally have a capital cost and capital receipt.</p> <p><b>Miscellaneous</b></p> <p>WSH currently has its electricity supply physically provided via the adjacent ‘Bayer’ building. Formal enquiry has been made to SSE but costs and timescales for installation may not align with any disposal programme.</p>
<p><b>Human Resource:</b></p>	<p>There are no identified Human Resources implications for this proposal.</p>
<p><b>Legal:</b></p>	<p>Legal Services input is expected no matter which option is progressed, to act for WBC either in disposing of assets or drafting leases.</p> <p>Should WBC wish to proceed with any disposal (whether freehold disposal or lease) this will be subject to s.123 of the Local Government Act 1972;</p>

	<p>This requires the council satisfy itself that it has complied with 'best consideration' requirements for the disposal.</p>
<p><b>Risk Management:</b></p>	<p>The vacant building is vulnerable to break-in and vandalism which could attract negative publicity for the council. The lengthy period of construction on the adjacent 'Bayer' site contributes to the neglected feel of the site.</p> <p>WBC currently has no operational benefit from the building but retains revenue building costs to maintain the vacant building.</p> <p>WBC currently has a debt for the two sites. Disposal could release capital for redirection in the capital programme or for important transformation projects, to benefit council services.</p> <p>Market interest in WSH is an unknown, which could lead to an extended void period.</p> <p>Initial planning advice obtained from consultant planning adviser indicates areas to be addressed in any future planning application including, the site falling within a Conservation Area, Zone 2 flood risk in the area, and the requirements of policy CS9 requiring demonstration that the proposal does not substantially prejudice the overall supply of office space.</p> <p>Specific risks and opportunities for each option are:</p> <p><b>Do nothing</b></p> <ul style="list-style-type: none"> <li>-Ongoing revenue costs to WBC</li> <li>-Risk of vandalism and decreasing condition</li> <li>-Does not contribute to Newbury</li> </ul> <p><b>WBC alternative operational use</b></p> <ul style="list-style-type: none"> <li>-No alternative use found</li> <li>-Reintroduced revenue costs to WBC</li> <li>-Reintroduces the capital required to address condition issues</li> </ul> <p><b>Lease out</b></p> <ul style="list-style-type: none"> <li>+Regular income over five years+</li> <li>+Removes operational/vacant building costs</li> <li>-Likely to have 12 month+ rent free period</li> <li>-Requires capital investment to achieve letting standard</li> <li>-Potential prolonged marketing and void period</li> </ul> <p><b>Office hub</b></p> <ul style="list-style-type: none"> <li>+Brings flexible office space into the town centre</li> <li>+Removes operational/vacant building costs</li> <li>+Regular income over 5 years+</li> <li>-Requires capital investment to achieve letting standard</li> <li>-Income is linked to occupancy and is not guaranteed</li> </ul>

	<p><b>Freehold disposal (existing use or permitted development)</b></p> <ul style="list-style-type: none"> <li>+Capital receipt</li> <li>+Removes operational/vacant building costs</li> <li>-Value impacted by current condition</li> <li>-Uncertain market conditions cause prolonged void period</li> <li>-Permitted development in the hands of the developer with uncertain provision of affordable housing</li> <li>-Purchaser may seek an acquisition subject to planning prolonging disposal</li> </ul> <p><b>Freehold disposal (demolish and redevelop)</b></p> <ul style="list-style-type: none"> <li>+Capital receipt</li> <li>+Demolition reduces prolonged vacant building costs</li> <li>+WBC obtaining consent gives some control on outcome</li> <li>-Planning risk to WBC</li> <li>-One off revenue costs for demolition</li> <li>-Uncertain market causes prolonged period for sale, although without void costs.</li> </ul> <p><b>Self development and sale</b></p> <ul style="list-style-type: none"> <li>+Capital receipt</li> <li>+Gives WBC control over the development including the provision of affordable housing</li> <li>+WBC in control of timescales to bring residential units to the market</li> <li>-Significant capital investment needed to develop the site</li> <li>-Capital receipt not expected to be significantly better than open market sale but with greater effort and risk</li> <li>-WBC carries the risk associated with the sales of units</li> <li>-More work needed to understand the legal structure under which WBC would act (WBC or legal entity).</li> </ul>
<p><b>Property:</b></p>	<p>Agreement for options to either demolish or self-develop would result in a project to progress with the designs, town planning, and any management of procurement of the demolition or construction.</p> <p>Property Services will lead on any disposal of WSH, with procurement of marketing agents.</p> <p>Where an option proceeds which introduces a lease, Property Services would manage that lease and tenant as business as usual.</p> <p>We are currently carrying out an electrical supply application and capital project for the installation of a dedicated electrical supply to WSH (which currently relies on its electricity supply through the 'Bayer' building).</p>

<b>Policy:</b>	The disposal of the site has the opportunity to support elements of the Newbury Master Plan and either continue to offer office space in Newbury Town centre or introduce additional town centre residential units, with associated positive impact on the Newbury town centre economy.			
	<b>Positive</b>	<b>Neutral</b>	<b>Negative</b>	<b>Commentary</b>
<b>Equalities Impact:</b>				
<b>A</b> Are there any aspects of the proposed decision, including how it is delivered or accessed, that could impact on inequality?	N	Y	N	
<b>B</b> Will the proposed decision have an impact upon the lives of people with protected characteristics, including employees and service users?	N	Y	N	
<b>Environmental Impact:</b>	Y	N	N	Removal of WSH from the WBC estate will have a corresponding reduction in the energy usage and carbon of WBC in delivering its services through its corporate offices. Any replacement building will be built to current planning and Building regulation standards with improved performance to that of WSH.
<b>Health Impact:</b>	N	Y	N	
<b>ICT Impact:</b>	N	Y	N	
<b>Digital Services Impact:</b>	N	Y	N	

<b>Council Strategy Priorities:</b>	N	Y	N	
<b>Core Business:</b>	N	Y	N	
<b>Data Impact:</b>	N	Y	N	
<b>Consultation and Engagement:</b>	Colleagues in WBC finance team have been approached regarding debt structure.			

## 4 Executive Summary

4.1 Until July 2022 WBC operated from four key office sites, managed centrally as corporate assets. These sites were Market Street (MS), West Street House (WSH), West Point House (WPH), and Turnhams Green (TG).

The successful outcome of the Timelord 2 project enabled WBC to rationalise its current office use, with WSH and WPH becoming surplus to operational requirements. Both WSH and WPH became vacant in July 2022.

4.2 WBC Executive has approved the conversion of WPH to create five residential units as part of the wider Local Authority Housing Fund (LAHF) project to deliver housing units for displaced persons. There is now opportunity to consider the future of WSH and how the site can best contribute to Newbury town centre in the long term.

4.3 WBC has debt against WSH as well as ongoing revenue costs for the vacant building. There are ongoing payments to service the debt and also minimum revenue provision (mrp). Revenue costs associated with the vacant building cover business rates, energy bills, service charge and maintenance/servicing.

4.4 Removing the ongoing revenue costs for the vacant building is an important consideration, especially where the potential for prolonged marketing for disposal of the site results in prolonged revenue expenditure.

4.5 There is now opportunity for the council to consider the future of WSH with the following options:

(a) Alternative operational use: WBC could consider an alternative operational use. The potential for WSH has been raised at Asset Management Group (AMG), and through direct approach to the operational services. No demand or requirement has been identified;

(b) Commercial Lease: Would bring ongoing rent. To enable a lease to proceed the current EPC rating of F would need to be brought to at least an E with capital cost.

There is the potential for prolonged marketing with an uncertain office letting market;

- (c) Office hub model: There is the potential for ongoing rent income by either letting to an established 'hub' operator or for WBC to fit-out and operate itself.

Given lack of experience in Hub operation it is most likely WBC would lease to a specialist. Such lettings operate on a very different model to a normal lease with WBC carrying capital cost and risk.

WBC would need to commit to addressing both the condition issues and quality expectations of users;

- (d) Freehold disposal: Disposal on the open market of the freehold of WSH in its current condition and use. This would release WBC from its liabilities for empty building costs, (rates, energy, and maintenance) future capital maintenance, and bring a capital receipt. It would also continue to support town centre office space, an objective contained within planning policy.

There is uncertainty over demand for offices in the town centre, with the risk of prolonged marketing and void period. The current condition of the building will also impact both marketing and value;

Disposal on the open market may also attract residential developers with a view to the change of use and conversion of WSH from office use to residential use.

- (e) Demolish and redevelop: The site would be sold as development land, with full planning consent attached for demolition and redevelopment for residential purposes. The current structure would be demolished to avoid prolonged void costs during marketing of the site.

It is anticipated that WBC would require to commit one off revenue funding for the demolition of WSH.

- (f) WBC self-development and sale WBC could consider developing the site itself, either by permitted development or by demolition and redevelopment, for purposes of residential use and selling individual units on the open market.

This gives WBC control over the development but comes with significant capital requirement and risk.

- 4.6 When considering the possible freehold disposal of the site for either permitted development or redevelopment for residential purposes WBC could also consider the disposal to the WBC/Sovereign Housing Association joint venture on the basis of a 100% affordable development for the site.

Consideration should though be given to the potential duration and impact on land value of a development for 100% affordable housing.



## 5 Supporting Information

### Introduction

- 5.1 West Berkshire Council successfully implemented its agile working arrangements (Timelord 2) in July 2022. This brought colleagues based in the Newbury offices into the council's Market Street office, freeing up West Street House (WSH) and West Point House (WPH). This has resulted in a financial saving of revenue costs, reduced the energy costs for the council's core office buildings by 40% and also reduced the council's operational carbon footprint by 3.6%.
- 5.2 WBC Executive has approved the conversion of WPH to create five residential units as part of the Local Authority Housing Fund (LAHF) project to deliver housing units for displaced persons. There is now opportunity to consider the future of WSH and how the site can best contribute to Newbury town centre, with the potential to dispose of the site and redirect any capital receipt into important transformation projects benefitting council services for West Berkshire residents.
- 5.3 This report seeks to offer a number of potential options for the WSH site, to prompt discussions and decision as to the preferred option.

### Background

- 5.4 Until July 2022 WBC operated from four key office sites, managed centrally as corporate assets. These sites were Market Street (MS), West Street House (WSH), West Point House (WPH), and Turnhams Green (TG).

The successful outcome of the Timelord 2 project enabled WBC to rationalise its current office use, with WSH and WPH becoming surplus to operational requirements. Both WSH and WPH became vacant in July 2022.

- 5.5 WBC Executive has approved the conversion of WPH to create five residential units as part of the wider Local Authority Housing Fund (LAHF) project to deliver housing units for displaced persons. There is now opportunity to consider the future of WSH and how the site can best contribute to Newbury town centre in the long term.
- 5.6 WBC has debt against WSH from the original purchase and capital refurbishment of the building as well as ongoing revenue costs for the vacant building. There are ongoing payments to service the debt and also minimum revenue provision (mrp). Revenue costs associated with the vacant building cover business rates, energy bills, service charge and maintenance/servicing.
- 5.7 WSH forms part of the wider office development with the adjacent building formerly occupied by Bayer Pharmaceuticals. This has a number of links:
  - (a) There is shared site maintenance with WBC paying a service charge;
  - (b) WSH has ownership rights to 65 parking spaces in the site's multi storey car park which is shared with the adjacent building.

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- (c) The electrical supply to WSH physically runs via the adjacent 'Bayer' building with the supply metered and charged via the service charge. This prevents WBC from benefitting from its own supply contracts.
- 5.8 Removing the ongoing revenue costs for the vacant building is an important consideration, especially where the potential for prolonged marketing for disposal of the site results in prolonged revenue expenditure.
- 5.9 For many of the options for consideration Town Planning will be a significant factor, whether through full application for redevelopment or through permitted development for change of use to residential.
- 5.10 Within the options is the potential for the demolition of the WSH structure which enables the removal of business rates during any disposal, but needs to be offset against other options with a higher capital receipt outcome and also the cost of demolition of WSH which is expected to be a one-off revenue cost rather than capital cost.

## Proposals

- 5.11 A number of potential options are discussed below in section 6 'Other options considered' each of which has benefits, costs and risks.
- 5.12 Based on the balance of both the rewards and risks it is proposed to:
- (a) Place WSH on the open market for the sale of the freehold of the asset, in its current condition, use (office) and with vacant possession;
  - (b) To run in parallel and exercise to submit a pre-application to offer a strong indication of the potential for the demolition of WSH and redevelopment;
  - (c) In circumstances where freehold sale is proving to be prolonged, and the pre-application offers positive outcome, WBC to:
    - obtain planning consent for demolition and redevelopment;
    - then proceed with the demolition of WSH;
    - then place WSH on the open market as a vacant brownfield development site with consent attached for residential development.

## 6 Other options considered

### 6.1 Do nothing:

The existing building currently lies empty and has costs associated with retaining the building in its vacant condition.

There continues to be ongoing maintenance tasks for safety checks/testing at the site as well as statutory servicing with supplier costs and WBC staff time.

The do nothing option does not address either the plans for the site or overcome the ongoing costs;

### 6.2 Alternative operational use:

Asset Management Group (AMG) acts to discuss all aspects of the council's land and built estate and has representatives from each directorate. A schedule of surplus (or potentially surplus) assets is maintained and tabled at each meeting of AMG.

The potential for alternative operational purpose for WSH has been discussed at AMG and direct approach made to operational services seeking expressions of interest.

No operational use for WSH has been established.

### 6.3 Commercial Lease:

Would bring ongoing rent as a revenue income.

WSH currently has an EPC rating of F. Under the Minimum Energy Efficiency Standards (MEES) a commercial building must have a minimum rating of an E for it to be let.

The MEES regulations are being reviewed with an anticipated increase to C being the standard by 2027 and B by 2030 which will include lease renewals. So on renewal of the lease or any new lease in the future WBC would be required to contribute further capital to improve the building performance.

There is the potential for prolonged marketing with an uncertain office letting market;

### 6.4 Office hub model:

There is the potential for ongoing rent income by either letting to an established 'hub' operator or for WBC to fit-out and operate itself.

This is a specialist market and the lack of market knowledge and experience would suggest that it most likely WBC would proceed with a specialist provider. If dealing with an established 'hub' provider (such as Regus) the agreement is likely to be in the form of a lease but the structure of that lease will not be based on fixed rent.

The model is likely to seek that any capital expenditure required by the tenant to both deal with capital condition issues and to bring to the corporate standards required is paid up front by WBC with the rent share for WBC reflecting that investment.

## 6.5 Freehold disposal:

There is opportunity for disposal on the open market of the freehold of WSH in its current condition and use, with vacant possession.

This would be interest from owner occupiers, office investors or from residential developers seeking to change the use of the property from office use to residential use through permitted development.

Interest from developers in the conversion to residential would have strong planning potential through permitted development.

There has been national criticism of the quality of development produced from permitted development sites. WBC would not be in control of the future development site, other than through the planning process.

This would release WBC from its liabilities for empty building costs, (rates, energy, and maintenance) future capital maintenance, and bring a capital receipt. It would also continue to support either town centre office space, or bring additional residential accommodation to the town centre.

There is uncertainty over demand for offices in the town centre, with the risk of prolonged marketing and void period. The current condition of the building will also impact both marketing and value

When considering the possible freehold disposal of the site for either permitted development or redevelopment for residential purposes WBC could also consider the disposal to the WBC/Sovereign Housing Association joint venture on the basis of a 100% affordable development for the site.

Consideration should though be given to the potential duration and impact on land value.

## 6.6 Demolish and redevelop:

The site would be sold as development land, with full planning consent attached for demolition and redevelopment for residential purposes. The current structure would be demolished to avoid prolonged void costs during marketing of the site.

## 6.7 WBC self-development and sale:

WBC could consider developing the site itself, either by permitted development or by demolition and redevelopment, for purposes of residential use and selling individual units on the open market.

This gives WBC control over the development enabling the council to ensure suitable inclusion of affordable housing, something it would not be fully in control of with a private development.

This option does though come with the need for up front significant capital investment as well as direct risk associated with the duration required for the sale of individual residential units.

## The future of West Street House

Additionally further investigation would be required to better understand the legal structure under which WBC would be best to proceed, whether it be the council itself or carried out under a different legal entity such as an arm's length company.

## 7 Conclusion

- 7.1 West Street House (WSH) is currently vacant following successful completion of the council's agile working project (Timelord 2) and there is opportunity for the council to consider the best use for the site.
- 7.2 This report presents a number of potential options each of which comes with different opportunities, benefits, costs and risks.
- 7.3 The best option will be subject to discussion, debate and consideration of the best outcome for WBC, although officer recommendation is:
- (a) To sell the freehold of WSH in its current vacant condition;
  - (b) To submit a pre-application for the demolition and redevelopment for residential purposes. This will offer WBC planning advice on potential alternative;
  - (c) Where it is obvious through prolonged unsuccessful marketing of the site that sale is unlikely WBC should progress the alternative proposal for development consent, and demolition with sale as a development site.

## 8 Appendices

None

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### Background Papers:

None

### Subject to Call-In:

Yes:  No:

- |   |                          |
|---|--------------------------|
| The item is due to be referred to Council for final approval  | <input type="checkbox"/> |
| Delays in implementation could have serious financial implications for the Council                              | <input type="checkbox"/> |
| Delays in implementation could compromise the Council's position  | <input type="checkbox"/> |
| Considered or reviewed by Scrutiny Commission or associated Committees, Task Groups within preceding six months | <input type="checkbox"/> |
| Item is Urgent Key Decision   | <input type="checkbox"/> |
| Report is to note only  | <input type="checkbox"/> |
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**Wards affected:** Newbury Central

**Officer details:**

Name: Richard Turner  
Job Title: Property Services Manager  
Tel No: 01635 503653  
E-mail: [Richard.Turner@westberks.gov.uk](mailto:Richard.Turner@westberks.gov.uk)

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