

Rationalisation of Office Accommodation (ROA) Progress Report

The City of Edinburgh Council

13 November 2003

1 Purpose of report

- 1.1 To provide a progress report on the Rationalisation of Office Accommodation project.
- 1.2 To confirm that the Agreement for Lease for the new Council Headquarters has been signed by The City of Edinburgh Council (CEC).
- 1.3 To report the outcome of the reviews of the terms of the leases for the properties at 10 Waterloo Place and 23/25 Waterloo Place.
- 1.4 To seek approval to the agreement between the Scottish Parliament and CEC regarding the occupation of the CEC properties.

2 Summary

- 2.1 The report summarises the position relating to a range of issues including:
 - the formal legal documentation for the lease of the new City of Edinburgh Council Headquarters;
 - new lease terms for the properties at 10 and 23/25 Waterloo Place – with an extension to the break date for the 10 Waterloo Place office;
 - revised arrangements for those properties currently occupied by the Scottish Parliament which include a revised termination date for inclusion in the lease; an agreement to have a rent review and a fixed sum dilapidations charge;
 - progress reports on the office modernisation programme including the new reception areas at Chesser House and the City Chambers, the lift modernisation programme and alterations to the McDonald Road offices to enable staff to relocate early next year; and
 - progress on the disposal of surplus properties.

3 Main report

3.1 The Council, at its meeting on 10 April 2003, confirmed its decision to enter into a leasehold agreement for the new Council Headquarters at East Market Street. The Director of City Development was authorised to enter into a leasehold agreement in conjunction with the Directors of Finance and Corporate Services, on the basis that:

- it is affordable within capital and revenue budgets and cost can be contained within the parameters outlined in the report; and
- any increase in the current level of top-slicing is acceptable to the Chief Executive in consultation with the Council's Management Team.

3.2 The Director of City Development was also authorised to agree with the Landlord an extension of the break period on the lease for the temporary headquarters at 10 Waterloo Place on terms and conditions acceptable to all parties.

New Council Headquarters

3.3 Morley Fund Management (MFM) and CEC officers have now formally signed the legal documentation for the new Headquarters. It is expected that MFM will conclude a similar agreement with Network Rail in the immediate future.

3.4 The lease terms for the new Headquarters have been modified to the benefit of the Council by:

- a reducing each of the 5-year uplifts in rent from 3.5% per annum to 3.25% per annum;
- b an increase in rental payment of £0.40 per sq ft in exchange for the above reduction in rental uplift; and
- c retention by the Council of the surplus land at the rear of 23 Waterloo Place previously identified for transfer to MFM in exchange for a single payment of £300,000.

3.5 The contractor is currently preparing a construction programme for the building based on a projected date of entry in Summer 2006.

3.6 The contract with MFM is based on the earliest date of occupation for the Council being Summer 2006. Should completion of the building extend into 2007, MFM may be required to pay the Council substantial pre-determined monthly payments to cover the Council's estimated costs. In accordance with industry standards, the contract provides for a limited number of excusable delays. These are delays caused by:

- a civil commotion and/or national strike affecting any of the trades employed in carrying out the Project or any of the trades engaged in the preparation, manufacture or transportation of any of the goods or materials required for the Project;
- b any delay caused by the failure by the Tenant to comply or timeously to comply with any of its obligations in terms of this Agreement or to respond to any matter in respect of which its consent or approval (qua tenant only and not as local or statutory authority in any respect) is required hereunder within the timescale or timescales specified in this Agreement, or in the absence of such specification within a reasonable or appropriate period having regard to the circumstances of the application for consent or approval;
- c change of Law;
- d any delay caused by the carrying out of any variations or modifications to the Office Development Works requested by the Tenant; and
- e any delay caused by the use or threat of terrorism and/or nuclear and/or chemical incident;

provided that Norwich Union Life and Pension (NULAP) shall have taken all reasonable steps to minimise and mitigate the effect of delay caused by any of a, b, c, d or e above.”

10 Waterloo Place

- 3.7 In accordance with the terms of the original 20-year lease, the 5-year rent review has now been concluded. Agreement, in principle, has now been reached with the landlord on the basis of the following:
- the annual rent of £650,000 has been increased to £825,000 per annum, effective from 1 July 2003;
 - the existing early break date for the tenancy of 30 June 2004 is deleted as is the 20-year lease provision. The lease will now terminate on 31 December 2007. CEC will be entitled to break the lease prior to that date on providing at least 6 months' written notice, but such notice will only be valid if it involves a break date after 1 August 2006; and
 - the originally agreed break penalty of £541,667 + VAT will be paid on the execution of the Minute of Variation. Financial provision for this sum has already been made as part of the temporary lease arrangements for the Council's occupation of this property.
- 3.8 Dilapidations will be agreed jointly between the Council and the Landlord and the sum identified will be paid on lease termination, whenever that occurs. The Director of City Development has instructed agents to survey the building and advise on the likely level of dilapidations funding required. The settlement figure will require to be agreed by both parties prior to the signing of the Minute of Variation. A source for this funding remains to be identified.

23 and 25 Waterloo Place

- 3.9 In accordance with the terms of the lease, the 7-year rent review has now been concluded. The rental for 23 Waterloo Place has been increased from £600,000 to £755,000 effective from 2 February 2002. The rental for 25 Waterloo Place has been increased from £97,500 to £109,000 effective from 11 November 2002.

CEC Buildings Occupied by the Scottish Parliament

- 3.10 Council officers have been in discussion with the Chief Executive of the Scottish Parliament regarding the date of termination of the current occupation of the CEC buildings. The Chief Executive of the Scottish Parliament has obtained authority from the Scottish Parliament Corporate Board (SPCB) to enter into an agreement with the City of Edinburgh Council for the continued occupation of the buildings on the basis of the following:
- payment of £400,000 to cover dilapidations at the time the buildings are vacated. Lease end date of 30 September 2004 with the option of three 3-month extensions;
 - SPCB will give four months' notice for the first 3-month extension and six months' notice for the two subsequent 3-month extensions; and
 - an increase in rent, effective from 1 December 2002, based on a rent review to be undertaken jointly between the City of Edinburgh Council and the Scottish Parliament.

City Chambers and Chesser House

- 3.11 The contract to provide a new reception for the City Chambers was completed on time and on budget. Following fit-out, the reception will be operational in November.
- 3.12 The contract for upgrading the reception area and access for the disabled at Chesser House has been let. Work has now commenced on site and is expected to take 20 weeks to complete.
- 3.13 The scope of work includes the modernisation of all passenger lifts in the City Chambers and Chesser House. Modernisation will also address reliability issues and provide lift access to the top floor of the City Chambers, which will assist disabled visitors and staff.
- 3.14 The tender was awarded in June 2003 and the contractor is currently undertaking design work and lift manufacture prior to commencing work on site in January 2004. The work is extensive and disruptive in nature and it is anticipated it will not be completed until end of 2004. However, agreement has been reached with the contractor that the lifts will be replaced in a planned sequence to minimise disruption to the building users. In addition to the replacement programme, initial alterations to the existing goods lift will take place late November 2003. This phase will allow improved operational control

with the proposed second phase opening up additional floors within the City Chambers to permit goods delivery and improved passenger use of this lift.

- 3.15 The improvement to staff accommodation in the West wing of the City Chambers is nearing completion. As part of the desire to improve the accommodation throughout the City Chambers, the adjacent area of the building has been surveyed to enable preliminary design proposals and budget costs to be developed. This area, which includes the accommodation occupied by civic support staff and Council Members, is in very poor condition.
- 3.16 Funding for the programme of work has been included within the consideration for the modernisation of the City Chambers accommodation as part of the current review of the Capital Investment Programme. To facilitate changes in roles and responsibilities resulting from the local government elections, some adjustments in office arrangements are being carried out in advance of this larger programme of work, which is dependent on funds being identified.
- 3.17 During the work to the Members' accommodation and the new reception, emergency work was found necessary to strengthen existing floors and to renew the fire alarm system in the City Chambers. It has been necessary to fund this work from the existing revenue maintenance budget for the repair of all the office buildings. This budget is always under pressure and the emergency work has placed a major restriction on the availability of funds for the remainder of the year. As a result, work for the rest of this financial year will be limited to essential items.
- 3.18 In accordance with BS8210, Building Maintenance Management, the next planned condition survey of the external fabric of the City Chambers was commissioned. The contractor has completed the planned maintenance survey of the external envelope. Due to the height of the building and restrictions on access, part of this work was carried out by inspectors abseiling from the roof. The contractor is currently preparing a report which will enable a 5-year planned maintenance programme to be identified.
- 3.19 Preliminary discussions have been held with various funding bodies regarding possible contributions to the modernisation and conservation of the City Chambers. Arrangements are currently being made to lodge an application with the Heritage Lottery Fund to seek development funding.

McDonald Road

- 3.20 The planned improvement works to McDonald Road to enable Education staff from Dr Bells, 7 Merchiston Park, St Bernards and other locations has recently commenced. This will enable staff to relocate early 2004.

Disposal of Surplus Properties

- 3.21 The sales of Cannonball House to the Tattoo Company and Baden Powell House to the National Library of Scotland, are nearing completion. The successful disposal of both properties this financial year is dependent on the finalisation of the agreement regarding the properties currently leased to the Scottish Parliament.
- 3.22 The Council has received two separate approaches for the purchase of 375 High Street and officers are currently making arrangements for the property to be placed on the open market, to ensure best value to the Council.
- 3.23 Plans are also being made for the marketing of the properties at 7 Merchiston Park and St Bernards.
- 3.24 At its meeting on 10 April 2003 the Council agreed to delay the decision on marketing of the office at 2 India Buildings until 30 June 2003 to enable the Management Committee of Edinburgh City Youth Café (ECCYCA) to establish appropriate funding streams. ECCYCA asked for a further extension up to the end of November 2003 and this has been granted.

Trade Union Consultation

- 3.25 Meetings have been held with senior officials of the Trade Unions to inform them on the progress of the project.

4 Financial Implications

- 4.1 The financial implications resulting from this report are as follows:
- Leasehold Agreement for Council new Headquarters: Affordable within the allocated revenue budgets;
 - Lease Agreement for 10 Waterloo Place: the increase in annual cost of £175,000 of occupying the building is not budgeted for and will be met from additional ROA capital receipts outwith the existing programme on the assumption that these become available;
 - 23 and 25 Waterloo Place; the increase in annual cost of £166,500 of occupying this building has not been budgeted for. A source of funding will require to be identified in consultation with the building occupiers;
 - Capital funding is required to cover the cost of the dilapidations at 10 Waterloo Place and continued refurbishment of the City Chambers and Chesser House; and

- The Council has been provided with several reports regarding the funding of the lease of the new Headquarters building and the maintenance and operation of the office portfolio. Finalisation of the above lease agreement now enables an overall evaluation of the capital and revenue budgetary requirements of the portfolio to be undertaken. It is my intention to report further on this, in consultation with the Director of Finance, to an early meeting of Council.

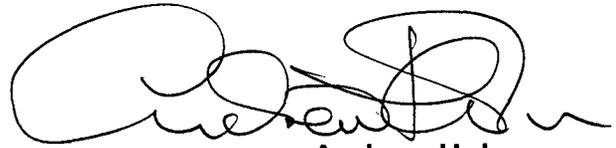
5 Recommendations

5.1 The Council is recommended to note:

- an Agreement for Lease is now in place between MFM and CEC for the new Council Headquarters, on the terms specified, for occupation in Summer 2006;
- additional capital funding will be required to meet the cost of dilapidations at 10 Waterloo Place and for necessary improvements to the City Chambers and Chesser House;
- the extension to the end of November 2003 to enable the ECCYCA to establish appropriate funding;
- the planned maintenance inspection of the external envelope of the City Chambers has been completed; and
- that a further report on the financial implications associated with the maintenance and operation of the office portfolio will be submitted to an early meeting of Council.

5.2 The Council is recommended to approve:

- the revised lease terms and budget implications for 10 Waterloo Place, 23 and 25 Waterloo Place and the buildings leased to the Scottish Parliament;
- that the land to the rear of 23 Waterloo Place will be marketed in due course. The receipt will contribute to the £300,000 payment to MFM; and
- that the increase of £175,000 in the annual cost of occupying 10 Waterloo Place is met from either from additional ROA capital receipts or from provision elsewhere in the revenue budget.



Andrew Holmes
Director of City Development

Appendices	None
Contact/tel	Bill Ness, Head of Corporate Property and Emergency Planning Tel. 0131 529 4915, E mail: w.ness@edinburgh.gov.uk Ian McNicoll, Project Manager, Rationalisation of Office Accommodation Tel. 0131 529 4292, E mail: ian.mcnicoll@edinburgh.gov.uk
Wards affected	City Wide
Background Papers	Decision of the Council, 10 April 2003