

Cabinet Agenda



Date: Tuesday, 19 September 2017

Time: 4.00 pm

Venue: The Council Chamber - City Hall, College Green, Bristol, BS1 5TR

Distribution:

Cabinet Members: Marvin Rees, Craig Cheney, Asher Craig, Nicola Beech, Helen Godwin, Fi Hance, Claire Hiscott, Helen Holland, Paul Smith and Mhairi Threlfall

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Date: Monday, 18 September 2017



Additional agenda item

Under APR16 – item 10a Leasing out of offices at 100 Temple Street

(Pages 3 - 14)



Cabinet Report / Key Decision

Date: 19th September

Title: Leasing out of offices at 100 Temple Street	
Ward: Central	Cabinet lead: Councillor Paul Smith
Author: William Edrich	Job title: Commercial Director (Energy)

Revenue Cost: £0	Source of Revenue Funding: n/a
Capital Cost: £3.3m (of which £1.7m already approved)	Source of Capital Funding: Prudential Borrowing
One off <input checked="" type="checkbox"/> Ongoing <input type="checkbox"/>	Saving <input type="checkbox"/> Income generation: A portion of Capital costs recouped and additional on-going annual rental income.

Finance narrative:

Provision currently exists within the capital programme for up to £1.7m refurbishment works at Temple Street to facilitate the letting out of parts of the building, to be financed from prudential borrowing. Approval is now sought to increase that capital estimate and incur additional expenditure up to a maximum of £3.3m to accommodate prospective lessee requirements. Capital financing costs for the amended scheme are anticipated to be some £100k, which will be factored into the medium term financial plan to be offset against the anticipated rental income. Additional comments are set out in the exempt appendix G.

There remains a risk until lease arrangements are finalised that the Council remains liable for all costs, some of which could be deemed abortive.

Finance Officer: Chris Holme – Interim Head of Corporate Finance

Summary of proposal: To request additional spend of £1.6m over and above the Cabinet decision of the 10th January 2017 where the estimated expenditure of £1.7m was approved.

Summary of proposal & options appraisal:

Cabinet approval was given on the 10th January 2017 for works to fit out the ground and 1st floor areas (2419 sq m) previously occupied by KPMG. The decision given by Cabinet for Urgent agenda item 10 was :-

*Agreed the variation of the Bristol Workplace business case to allow leasing out of accommodation at 100 Temple Street, Bristol to generate revenue, and
 Authorised the Strategic Director- Place to approve the terms of the leases subject to briefing the Cabinet Member for Place*

The Council has been in discussion with a number of prospective occupants and is now seeking to undertake a range of improvements to facilitate leasing out of the accommodation. Further detail is contained in the exempt appendix this cannot be disclosed for commercial reasons as set out below.

Recommendation(s) / steer sought: To approve the additional spend on the works to accommodate the occupation of the ground and first floor Temple Street.

City Outcome: In line with the information given in the previous report this will result in increased income for the Council and improved service delivery.

Health Outcome summary: n/a

Sustainability Outcome summary: Leasing part of 100 Temple Street as office space to a third party will have no significant direct environmental impacts, although there may be a slight increase in impacts if the proposal increased energy consumption beyond that of a typical office, or resulted in a very large number of visitors taking lifts to the first floor. Even if the number of visitors travelling to the building increased, it is

central and close to public transport links, so is unlikely to encourage many additional car journeys through an area known for traffic congestion, although there might be a need to increase the amount of publically accessible cycle parking. If the staff of tenants need to travel for work locally on a regular basis, it may be possible to arrange joint use of the Car Share scheme.

Verified by Giles Liddell, Environmental Performance Team(as Original Cabinet Report)

Equalities Outcome summary: The letting of space in Temple Street has low relevance for the Public Sector Equality Duty. Staff are unaffected because by this leasing arrangement as we have increased the staff numbers that City Hall and Temple Street can host by more than expected, and also staff numbers have reduced. Accordingly we are satisfied we can release this space without impacting staff. The Council and any occupiers of accommodation at this building will maintain their separate identities and all arrangements for management of their activities.

Wanda Knight Equalities Officer 21/6/17

Impact / Involvement of partners: It is anticipated that these works will provide an improved delivery of services to the Citizens of Bristol.

Consultation carried out; Business Change and Resources Scrutiny Commission considered a progress review on Bristol Workplace Programme before the January Cabinet Meeting.

Legal Issues The terms of Lease arrangements with 3rd Parties must comply with the Council's obligation to seek best value pursuant to S123 Local Government Act 1972 and be subject to legal advice.

Legal Officer: Kevin Froud, Solicitor

DLT sign-off	SLT sign-off	Cabinet Member sign-off
Not signed off due to urgency of decision	Not signed off due to urgency of decision	Cllr Paul Smith 14 th September 2017

Appendix A – Further essential background / detail on the proposal Cabinet Report 10 th January 2017	YES
Appendix B – Details of consultation carried out - internal and external	NO
Appendix C – Summary of any engagement with scrutiny	NO
Appendix D – Risk assessment	NO
Appendix E – Equalities screening / impact assessment of proposal	NO
Appendix F – Eco-impact screening/ impact assessment of proposal	NO
Appendix G – Exempt Information – APR 10.4(3) - Information relating to the financial or business affairs of any particular person (including the authority holding that information).	YES



Executive Summary of Agenda Item No. 10

Report title: Leasing out offices at 100 Temple Street
Wards affected: Central
Strategic Director: Barra Mac Ruairí - Strategic Director Place
Report Author: Robert Orrett - Service Director, Place - Property

Recommendation for the Mayor's approval:

- 1. Variation of the Bristol Workplace business case to allow leasing out of accommodation at 100 Temple Street, Bristol to generate revenue.**
- 2. The Strategic Director – Place is authorised to approve the terms of leases subject to briefing the Cabinet Member for Place.**

Key background / detail:

a. Purpose of report: To confirm support for evolution in the Council's office accommodation strategy and grant approval for leasing out office space to improve the revenue position of the Council.

b. Key details:

- Bristol Workplace Programme has delivered projects to change how the Council works in its offices. These have achieved modern working office environments supporting new ways of working using office technology. The overall modernisation will deliver significant long terms savings for the Council. The focus of the programme, now approaching completion, has been to deliver two high quality core office hubs.
- The levels of occupational efficiency designed for the two core office hubs have been improved beyond original expectations. This means that a greater number of staff than originally expected can be accommodated in those buildings, at a time when the total number of staff employed by the Council is reducing.
- It is now possible to release some office space from being used to accommodate the Council, enabling some financial savings to the revenue costs of the Council. The proposal at this stage is to release a currently vacant ground and first floor accommodation at 100 Temple Street extending to 714 m² (7,685 sq ft) and 1,705 m² (18,355 sq ft) respectively. The aim will be to lease this externally on market terms. A normal level of landlord's finish needs to be provided for this space. The cost for the first floor is already budgeted within the BWP budget. The capital cost to re-fit the ground floor space and reconfigure the main entrance lobby is estimated to be £1.7 million. It is expected that total revenue impact will be over £700,000 per annum.

Cabinet

Date of Meeting



Report Title: Leasing out offices at 100 Temple Street

Ward: Central

Strategic Director: Barra Mac Ruairí - Strategic Director Place

Report Author: Robert Orrett - Service Director, Place - Property

Contact telephone no. & email address **0117 922 4086**
robert.orrett@bristol.gov.uk

Purpose of the report:

To confirm support for evolution in the Council's office accommodation strategy and grant approval for leasing out office space to improve the revenue position of the Council.

Recommendation for the Mayor's approval:

- 1. Variation of the Bristol Workplace business case to allow leasing out of accommodation at 100 Temple Street, Bristol to generate revenue.**
- 2. The Strategic Director – Place is authorised to approve the terms of leases subject to briefing the Cabinet Member for Place.**



The proposal:

1. The Bristol Workplace Programme (BWP) is a series of projects that set out to change ‘how we work’, whilst also delivering significant savings. This has been delivered in accordance with an original business case approved July 2012 which in July 2013 was refocused. The three themes of work have been:
 - a. Assets - Rationalisation, decommissioning and disposal of surplus buildings; provision of two high quality core office hubs (City Hall and 100 Temple Street)
 - b. Technology - Deployment of technology to enable modern and new ways of working
 - c. People - Supporting and training the workforce to think differently about how they work
2. Delivery of the programme is nearing completion, meeting the business case and in line with budget. The levels of occupational efficiency designed for the two core office hubs have been improved beyond original expectations. This means that a greater number of staff than originally expected can be accommodated in those buildings. During the implementation period since July 2013, the savings pressures on the Council have been met by voluntary severance programmes and service redesign. This means that total numbers of staff employed by the Council are lower than anticipated when the capacity of office buildings was being assessed for the BWP business case.
3. The combination of these two factors is that it is now possible to release some office space from being used to accommodate the Council. This reduction in the space needs of the Council due to greater efficiency and the reduced size of the organisation enables some financial savings to the revenue costs of the Council.
4. The BWP team and the Council’s Property Service have re-assessed the overall situation. They have concluded that there is sufficient capacity to release a currently vacant ground and first floor accommodation extending to 714 m² (7,685 sq ft) and 1,705 m² (18,355 sq ft) respectively.
5. The capacity of the remaining areas in 100 Temple Street is capable of accommodation 1,624 staff. A further 1,600 staff can be accommodated in the reconfigured City Hall.
6. The areas of accommodation were leased to KPMG until the end of August 2016, when the lease ended. The BWP programme already allowed for re-fitting the first floor (South) space with the cost being met from the BWP approved capital budget. The first floor and ground floor accommodation will be re-fitted to a standard “category A” standard. This is the standard for modern office space that is the market norm in terms of what landlord’s provide when leasing to tenants. It is then for the tenant to consider, finance and implement their own fit out and to provide furniture and equipment.
7. It is also proposed to revise the layout of the main ground floor reception lobby for 100 Temple Street. This will enable a lobby area to be created for customers of the Council’s Citizen Service Point, with sufficient space to accommodate self-service terminals in the lobby area. Dividing the existing large lobby space will mean there would be a separate entrance and lobby for access to the main office floors.
8. The capital cost to re-fit the ground floor space and reconfigure the main entrance lobby is estimated to be £1.7 million.
9. The estimated market rental value for the space is £231 per m² (£21.50 per sq ft). In addition, leasing the space to a tenant will save the Council the share of the building running costs (service charge) apportioned to that area £75 per m² (£7 per sq ft) and business rates £65 per m² (£6 per sq ft).
10. Leasing terms would be in line normal market bases. A likely basis for leases would be to grant a 10 year lease with the tenant only having the right to terminate the lease after the first five years. The tenant is responsible for internal repairs and paying their costs for

electricity and a proportion of the cost of insuring the building. Maintenance of the common areas and exterior is by the landlord but contributions to costs recovered via the service charge.

11. The building provides a good standard of office accommodation in a central location for which there is considerable demand. As such, the space should be readily lettable in good property market conditions.

Consultation and scrutiny input:

- a. **Internal consultation:**
Business Change and Resources Scrutiny Commission has recently considered a progress review on Bristol Workplace Programme.
- b. **External consultation:**
Not applicable

Other options considered:

1. Retaining all office space for Council occupation – this would fail to release the benefit and cost saving from the improved efficiency of the design delivered and the saving from reductions in the numbers of staff employed by the Council.
2. Releasing more space – the final staff moves in the Bristol Workplace Programme have yet to be implemented. The monitoring of occupancy will be more reliable after this has been achieved. It may be possible to release further accommodation.
3. Release space in a different building – a number of other buildings were already identified for closure and disposal as part of the Bristol Workplace programme. This is in the course of delivery. The additional scope to release space described in this report needed to apply to one of the buildings planned to be retained. City Hall is less suitable for the release of surplus space – the management of the building is set up for Council occupancy and public engagement. 100 Temple Street is a purpose built modern office building that is already established for multi-occupier use.

Risk management / assessment:

FIGURE 1							
The risks associated with the implementation of the (subject) decision :							
No.	RISK	INHERENT RISK		RISK CONTROL MEASURES	CURRENT RISK		RISK OWNER
		(Before controls)			(After controls)		
	Threat to achievement of the key objectives of the report	Impact	Probability	Mitigation (ie controls) and Evaluation (ie effectiveness of mitigation).	Impact	Probability	
1	Accommodation needed by the Council	Medium	Medium	Updated assessments of Council office needs have been carried out	Low	Low	Property
2	Surplus accommodation cannot be let	Medium	Medium	Advice from commercial office agents; re-fit to market standards; market terms being proposed	Low	Low	Property
3	Occupation of space at Temple Street by external parties conflicts with Council use	High	Low	The building has previous been used by multiple occupiers without disruption. Layout revision to	Low	Low	Property

				entrance lobby will protect Council uses.			
4	More space could be released achieving additional savings	Medium	High	The capacity will be re-assessed as staff move are completed and actual occupancy is monitored.	Low	Low	Bristol Workplace

FIGURE 2

The risks associated with **not** implementing the *(subject) decision*:

No.	RISK Threat to achievement of the key objectives of the report	INHERENT RISK (Before controls)		RISK CONTROL MEASURES Mitigation (ie controls) and Evaluation (ie effectiveness of	CURRENT RISK (After controls)		RISK OWNER
		Impact	Probability		Impact	Probability	
		1	Savings to revenue not delivered		Medium	High	

Public sector equality duties:

Before making a decision, section 149 of the Equality Act 2010 requires that each decision-maker considers the need to promote equality for persons with the following “protected characteristics”: age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex, sexual orientation. Each decision-maker must, therefore, have due regard to the need to:

- i) eliminate discrimination, harassment, victimisation and any other conduct prohibited under the Equality Act 2010.
- ii) advance equality of opportunity between persons who share a relevant protected characteristic and those do not share it. This involves having due regard, in particular, to the need to:
 - remove or minimise disadvantage suffered by persons who share a relevant protected characteristic.
 - take steps to meet the needs of persons who share a relevant protected characteristic that are different from the needs of people who do not share it (in relation to disabled people, this includes, in particular, steps to take account of disabled persons' disabilities);
 - encourage persons who share a protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low.
- iii) foster good relations between persons who share a relevant protected characteristic and those who do not share it. This involves having due regard, in particular, to the need to tackle prejudice and promote understanding.

The letting of space in Temple Street has low relevance for the Public Sector Equality Duty. Staff are unaffected because in using the space at Temple Street and City Hall, we have increased the staff numbers the buildings can host by more than expected, and also staff numbers have reduced and will continue to reduce. Accordingly we are satisfied we can release this space without impacting staff.

The Council and any occupiers of accommodation at this building will maintain their separate identities and all arrangements for management of their activities.

Anne James - Equalities and Community Cohesion Team Leader, Strategic Planning

Eco impact assessment

Leasing part of 100 Temple Street as office space to a third party will have no significant direct environmental impacts, although there may be a slight increase in impacts if the proposal increased energy consumption beyond that of a typical office. Page 9

lifts to the first floor. Even if the number of visitors travelling to the building increased, it is central and close to public transport links, so is unlikely to encourage many additional car journeys through an area known for traffic congestion, although there might be a need to increase the amount of publically accessible cycle parking. If the staff of tenants need to travel for work locally on a regular basis, it may be possible to arrange joint use of the Car Share scheme.

Verified by Giles Liddell, Environmental Performance Team.

Resource and legal implications:

Finance

a. Financial (revenue) implications:

It is proposed to invest an estimated £1.7m additional capital costs in 2017/18 to facilitate leasing of ground and first floor accommodation at 100 Temple Street. It is expected that the lease would be for 10 years with a 5 year break clause. It is assumed that vacation of this space can be accommodated within the Bristol Workplace programme without any additional costs to other operational sites, outside those already factored into the business plan.

The proposal will generate rental income to the Council, plus service charges, and facilitate a reduction in other budgeted costs primarily business rates for that part of the building proposed to be leased out. If let at market rent, as indicated in the body of the report, the proposal could generate a net revenue saving to the medium term financial plan of £700k per annum from 2018/19 onwards.

Advice given by Chris Holme - Interim Head of Corporate Finance
Date 02/01/2017

b. Financial (capital) implications:

The proposal assumes no other significant changes to the capital assumptions underpinning the Bristol Workplace business plan. The £1.7m estimated capital cost could be funded from prudential borrowing, generating additional capital financing costs of some £70k per annum. Based on estimated achievable rental streams, payback of the investment would be within four years. Cabinet will need to be assured that the lease terms provide sufficient safeguards should the risk of an early break in the lease be invoked by the tenant, which could negate the financial benefit of the proposal.

Advice given by Chris Holme – Interim Head of Corporate Finance
Date 02/01/2017

Comments from the Corporate Capital Programme Board:
None

c. Legal implications:

The Landlord and Tenant Act 1954 (“the 1954 Act”) gives a tenant of business property the right to remain in occupation after his lease expires and to apply for the grant of a new lease on broadly similar terms, subject to limited exceptions. This can result in a situation in which the property owner is unable to recover possession of space which it has leased even after the lease has expired, as long as the tenant is complying with the lease terms.

It is possible for the landlord and tenant to “contract out” of the 1954 Act, provided both parties agree to do this before the lease is granted and follow a prescribed procedure. It will be for Property Services

to consider and decide whether or not the proposed lease(s) of the excess space which has been identified should be “contracted out” of the 1954 Act and to instruct Legal Services accordingly. If Property Services decide:

- a) that the Council is unlikely to require the excess space for its own occupation after the end of the proposed 10 year lease term; and either
- b) that the space will be more readily lettable if the lease is not “contracted out”; or
- c) that the rent achievable will be significantly reduced if the lease is “contracted out”;

then we would expect the proposed lease(s) to be subject to the security of tenure provisions in the 1954 Act as summarised above. In that case the Council runs the risk that it may be unable to recover possession of the leased areas after the lease expires.

Apart from the application of the 1954 Act there are risks to the Council in letting part of a building of which it is currently the main occupier, for example in terms of information security within the building and the possibility of claims arising from accident/injury occurring within the common parts. We would expect those risks to be managed and addressed by means both of the lease terms and the Council’s insurance cover. As mentioned elsewhere in this report, parts of this building were previously occupied by external tenants so this is not an entirely new situation.

Advice given by Kevin Froud / Solicitor – Property Team, Legal Services
Date 3 January 2016

d. Land / property implications:

This proposal delivers savings from more efficient occupation of Council buildings. The arrangement of the building is suitable for occupation by more than one organisation in separate areas. Layout alterations to the ground floor lobby area will support effective operation of the Council’s Citizen Service Point, whilst providing a specific entrance for the main offices. The standard of works being proposed is consistent with requirements normally followed in the commercial office market.

Advice given by Robert Orrett / Service Director, Place - Property
Date 30 December 2016

e. Human resources implications:

Any new occupiers at the building and the City Council will need to agree the arrangements for the management of health and safety at 100 Temple Street. This will also require detailed consultation and agreement with Accredited Safety Representatives before the new service provision opens.

Advice given by Mark Williams / HR Business Partner
Date 23 December 2016

Appendices:

None

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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