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| Item No. 16. | Classification: Open | Date: 20 March 2012 | Meeting Name: Cabinet |
| Report title: | | Acquisition of Office Accommodation (Block J) at Queens Road, London SE15 2HP | |
| Ward(s) or groups affected: | | All wards | |
| Cabinet Member: | | Councillor Richard Livingstone, Finance, Resources and Community Safety | |

FOREWORD – COUNCILLOR RICHARD LIVINGSTONE, CABINET MEMBER FOR FINANCE AND RESOURCES

This report proposes the council's purchase of office block J of the development at the junction of Queens Road and Lugard Road, SE15. The site is across Lugard Road from the block F offices that the council has already leased and is currently fitting out for opening in the summer. Both properties are across Queens Road from the station, which will become part of the London Overground network later this year.

Purchasing this property will be the final piece of the accommodation strategy jigsaw to ensure that we improve the quality of the office accommodation for our staff whilst controlling operating costs. It will also ensure that the council is achieving more balance in its location in the borough, providing a substantial second office location in the south of the borough to complement 160 Tooley Street in the north. The rail link to London Bridge provides a speedy link between these two centres.

RECOMMENDATIONS

That the cabinet:

1. Approves the acquisition of the freehold in (block J) Queens Road, London SE15 2HP (identified edged red on the attached plan) on the terms specified in the closed version of this report.
2. Approves the reallocation of existing capital budget in the revised office accommodation strategy capital programme for the acquisition and fit out including all fees as detailed in the report.
3. Notes that a capital out-turn refresh report will be presented to cabinet in the first quarter of 2012/13 reflecting the changes in the overall budget that this report is proposing.

BACKGROUND INFORMATION

4. Cabinet approved the revised office accommodation strategy at its meeting on 23 November 2010 including the principle of an acquisition of a lease in blocks F and J at Queens Road on a lease not to exceed 20 years. Approval of detailed lease terms was delegated to the chief executive.
5. The revised office accommodation strategy committed the council to maximise the use of 160 Tooley Street. Tooley Street has shown itself to be adaptable to

change and the council has continued to push the productivity of space, managing fluctuations in service requirements and encouraging high occupancy rates. Overall 350 staff have been able to move in, in addition to the original cohort, accommodating major service change at minimal additional cost to the council. For example, the new housing central operations team was recently absorbed into Tooley Street, accelerating the delivery of the new structure and associated service improvement.

6. In addition to maximising the use of Tooley Street, the accommodation strategy agreed the council's requirement for a further operational office site in the centre or south of the borough for specialist services that do not fit efficiently into the Tooley Street model or which are geographically more appropriately located in that area. A preferred option was identified adjacent to Queens Road station and a delivery project was established.
7. A lease of block F Queens Road (132 Queens Road) was completed on 1 June 2011 for a term of 20 years subject to 5 yearly upward only rent reviews. Subsequently procurement for fit-out of the property was completed and the build project is currently underway with practical completion expected this summer. The office block will provide modern, flexible and sustainable accommodation for 350 staff and will be ready for occupation during the summer of 2012. Major staff groups will include health and social care, housing management and community safety.
8. The chief executive did not use her delegation to proceed with a lease of block J as the officer report subsequent to the cabinet decision noted that:
 - The terms on offer at the time were relatively expensive;
 - The area available for use within block J was relatively small and that therefore the fit-out project was relatively expensive and;
 - Immediate accommodation demands could be met through alternative schemes.
9. Since this decision:
 - The developer has confirmed that the whole building will be available for the exclusive use of Southwark
 - Further feasibility has demonstrated that the property's second staircase can be removed, increasing the space available and increasing the value for money of acquisition and fit out
 - Further accommodation requirements have been confirmed that a feasibility study has shown can be accommodated in block J.
10. Officers therefore recommend that the benefits described in the business case of the revised office accommodation strategy can now be achieved and enhanced through the acquisition of block J as an operational office building.
11. Reactivating the acquisition of block J would fulfil anticipated accommodation requirements in terms of space, quality, and flexibility. The proximity of block J to block F can be expected to bring efficiencies in operations and in space utilisation. The geographic location matches that identified as required in the 2010 Office Accommodation Strategy.

12. The condition of the building and its status as available immediately along with the proposed procurement and design route that makes use of experience already available from the block F project would make for a rapid fit-out process.

KEY ISSUES FOR CONSIDERATION

Property issues

13. Block J is a detached four-storey building fronting Queens Road located immediately to the east of block F on the opposite side of Lugard Road. It provides 640 sq/m (6888 sq/ft) of net office accommodation built to an appropriate specification. It is currently in shell condition and would require fitting out to a standard consistent with the fit out of block F.
14. The benefits and economies of co-location arising from locating a critical mass of staff in one place are described in detail in the business case for the office accommodation strategy agreed in 2010. This also satisfies the council's objective to have a large operational office facility in the centre or south of the borough.
15. A freehold purchase has been recommended rather than a lease (as was the case for block F) for the following reasons:
 - Block J is a smaller building so the initial proposed capital investment is less than would have been the case with block F
 - The construction is of good quality and has a potential alternative use (subject to planning) should the accommodation become surplus at a future date;
 - Any risk with the purchase option is mitigated by the option to sell the freehold offering the council as a tenant (this would be an attractive investment for the market) on a basis to suit operational requirements at that time.
16. Further, property officers advise that this part of Queens Road is a fast improving area and the council would therefore be in a position to benefit from any capital uplift to its asset. Queens Road has excellent public transport links to the east and west via buses and is served by the adjacent Queens Road Network Rail station serving London Bridge and Victoria. From late 2012 phase 2 of the East London line extension will bring London Overground services to Queens Road station linking the new offices west to Clapham Junction, north to Surrey Quays and the City and south to Crystal Palace and Croydon. In parallel Network Rail has embarked on a major station refurbishment to improve the station plaza, entrance and surroundings due to be completed by late 2012.
17. The council has instructed agents to negotiate the acquisition price on their behalf, with the fee being on an incentive basis linked to their success, subject to a small fixed minimum fee.
18. There is a long-leasehold interest in part of the building for which the developer has agreed terms for its surrender. The proposed sale to the council will therefore be on the basis of vacant possession of the entire building. There are no other legal restrictions either in the title or apparent from a site inspection which would prevent or limit the council's plans for the building.

19. Test fits have been carried out by consultant architects to confirm that the building is physically capable of meeting the council's standard flexible work-space requirements.
20. A technical due diligence survey has been commissioned with verbal feedback from the consultant confirming that there are only minor issues arising.
21. Following advice on procurement it is anticipated that the fit out works for block J can be carried out by the professional consultant and works contractor currently carrying out the fit out of block F using the same framework arrangements. The block F fit out is programmed to finish in summer 2012 following which the contractor would be free to move on to block J.
22. In order to maximise benefits and reduce project costs, the procurement process has commenced with the Gateway 1 report being signed off on 16 February 2012 approving the procurement strategy. It is confirmed that there will be no contractual commitment until there has been an exchange of contracts for the acquisition of the freehold.
23. The estimated cost of the fit out for block J is specified in the closed version of this report.

Accommodation requirements:

24. The next phase of office rationalisation is to work with service managers to identify opportunities to minimise the future costs of accommodation currently paid for through service contracts. We would seek to re-provide office facilities within the council's own estate where this represents best value for money.
25. Further, as a number of key contracts come to an end over the medium term, including the corporate customer service contract, the council's direction of travel is to reduce transactional costs and the complexity of service arrangements by reducing the separation of front and back office where this improves customer service. The council's preferred future customer services delivery model is an in-house option, including the provision of an integrated call centre.
26. Queens Road has been identified as a site suited to the delivery of such a service. A feasibility study has shown that a medium sized facility accommodating 120-140 staff can be provided in block J and that this will substantially meet the council's medium term requirements.
27. In common with 160 Tooley Street and Queens Road block J, block F would be fitted out with maximum flexibility to a generic office standard. Proximity to block J will allow for the sharing of meeting and where appropriate, welfare facilities, increasing the efficiency. Security, facilities and reception functions will also be shared.
28. Excellent transport links at Queens Road make this site ideally located to provide in-house, back office functions.

Capital implications

29. An initial capital allocation was made for implementing the revised office accommodation programme incorporating estimated commissioning costs for

Queens Road block F.

30. This initially approved capital allocation is not sufficient to cover the acquisition cost which was not assumed in the original report.
31. In addition, a comprehensive update to feasibility and design work has identified additional cost requirements for the fit out process.
32. Therefore additional funding from the capital programme as outlined in the closed report, will be required and will be reported in the capital refresh process.
33. It should be noted that disposal receipts arising from the office accommodation programme are achieving significantly higher returns than original prudential estimates assumed and that therefore additional capital is available to fund this requirement.

Revenue implications

34. Although the capital requirement has increased from that outlined in the initial strategy report, on-going revenue expenditure at block J will be sustainably reduced from that anticipated as rent will no longer be required, thereby reducing the overall revenue cost to the HRA and the general fund.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

Strategic Director of Communities Law & Governance

35. Section 120 (1) of the Local Government Act 1972 (“the 1972 Act”) authorises the council to acquire any land by agreement for the purposes of (a) any of its statutory functions or (b) for the benefit, improvement or development of its area. By virtue of Section 120 (2) of the 1972 Act the council may acquire by agreement any land for any purpose for which they are authorised by the 1972 Act or any other Act to acquire land, notwithstanding that the land is not immediately required for the purpose; and until it is required for that purpose, it may be used for the purpose of any of the council’s functions.

Finance Director

36. Detailed in the closed report.

BACKGROUND DOCUMENTS

| Background Papers | Held At | Contact |
|--|--|-------------------------------|
| Revised Office Accommodation Strategy-Cabinet 23 November 2010 | Corporate Programmes Unit, 160 Tooley Street, London SE1 2QH | Robin Rogers 020 7525 5179 |

APPENDICES

| No. | Title |
|------------|-------|
| Appendix 1 | Plan |

AUDIT TRAIL

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|--|---|--------------------------|
| Cabinet Member | Councillor Richard Livingstone, Finance, Resources and Community Safety | |
| Lead Officer | Eleanor Kelly, Deputy Chief Executive | |
| Report Authors | Peter Barter, Corporate Property & Robin Rogers, Head of Corporate Programme Unit | |
| Version | Final | |
| Dated | 8 March 2012 | |
| Key Decision? | Yes | |
| CONSULTATION WITH OTHER OFFICERS / DIRECTORATES | | |
| Officer Title | Comments Sought | Comments included |
| Strategic Director of Communities, Law & Governance | Yes | Yes |
| Finance Director | Yes | Yes |
| Corporate Facilities Management | Yes | Yes |
| Cabinet Member | | |
| Date final report sent to Constitutional Team | 8 March 2012 | |