

Report of Deputy Head Land and Property

Report to Director of City Development / Chief Officer Asset Management & Regeneration

Date: 13 April 2021

Subject: St George House – declaring surplus and lease terms

Are specific electoral wards affected? If yes, name(s) of ward(s): Little London and Woodhouse	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Has consultation been carried out?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Are there implications for equality and diversity and cohesion and integration?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Is the decision eligible for call-in?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Does the report contain confidential or exempt information? Appendix 2 and 3 are exempt under access to information procedure rule number: 10.4(3)	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No

Summary

1. Main Issues

- St George House is substantial Council owned office accommodation, located in the Innovation District and in close proximity to Leeds General Infirmary. It was occupied by Council Services until the onset of the Covid pandemic, at which time it was vacated.
- A review of our workspace requirements has been underway driven by our financial pressures, changes to the way we work and service delivery requirements as we come through the COVID-19 pandemic, and the Climate Emergency considerations.
- As a result of greater levels of more agile and home working, our city centre estate is now too large and as such the release of St George House can be justified with colleagues who formerly occupied the building being accommodated within other retained buildings within our estate.
- Towards the end of 2020, officers were considering the future of St George House and additional properties within the wider estate, as part of the estate realisation

and rationalisation programme to support budget savings initiatives. During this work, the Council's appointed property agent was contacted by a company (identified in the exempt appendix 2) looking to expand its business and open in Leeds.

- After looking at a number of properties in the city, the company confirmed that their preference is to take a lease of St George House. Negotiations have been undertaken at pace, between the potential tenant and the Council's property agent, supported by the in-house property team to agree heads of terms for the letting.
- Negotiations for mutually acceptable terms have now been provisionally agreed and are set out in the exempt appendix 2 to enable a lease agreement to be entered into by the Council with the potential named tenant.
- On this basis it is proposed to release St George's House from our operational property portfolio and move it into the LCC investment portfolio.

2. Best Council Plan Implications

- The letting will result in a revenue benefit to the Council that will contribute to the Best Council Plan by supporting communities and promoting sustainable and inclusive economic growth.

3. Resource Implications

- Releasing the building from our operational portfolio will deliver in excess of £1m net savings associated with its operational costs. Transferring the property into our investment portfolio and its subsequent letting represents prudent and economic asset management, obviating holding costs associated with managing the site, generating investment revenue and therefore supports the best value objectives of the Council.

Recommendations

The Director of City Development is asked to:

- i) Declare St George House surplus to operational requirements;
- ii) Approve the realignment of St George House to the Council Investment Property Portfolio; and
- iii) Approve the Heads of Terms as identified in the exempt appendix to enable a lease to be put into effect between the Council and the named tenant.

1. Purpose of this report

- 1.1 The purpose of this report is to seek approval to the Heads of Terms for the letting of St George House.

2. Background information

- 2.1 Leeds City Council owns and operates a large estate of building and land assets as set out in the report to Executive Board in September 2020. As detailed in that

report, there is a need for the Council's estate to be rightsized, ensuring that it is fit for purpose and meets the changing needs of the Council, but importantly that it is affordable and sustainable.

- 2.2 Prior to the pandemic there was surplus capacity within the city centre estate, with opportunities to maximise the use of this space being explored. In addition, some service changes are already being delivered as a result of different ways of working and processes developed during the last 8 months, allowing further large floor areas of our remaining city centre buildings will be made available.
- 2.3 It is becoming increasingly clear that the way our estate will be utilised will change in the future. Through the staff survey conducted in summer 2020, we understand that staff want to spend a greater amount of their time working from home with 82% seeking to spend half of their working time homeworking remotely. Staff have also expressed a desire to see our office accommodation used more for collaboration and team working with less emphasis on desk based activities.
- 2.4 The Council owns a significant office building, St George House is outlined on the plan in Appendix 1. The property was primarily used as Council office accommodation for operational purposes up until its closure in March 2020; there are also two separate retail units that are to be retained by the Council.

3. Main issues

- 3.1 St George House has been closed since the beginning of the pandemic with staff predominantly working from home and utilising Merrion House and the Civic Hall in the city centre when they have required access to workspace. As with other closed buildings, equipment such as chairs, monitors and keyboards have been removed from the building and distributed to staff to help them to work from home more safely and effectively.
- 3.2 Given our future ways of working and surplus capacity within the city centre estate prior to the pandemic, the release of the building from operational use can be justified. The Council is on a journey of increasing the flexibility of its estate with the ambition being for staff to work from any workspace within the Council's estate. This will for example allow staff to utilise workspaces closer to their home, or more convenient for home or site visits, therefore reducing both commuting and work based travel demand.
- 3.3 Those staff who previously occupied St George House will be accommodated elsewhere within the City Centre estate but will enjoy the flexibilities outlined above which will be delivered as part of the remodelling programme within the estate to provide a wider range of workspaces to facilitate collaborative working as well as spaces for quiet and confidential activities.
- 3.4 Given the interest set out in this paper, it is proposed to move the property into the Council's Investment Property portfolio to allow it to be let to third parties.
- 3.5 The letting of the property will generate a substantial revenue benefit to the Council to support the Council's Medium Term Financial Plan. The future investment into the property by the named tenant will also contribute to the delivery of the Leeds

Inclusive Growth Strategy, specifically the outcome of doubling the size and economic impact of the city centre.

- 3.6 This report recommends the acceptance of the Heads of Terms between the Council and the named tenant to enable a lease of St George House to be entered into. The terms being recommended represent market terms as confirmed by the Council's agent.

4. Corporate considerations

4.1 Consultation and engagement

- 4.1.1 The Executive Member for Resources has been briefed on the proposal. Ward Members have also been advised. No adverse comments or objections have been received.
- 4.1.2 Discussions will take place with services who formerly occupied the building to ensure they have access to alternative accommodation.
- 4.1.3 The lease is conditional upon the tenant securing planning permission from office to educational. The usual consultation and approval process associated with the planning regime will apply.

4.2 Equality and diversity / cohesion and integration

- 4.2.1 An Equality Diversity Cohesion and Integration screening form has been completed in relation to the Council's Estate Remodel proposals. Whilst there are no specific EDCI impacts resulting from rationalisation approach as these will be considered by services, any building changes have the opportunity to enhance EDCI. The building changes delivered to date, including those seen as part of the refurbishment of Merrion House has established some clear principles around the facilities provided across our city centre estate and it is proposed to roll these out in an appropriate way as the rationalisation programme progresses and any refurbishment works are undertaken. In addition there are no specific considerations arise from the immediate proposal to grant a lease of the property.

4.3 Council policies and best council plan

- 4.3.1 The release of the property from operational use and its subsequent letting supports the delivery of the Best Council Plan 2018/19 – 2021 outcomes, in particular contributing towards a number of the 12 big ideas set out in the Leeds Inclusive Growth Strategy. These include 'doubling the size of the city centre', 'working together to create better jobs', '21st century infrastructure', 'supporting places and communities to respond to economic change' and 'promoting Leeds and Yorkshire'.

Climate Emergency

- 4.3.2 One of the key drivers of our estate management approach is to reduce the carbon footprint of the Council's buildings and rightsizing our estate. Currently approximately 60% of the Council's carbon footprint is associated with its buildings and through the priorities set out in the Asset Management Plan, one of which is specifically focused on the climate agenda, the Council seeks to make efficient use of its buildings and reduce the size of its estate. Through this work, we will ensure that services are appropriately located to minimise staff travel adding to further carbon reductions.

4.3.3 The letting of St George House will directly reduce the Council's carbon footprint. Whilst in effect this transfers the impact to the named tenant, improvements in the property are also proposed by the tenant and such investment may be of further benefit to the climate. The tenant also will need to secure planning permission and this will further consider the impact this site will have on the climate.

4.4 Resources and value for money

4.4.1 The release of St George House will realise the operational savings as outlined in exempt appendix 2.

4.4.2 Additionally, the Council will receive the rental income as set out in the exempt appendix 2.

4.5 Legal implications, access to information, and call-in

4.5.1 The proposal constitutes a Key Decision.

4.5.2 In the opinion of the Deputy Head of Land and Property the lease terms as detailed in the exempt appendix represents the best consideration that can reasonably be obtained for the property as required pursuant to the Council's legal obligations under Section 123 of the Local Government Act 1972. Further advice has been obtained from the Council's property agent and this is included within the exempt appendix 3.

4.5.3 The information contained within the confidential appendices attached to this report relates to the financial or business affairs of a particular person and affected parties (including the authority holding that information). This information is not publicly available from the statutory registers of information kept in respect of certain companies and charities. It is therefore considered that this element of the report should be treated as exempt under Rule 10.4(3) of the Access to Information Procedure Rules. In the circumstances of this case and the information provided in this paragraph, the public interest in maintaining the exemption (of appendices 2 and 3) outweighs the public interest in disclosing the information, in line with the Council's Access to Information Procedure Rules.

4.6 Risk management

4.6.1 There is a risk that a suitable lease with the potential tenant is not ultimately completed and documented. However, by working at pace and with the potential tenant, in accordance with the Council's values, this risk is mitigated as far as possible.

4.6.2 Furthermore, financial due diligence work has been undertaken as outlined within the exempt appendix 2 and this will mitigate this risk.

4.6.3 There is also a risk that there could be objections to the planning application for change of use submitted by the potential tenant.

4.6.4 There is a risk associated with the timescale of securing a future use, let or disposal of the building and how this relates to vacating the property. We would seek to avoid the property being vacant for extended periods of time and therefore decommissioning of the building will take place informed by the negotiations to secure a tenant or purchaser. Vacating the property is not an insubstantial piece of work and therefore taking an early decision to release the property will allow us to

decant furniture, equipment and other items, and close down the building in a structured and well managed way. Whilst the timescales are likely to be tight given our understanding of the requirements from the potential tenant, a high level plan has been prepared to provide vacant possession, but this will require cross Council support to deliver from colleagues in Records Management, Facilities Management as well as the services who have until the pandemic occupied the building.

5. Conclusions

- 5.1 The release from operational use and letting of St George House provides a substantial long term revenue benefit to the Council, secures a new business into the city and further enhances the growth of Leeds city centre and support the delivery of the Leeds Inclusive Growth Strategy.
- 5.2 Detailed terms for the lease of the property to the named potential tenant have been agreed and can now be recommended to the Director of City Development for approval.

6. Recommendations

- 6.1 The Director of City Development is asked to:
 - i) Declare St George House surplus to operational requirements;
 - ii) Approve the realignment of St George House to the Council Investment Property Portfolio; and
 - iii) Approve the Heads of Terms as identified in the exempt appendix to enable a lease to be put into effect between the Council and the named tenant.

7. Background documents¹

- 7.1 None.

8. Appendices

- 8.1 Appendix 1 – Plan of the Site
- 8.2 Exempt appendix 2 – Heads of Terms and financial information
- 8.3 Exempt appendix 3– Agent advice

¹ The background documents listed in this section are available to download from the Council's website, unless they contain confidential or exempt information. The list of background documents does not include published works.