Department of Finance | An Roinn Airgeadais

Better Business Cases NI

Supplementary Guidance

Appraisal of Accommodation Projects

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1 Introduction

This guidance explains the roles of client Departments in accommodation projects, and those of Properties Division (PD), Central Procurement Directorate (CPD), Land and Property Services (LPS) and Supply. It is generally consistent with guidance issued by HM Treasury, at the instigation of the Public Accounts Committee, about the roles of client departments and other public bodies involved in undertaking appraisal of projects involving expenditure on accommodation.

This guidance should be read in conjunction with the Government Office Accommodation Standards which sets the standards for accommodation and furnishings in the Northern Ireland Civil Service. The purpose of the standards is to achieve efficient, economical and equitable allocation of the Government Office Estate and to ensure that public sector staff are housed in safety and in reasonable comfort.

Government Office Accommodation Standards should be applied to the staff accommodation element of all projects, where possible. Departments and other public bodies should seek CPD advice in the development of the accommodation brief and demonstrate to CPD that the final project plan complies, as much as possible, with the specifications set out in the Government Office Accommodation Standards.

2 The need for overall appraisal

A Green Book style strategic option appraisal should be conducted with proportionate effort in all cases.

Accommodation costs often represent a significant proportion of the total cost of a project and can therefore be a crucial factor in deciding whether or not the proposal should proceed. An appraisal must therefore be carried out which covers the cost of the project as a whole.

The appraisal should refer to the (departmental) Asset Management Plan and associated property strategy as maintained by the property centre manager (normally the departmental accommodation officer), which contains the definitive statement of the (department's) ongoing strategy for the meeting of operational need.

3 Responsibilities of departments, PD, CPD and LPS

Departments or public bodies are in the best position to assess requirements for their own accommodation needs. However, a number of technical experts, including LPS, CPD and PD are well placed to assist in developing the various ways in which the accommodation needs can be met. Before any accommodation project goes ahead, the Department should always seek assurances from PD that the preferred option is in line with the wider strategy for the NICS Government Estate. They should also engage with LPS to determine if space is available in the wider public sector estate.

It is for each Department or public body to co-ordinate the appraisal effort and take responsibility for appraising the project as a whole, incorporating the contribution of CPD, LPS and PD. In-house economists and accountants can provide relevant general appraisal advice and should be involved when developing an appraisal.

Departments and public bodies should always begin appraisals concerned with the provision of new or replacement buildings with an analysis of the prior need for service provision. It is not sufficient for departments merely to list the defects of current accommodation or simply state a space requirement. Departments must also justify the need for continuation or development of the relevant service (for example, by reference to changes in policy, changing staff numbers and so on) before considering options to accommodate it. The amount of effort that should be devoted to such justification will vary depending on the nature of the case and is, therefore, a matter for judgement. In simple cases it may be sufficient to refer to a recent relevant report or policy document. In other cases, a more sophisticated analysis of the appropriate level and/or quality of service may be necessary. Nevertheless, the question of need should always be addressed prior to the consideration of options. Similarly, departments should be aware that if a business area has identified a need to hire additional staff, these employees should not be hired until funding for the entire cost of this activity, including the accommodation element, is considered and secured. When assessing accommodation needs, appraisers should have regard to relevant workplace

policies, including hybrid working arrangements, to ensure that space requirements are proportionate and justified.

Appraisals concerned with new or replacement buildings should always be initiated at the earliest possible moment. The decision whether to lease or purchase accommodation should be examined for each individual case and the following factors should be considered:

- value for money;
- funding constraints; and
- time constraints.

Appraisals concerned with the location of offices and other buildings may in some cases be constrained by policy aims expressed in terms of factors such as equal opportunity and urban regeneration. Such constraints should not always be taken at face value and should be balanced against other considerations including cost. For example, if such factors suggest restricting options to relatively high cost city centre locations, it may be appropriate to consider options at other, lower cost locations so that the cost of pursuing particular policy aims is made explicit.

Following strategic option appraisal, alternative procurement options should be examined in accordance with Better Business Case NI guidance. There should be no predilection in favour of any particular type of procurement. The procurement route offering best VFM should generally be selected.

Accommodation needs rarely arise overnight. Proper forward planning, including early appraisal (that is, when the accommodation needs first appear, not at some later date when, for example, an attractive building happens to come on the market) should be conducted to minimise the extent to which 'urgency' is permitted to constrain option selection by ruling out new build solutions.

4 Procedures for departments

At the outset of a project departments should agree with PD, CPD and LPS how the appraisal of the project will proceed. In particular it should be agreed what information should be exchanged, and when.

At the same time PD will be able to consider and advise, for projects which in any way involve the PD office estate, on the issues below.

- Who is responsible for funding?
    a) If an accommodation project is wholly business driven by a Department, they have sole responsibility for providing all associated funding for the new accommodation, as well as funding the liability of any existing accommodation that is vacated.
    b) If an accommodation project has shared business drivers between PD and the client Department then funding for the project may be shared, PD and the client Department will agree on who will have responsibility for the business case (normally the lead funder will have responsibility).
    c) If an accommodation project is wholly business driven by PD then they have responsibility for providing all associated funding for the new accommodation as well as funding the liability of any existing accommodation that is vacated.
- If the request is compatible with standard office accommodation.
- If the need fits in with broader accommodation plans in the particular area.
- Whether any existing accommodation exists (or may become available) that can be utilised to meet the requirement.

There should be continuing liaison and mutual exchange of updated information as the project develops. Departments should consult PD on accommodation

matters during the course of an appraisal, and they should consult other technical experts such as CPD, LPS or Departmental economists and accountants as appropriate.

Departments should note that contracts, such as to lease or purchase buildings, should not be negotiated or signed until a satisfactory business case has been completed and the necessary expenditure approvals have been obtained.

DoF Supply approval is required for accommodation projects where the preferred option involves capital investment above departments' capital projects delegated limit (e.g. office purchase, new build office accommodation, etc.), excluding leasing arrangements. It remains the responsibility of PD to seek the necessary approval (where PD has business case responsibility).

However, in cases where accommodation is required to meet a new service or development of an existing service or is for an accommodation solution outside the PD estate separate Supply approval is required (in the circumstances noted above) and it is for the sponsoring department to seek it. This applies to all appraisals that cover proposed service changes as well as accommodation requirements. In such cases, the client department's submission to Supply should indicate clearly that LPS has been consulted throughout on the accommodation options and has approved that element of the appraisal.

It is the responsibility of departments to provide the additional capital and other resources to meet the accommodation cost.

5 Dispersal of civil service functions

Whilst there is no specific Civil Service policy on dispersal of functions, an "outside of Belfast" option should be included in the long list of options considered.

6 Office accommodation leases

DoF approval is required for any office accommodation lease renewal/uptake requests from all departments, business areas, agencies and arm's length bodies, in line with DAO (DoF) 05/25. DoF approval in such cases will be conferred by LPS, rather than Supply, in line with the Letter to Finance Directors – 5 July 2023.

Only where a department, business area, agency or arm's length body is seeking retrospective approval for irregular expenditure should DoF approval be sought through Supply. In such cases, Supply will liaise with LPS as part of its retrospective approval assessment process.

For all lease events (including lease breaks, renewals, regears and over holds), sponsoring departments must contact LPS at least 18 months in advance to seek advice on the process to be followed and then seek approval prior to entering a subsequent contract. It is recommended that this approval is sought via email. This will not include approval for the expenditure for lease events. Instead expenditure approval should be obtained from the sponsor Department, unless the lease event also triggers a separate delegation requiring DoF Supply approval..

For leases already ending within 18 months, contact should be made immediately. This will allow consideration of all appropriate options.

It may be necessary to consider short term extensions or interim relocation to other government leased accommodation with existing spare capacity, where no other viable option exists in the immediate future e.g. one to three years.

The uptake of a new lease will only be considered in exceptional circumstances. Lease extensions or new leases will only be granted for a period of up to five years unless there are exceptional circumstances to consider otherwise.

In cases where the lead times are limited, departments may wish to 'hold over' their current lease arrangements. Before any holding over arrangements are entered into, a proportionate business case must be developed, and agreement must be sought from LPS. As above, this will not include expenditure approval,

this should be obtained from the sponsor Department, unless it also triggers a separate delegation requiring DoF Supply approval.

To further assist departments, an office accommodation leases business case proforma has been produced and will assist business areas in the development and completion of the required economic appraisal. The proforma is available on the Better Business Cases NI website.

IFRS 16 *Leases* sets out the accountancy treatment of leases, which applies to all NI public sector bodies. Departments should contact their finance partner for more information on what this means for Accommodation business cases.

7 Appraisal of land, buildings and other assets

The employment of assets including land and buildings should be costed using opportunity cost values. The valuation of property should be based on the higher of the most valuable feasible alternative use, or the best value that could be obtained for its current use.

Determining the right values requires expert advice. The District Valuer in the Land and Property Services (LPS) should be consulted on all property valuation matters relating to appraisals. This applies to all public sector appraisals, including those involving private sector consultants. DoF regards the views of LPS as authoritative, and recommends that Departments should use their services.

LPS can provide assessments of the values of land and buildings in their existing and most valuable alternative use. Where Departments require advice on the market valuation of assets, other than standing timber, a request should be made to LPS. In circumstances where LPS is unable to meet the request within the required timescale, advice may be sought from other suitably qualified and experienced valuation surveyors, for instance, members of the Royal Institution of Chartered Surveyors or the Institute of Revenues, Rating and Values. Where there is any dispute over individual values, DoF will rely on the views of LPS, rather than those of any other property experts.

In many cases, an up-to-date market value (LPS valuations are usually valid for a period of 6 months, however during periods of volatility in property markets, more frequent valuation may be required) should provide a satisfactory measure of opportunity cost. However, valuations based on market prices reflect private rather than social costs and benefits, hence they will not always reflect opportunity costs. For example, they may not take full account of the actual or potential amenity value or environmental impact of a particular land use; or where the current use of land is subsidised, market prices may need adjustment to reflect the impact of the subsidy; or where the market value of a site is enhanced by planning permission the property should be valued to reflect the actual planning approval.

Assessing the value of buildings in their most profitable use is fairly straightforward where the building can be readily adapted to different users requirements, such as standard office accommodation. However many public sector buildings, such as prisons and hospitals, may not be readily adaptable to other purposes. In the absence of an alternative use for the buildings, the higher of the value of the site for redevelopment, and a valuation in current use of the site plus buildings, should be used. The latter can be estimated in terms of depreciated replacement cost (DRC).

DRC value may represent what the land and buildings are worth to the occupier, but a DRC approach is normally only used where no market exists for a property for its existing use. It would not be unusual for the alternative use value, which represents market value, to be much less than DRC value. The DRC value should not be used to represent the expected proceeds of any sale/disposal. It is unlikely that the market would pay as much as the DRC value.

Land and buildings should generally be costed in terms of either capital values or annual rents. It is normally appropriate to use capital values in appraising freehold property, properties with development value, and longer leasehold interests. In other cases it is usually appropriate to use annual rentals. Actual rent paid on leasehold property (the passing rent) will often differ from the market rent. It is the market rent that should be used in appraisal. Common errors in appraisal are either to omit the rental or capital value of land and buildings already owned, or to double count the cost by including both the capital cost and rental value.

Capital values of land, buildings and other assets should be attributed as costs at the beginning of any period in which they are employed by an option. Property should be costed whether or not any financial transaction is anticipated. For instance, it should be costed whether or not it is already owned or needs to be purchased. In new build cases, the cost of construction should be included. Costs of refurbishment should be included in the years in which they are expected to occur.

Where assets have a residual life, their residual values should be included as benefits in the year in which they are released by an option, or the last year of the

appraisal period, whichever is sooner. Any enhancement of the value of a building during its life, for instance, due to refurbishment should be taken into account in estimating its residual value. Residual values should be attributed whether or not the property is to be sold or retained.

Double counting of the cost difference between options should be avoided. It is generally sufficient to cost in the alternative option(s) the sites actually employed in those options.

Avoiding Double Counting

Suppose there is an option to use a site already in ownership worth £5,000 ('Option 1') and an alternative option to acquire and use another site worth £8,000 ('Option 2').

The difference in cost between these options is adequately reflected by including a cost of £5,000 in Option 1 and a cost of £8,000 in Option 2.

It would be incorrect to add a benefit of £5,000 to Option 2 to reflect the sale or release of the owned site - that would give the misleading impression that Option 2 is less costly than Option 1 by £2,000, whereas it is more costly by £3,000.

Deciding the correct treatment of opportunity costs can be less straightforward than in the above example, as explained in the box below.

Treatment of Opportunity Cost

Suppose there is another alternative ("Option 3") that involves employing the £5000 site for the first two years and then moving the function to a new £8000 site.

In this case, £5000 should be included as an opportunity cost at the start of the appraisal period. A residual value for the same site should be included as a benefit in Year 2. An opportunity cost of £8000 should also be included in Year 2.

A residual value for the new site should be included at the end of the appraisal period.

In some cases it may be helpful to separate the value of the land from the buildings. This is because buildings usually depreciate in real terms over their lifetime but site values may appreciate or depreciate. For instance, site depreciation may be attributable to, for example, contamination, mineral workings, or poor ground conditions.

Appraisals should include any land price appreciation as a consequence of the project or programme. This may occur with appraisals of urban regeneration projects, or of flood protection. In such cases great care is needed, as the appreciation itself is likely to be most uncertain. Expert advice is required.

Costs to the public sector as a whole must be taken into account in the appraisal calculation. This will be important in the case of jointly occupied buildings where there might be difficulties in finding a replacement tenant if one occupier were to quit, so imposing additional costs on the major occupier.

Allowance should be made for an appropriate level of ongoing maintenance costs. If maintenance is not carried out to an appropriate standard this will be reflected in the increased costs of refurbishment, or reduced sale price of a freehold

property, while in the case of leasehold property dilapidations payments will be incurred at the termination of the lease.

Costs of providing temporary accommodation and other costs of decanting staff should be included in appraisals.

When a building requires refurbishment, the relative merits of refurbishment, and alternative options such as redevelopment, relocation and disposal should be appraised.

Where possible, appraisals should include both freehold and leasehold options to test both for value for money.

The time period for appraisal should relate to the life of the services being provided and be sufficiently distant to cover all the important cost and benefit differences between options. The appropriate period may be shorter than the physical life of the buildings, or longer than the period for which they are leased. A time period of about 25 years is typically used, with suitable allowance for refurbishment costs and residual values. However, there is flexibility to tailor the time period to suit the circumstances of the case in hand.

Property issues are important in appraisals concerning options for accommodation of civil servants. The issues concerning the treatment of land and buildings in appraisal can be complex and the LPS and/or the relevant Departmental economist should be consulted where there is any doubt about the correct treatment.

8 Acquisition and disposal of assets

Departments have a duty to dispose of property surplus to requirements within three years and should not hold land speculatively. Departments should seek the advice of LPS Central Advisory Unit (CAU) when considering disposal of surplus property.

Projects should not use more land than is cost effective. Available plots of land for new developments may not precisely match requirements, but where a plot exceeds requirements the surplus should be disposed of as soon as possible.

Decisions involving the acquisition or disposal of assets require the application of appraisal with proportionate effort, including, for example, examination of different options and their associated costs and benefits. The amount and depth of analysis required will vary from case to case and will depend on the size of the asset to be disposed of or acquired.

The use of appraisal is intended to ensure that Government acquires an asset only where the resulting benefits are greater than or equal to the cost of the asset including any revenue costs. Similarly Government when considering the disposal of an asset should ensure that the options open to it have been subject to appraisal.

The market valuation of the asset will be one of the information requirements of an appraisal involving acquisition/disposal of assets. In rare cases the market value of assets may differ from the economic or resource cost values that should be used in an appraisal. For example the market price of agricultural land may reflect the value of agricultural subsidies in addition to resource costs, and may need to be adjusted downwards accordingly. In such cases it is advisable to seek expert advice in order to make the necessary adjustments.

Disposal of property, the sale of freehold property, or the assignment or subletting of leasehold property, will generally involve significant costs, e.g. legal fees, marketing costs and removal costs. In a depressed market the timing of disposal must be appraised. LPS can advise on this. Timing will be critical where there is excess supply in the market for the particular type of accommodation, or where

the property is 'over rented'. In such cases it might be possible to dispose of a lease by paying a reverse premium, which will be at least equal to the present value of the difference between the passing rent and the market rent until the market improves or the termination of the lease.

Strenuous efforts should be made to dispose of surplus property; but in poor markets it may be necessary to include in an appraisal the costs of holding the property until disposal, or to cover such initiatives as refurbishment to enhance marketability.

The service provided by the LPS is intended to provide Departments with assessments of the open market values of assets in order to ensure that Government obtains the highest possible price for an asset which it decides to sell and pays no more than a reasonable market value for an asset which it decides to purchase. Apart from exceptional circumstances, and then only with the prior approval of DoF, Departments should not:

- propose to acquire assets at a price in excess of open market value notwithstanding the appraisal results; or
- consider disposal restricted to open market value where the appraisal indicates a higher continuing operational use value to government.

Since the 1994 "Efficiency Scrutiny into the Management and Disposal of Government owned Property", Departments, together with the LPS's Central Advisory Unit (CAU), have been charged with adopting a more active strategy towards disposals. Through the introduction of formal property audits, Departments in future will be required to justify the retention of all property assets.

Relevant LPS guidance may be found at their Disposal of Surplus Public Sector Property page. This supplements Annex 4.8 on Asset Management in Managing Public Money Northern Ireland. Departments should refer to this guidance in all cases and ensure it is applied within all business areas including Agencies, NDPBs and other sponsored bodies.

Departmental economists should be able to advise on specific appraisal queries. Any questions or comments about this guidance should be sent to DoF at the email address below.

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