

# Cabinet

23 November 2016



<b>Title</b>	Lease of office premises at Knowle Green to Surrey County Council		
<b>Purpose of the report</b>	To make a decision		
<b>Report Authors</b>	Heather Morgan, Group Head Regeneration and Growth and Linda Norman, Group Head Finance and Customer Services		
<b>Cabinet Member</b>	Councillor Nick Gething	<b>Confidential</b>	No
<b>Corporate Priority</b>	Financial Sustainability		
<b>Recommendations</b>	<p>Cabinet is asked to:</p> <p>Approve the grant of the new Lease to Surrey County Council for office space at the Council Offices, Knowle Green for 5 years until 4 December 2021 subject to:</p> <p>Ensuring that the service charge element incorporates any necessary uplift to reflect the increase in business rates from 2017 onwards for Knowle Green</p> <p>Receiving up to date valuation advice on the appropriate rental level (which will be greater than current income levels)</p> <p>Final approval on the rental and service charge levels delegated to the Group Head for Regeneration and Growth in consultation with the Cabinet Member for Fixed Assets</p>		
<b>Reason for Recommendation</b>	<p><b>The five year lease will continue to bring in a rental income for the Council of at least £248,630 (rental and service charges inclusive)</b></p> <p><b>There is a mutual break clause which can be exercised at any time on or after 4 June 2017 which protects the Council's position regarding the future of Knowle Green</b></p>		

## 1. Key issues

- 1.1 Surrey County Council (SCC) currently have a lease to occupy a quantum of office space in the West Wing of Knowle Green. This lease expires on 4 December 2016. Attached at **Appendix 1** is the previous Cabinet report.
- 1.2 SCC wish to renew their lease for a further term of 5 years on the same terms and conditions. The Council is willing to do so *in principle* as the continued income stream will help its financial position. However, the Council are currently seeking independent valuation advice as to the appropriate rental as

office rentals have increased generally since 2011. Any increase over and above the current rental level will need to be negotiated with Surrey County Council, and agreed (as per the Cabinet recommendation) by the Group Head Regeneration and Growth in consultation with the Cabinet Member for Fixed Assets.

- 1.3 In addition, officers will ensure that there is an option to serve a break notice should we or SCC need to. The County have not given any indication they are looking to do so; nor have we. However it does enable us to do this should the need arise in the future.
- 1.4 The Council's constitution provides that Cabinet authority is required for the approval of disposals of land or interests in land exceeding an estimated value of £100,000 per transaction. The rental value of this lease transaction is estimated to be a minimum of £112,595. This excludes the income to be received via the service charge.

## **2. Options analysis and proposal**

- 2.1 There are only two options :
  - (a) to approve the lease for a further period of five years (subject to the provisos set out in section 4) and subject to final agreement on the rental and service charge levels
  - (b) agree not to provide a new lease and let the current one expire on 4 December 2016.
- 2.2 **It is proposed that option (a) is pursued.** It will continue to bring in income and provide benefits of co-location and joint working. Housing colleagues have reported that their relationships with SCC Adult Social Care has improved immeasurably since they have been in the same building. The same applies to all the other services which fall under the 'Community Wellbeing' umbrella (including Independent Living).
- 2.3 Option (b) would result in less income and poorer working relations across services. The Council would also need to spend time and effort on looking to see if others would take the space, or in considering other options. There would also undoubtedly be the reputational damage of advising the County that they needed to find new accommodation for their staff at very short notice.

## **3. Financial implications**

- 3.1 The terms of a new lease are the same as previously. The proposed new lease will be for a term of 5 years, from 5 December 2016 to 4 December 2021. The rent will be a minimum of £22,519 plus a minimum service charge of £27,207 per annum, which equates to a minimum of £248,630 over the lifetime of the lease.
- 3.2 Cabinet should note that these figures are expressed as a minimum as the final figures for rental will be subject to updated valuation advice and the service charge will increase as a result of the uplift in business rates.
- 3.3 Payments are due quarterly (as standard).

## **4. Other considerations**

- 4.1 As per the previous lease, risks have been mitigated by:

- (a) Ensuring that the lease excludes section 24 to 28 of the Landlord and Tenant Act 1954. This prevents SCC from having an automatic right to renew the lease, and prevents them from having the right to remain in occupation;
  - (b) Including an alienation clause which means SCC must grant a licence agreement of the premises to any external organisation (which the Council will be party to). This means that any external organisations who occupy SCC's space cannot claim a secured tenancy;
  - (c) Ensuring that any licence agreement will not go beyond the lease expiration date (4 December 2021);
  - (d) Including a mutual break clause which can be exercised at any time on or after 4 June 2017, requiring six months' notice to be served. This means that the Council is not tied in to providing this accommodation up until 2021 should it decide to review how it chooses to use Knowle Green.
- 4.2 Officers will be discussing with SCC the issue of frequent booking of meeting rooms in Knowle Green which are outside their lease area. There are no provisions which cover this in the current lease, and this requires review to ensure the Council is not potentially adversely affected by the lack of space for our own meetings.
- 4.3 As far as the Council are aware, there are no external organisations in occupation of the office accommodation.
- 4.4 There are no specific equality and diversity issues other than the requirement we have (as with all staff on the premises) to ensure that all people are able to access the facilities and office accommodation. The same goes for sustainability.
- 4.5 Cabinet should note that two car parking spaces are provided to SCC under the terms of the lease. The Group Head for Finance and Customer Relations is responsible for the day to day running of Knowle Green and will be periodically monitoring the parking to ensure that it is used as per the terms of the lease.
- 5. Timetable for implementation**
- 5.1 The terms of the proposed new lease have been largely negotiated (with the exception of the rental and service charge figures). Subject to Cabinet approval and final sign off by the Group Head of Regeneration and Growth in consultation with the Cabinet Member for Fixed Assets, the lease will be completed prior to 4 December 2016.

**Background papers:**

None

**Appendices:**

**Appendix 1 Previous Cabinet report 16 July 2013**