

Cabinet

23 November 2016



Title	Surrender of lease - Surrey Police at Knowle Green		
Purpose of the report	To make a decision		
Report Author	Heather Morgan Group Head Regeneration and Growth		
Cabinet Member	Councillor Nick Gething	Confidential	No
Corporate Priority	Financial Sustainability		
Recommendations	Cabinet is asked to: agree the position regarding Surrey Police largely moving out agree the value of the surrender of the lease		
Reason for Recommendation	The surrender will ensure the Council receives financial recompense for the Police vacating Knowle Green		

1.0 Key Issues

- 1.1 The Police currently have a lease which runs for 20 years from 2010 (e.g. runs to 2030) and there are break clauses at 2015 (gone), 2020 and 2025. At each of these points either party can give six months' notice that they want to withdraw from the lease. Surrey Police are therefore not in a position whereby they can terminate without premium being paid..
- 1.2 The Police ended their current tenancy for the offices on the third floor with effect from 30 September 2016 when they finished moving out of the main office. Cabinet should note that they are under great financial pressure to reduce their budgets and contract their office space requirements. This was, we understand, a determining factor in their withdrawal from the Knowle Green site.
- 1.3 Cabinet will be aware from a recent Overview and Scrutiny meeting that concerns have been raised separately about the impact that their virtual complete withdrawal has had on partnership working. This is a separate issue, and not for consideration by Cabinet.
- 1.4 The starting point from a commercial perspective is that if Surrey Police want to move before 2020 (as they have done) then the Council would expect them to pay the remainder of the rental which is outstanding up to 2020. The current rental income is £39,573 pa, and the sum (up to the next break in 2020) would be £158,295. There are also service charges and business rates which they pay of £31,164 pa. Over the remaining four years this would amount to £124,656. If a purely commercial view was taken then the Council would be requiring the premium of £282,954 in return for an early surrender of

the lease. This is the stance taken and the figure provided by the valuers who gave us independent advice on the matter.

- 1.5 However, Cabinet also need to bear in mind that if the Police were still in situ, then the Council would potentially encounter difficulties if we needed the Police to vacate their current space prior to 2020. Even if we do not relocate entirely away from this site, there is a possibility that we will vacate the newer part of the Council Offices (where the Police are located) to potentially enable a more comprehensive redevelopment of this part of the Knowle Green site. There is a real advantage to the Council in having the flexibility to move more quickly on an option such as this without the Police in situ (as well as less costly).
- 1.6 The standard approach in the case of a surrender is that if the Council as landlord is to accept a sum less than the full commercial value, then a valuer should agree the 'price' of a surrender at a lower level (which is deemed appropriate). We would need to give a clear justification for our decision if disposing of under value.
- 1.7 The Police are looking to retain a small presence of 3 officers from their neighbourhood teams (1 sergeant and 2 PC's) to try and maintain the close working relationship with the Community Safety team, and other partner organisations based at the Council Offices. They are also looking to retain 4 parking spaces. 4 spaces currently allocated to the Police would be returned for Council staff use and the remaining 4 being set aside to store the new mobile office for the Community Safety team. The Police are aware that we will not proceed with a lease on this space until the surrender has been dealt with.
- 1.8 The Police have stated very clearly they are not in a position to pay the full commercial rate to surrender their lease. Budgetary constraints prevent them from doing so. Officers (with guidance from Management Team) have negotiated a settlement of £104,000 to surrender the current lease. The Police will pay in full upon surrender rather than in staged payments. They have also confirmed payment of any rent and service charge due up to 30 September 2016. This gives both parties certainty on the matter. It also provides the Council with a lump sum broadly equivalent to two years' worth of rent and business rates.
- 1.9 If the surrender is accepted, the Council will then be looking to grant a lease for the Police to occupy the two smaller offices for a period of four years (rent free for the first two years only) with 6 monthly mutual rolling breaks (the first to occur after a 12 month period e.g. November 2017). The rental income due from these two offices (based on their current rent per sq foot) would amount to £6,942pa. In the interests of continued partnership working it is considered that the benefits of providing this space 'gratis' for the initial two years outweighs the benefit of completely losing a Police presence at Knowle Green.

2. Options analysis and Proposal

- 2.1 There are only two options:
 - (a) That the surrender is agreed at the level of £104,000 (as a lump sum)
 - (b) That there is no surrender and the Police pay the rental for the remaining period until the next break clause in 2020

2.2 **It is proposed that option (a) is pursued.** The justification is set out in paragraph 1.5 and very importantly on the basis that there is an over-riding benefit in ensuring continued partnership working with the Police. It is for these specific reasons that the Council is prepared to permit the surrender of the remaining lease terms at less than optimum value.

3. Financial Implications

3.1 Finance are aware of the situation and have provisionally shown a £62,000 reduction in income from 2108-19 onwards.

4. Other considerations

4.1 There are none

5. Timetable for implementation

5.1 Legal are currently working on the surrender/lease and it is anticipated that this will be completed by the end of November 2016 and the monies received