

Finance and Resources Committee

10am, Thursday 23 February 2017

Lothian Chambers and 329 High Street – Proposed Office Rationalisation - referral from the Economy Committee

Item number 7.12
Report number
Wards

Executive summary

The Economy Committee, on 7 February 2017, considered a report setting out proposals for the disposal of Lothian Chambers and the seven storey property at 329 High Street.

The Economy Committee approved the disposal of both properties by way of a lease on a direct negotiated basis and has referred the decision to the Finance and Resources Committee for ratification.

Links

Coalition pledges	P17 – Continue efforts to develop the city’s gap sites and encourage regeneration
Council outcomes	CP5 – Business Growth and Investment CP6 – A creative, cultural capital CP7 – Access to work and learning CP8 – A vibrant, sustainable and local economy CP9 – An attractive city
Single Outcome Agreement	SO1 – Edinburgh’s economy delivers increased investment, jobs and opportunities for all
Appendix	Report by the Acting Executive Director of Resources

Terms of Referral

Lothian Chambers and 329 High Street – Proposed Office Rationalisation

Terms of referral

- 1.1 On 7 February 2017 the Economy Committee considered a report setting out proposals for the disposal of Lothian Chambers and the seven storey property at 329 High Street.
- 1.2 It was proposed to dispose of both properties by way of a lease which would allow the Council to retain ownership of both buildings to ensure that the developments and use were delivered.
- 1.3 The Economy Committee agreed:
 - 1.3.1 To approve the office rationalisation proposals as detailed in the report and to instruct the Acting Executive Director of Resources to negotiate terms and conditions for the lease of Lothian Chambers to the French Consulate and 329 High Street to the Chris Stewart Group.
 - 1.3.2 To refer the report to the Finance and Resources Committee for ratification.
 - 1.3.3 To note that a further report would be submitted to the Finance and Resources Committee for approval once the terms and conditions referred to in 1.3.1 above have been finalised.

For Decision/Action

- 2.1 The Finance and Resources Committee is asked to ratify the decision of the Economy Committee to dispose of both properties at Lothian Chambers and 329 High Street by way of a lease on a direct negotiated basis.

Background reading / external references

[Minute of the Finance and Resources Committee 17 March 2016 \(item 1\(b\)\)](#)

[Minute of the Finance and Resources Committee 24 September 2015 \(item 2\(b\)\)](#)

Kirsty-Louise Campbell

Interim Head of Strategy and Insight

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Links

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Appendix	Report by the Acting Executive Director of Resources

Economy Committee

10.00am, Tuesday, 7 February 2017

Lothian Chambers and 329 High Street: Proposed Office Rationalisation

Item number	8.2
Report number	
Executive/routine	
Wards	11 – City Centre

Executive Summary

The rationalisation of the Council's property estate has been identified as a key element of the Asset Management Strategy, approved at Finance and Resources Committee on 24 September 2015, to create a fit for purpose, right sized estate.

Lothian Chambers and 329 High Street have been identified for closure. As well as savings on running costs, FM Services and maintenance, the future use of the properties will generate a financial return to the Council. This report seeks Committee approval on the proposed strategy for these properties.

Links

Coalition Pledges	P17
Council Priorities	CP5 , CP6 , CP7 , CP8 , CP9
Single Outcome Agreement	SO1

Lothian Chambers and 329 High Street: Proposed Office Rationalisation

1. Recommendations

1.1 That Committee:

- 1.1.1 Approves the office rationalisation proposals, as detailed in the report, and instructs the Acting Executive Director of Resources to negotiate terms and conditions for the lease of Lothian Chambers to the French Consulate and 329 High Street to the Chris Stewart Group;
- 1.1.2 Refers this report to the Finance and Resources Committee for ratification; and
- 1.1.3 Notes that a further report for approval will be submitted to the Finance and Resources Committee once the terms and conditions, referred to in paragraph 1.1.1, have been finalised.

2. Background

- 2.1 A key element of the Asset Management Strategy (AMS), approved at the Finance and Resources Committee on 24 September 2015, is to create a fit for purpose, right sized estate. To achieve this, the Estate Rationalisation workstream has identified a number of buildings which are surplus to operational requirements and could be released to reduce the size of the office estate.
- 2.2 Two buildings which have been identified as surplus to operational requirements are Lothian Chambers and 329 High Street. The [Transformation Programme – AMS Update](#) to the Finance and Resources Committee, on 17 March 2016, outlined that business cases were being prepared for the exit from both buildings.
- 2.3 Releasing the buildings and declaring them surplus to requirements would support the AMS objectives by:
 - reducing the size of the estate;
 - creating savings in property running costs as assumed within the AMS Estate Rationalisation targets;
 - creating an opportunity for a capital receipt to apply against targets in the Investment Optimisation work stream; and

- assist in improving the condition of the estate by releasing a capital receipt to be reinvested in the remaining estate.

Lothian Chambers

- 2.4 Lothian Chambers is a category B listed building constructed between 1900 and 1904 as Midlothian County Buildings, and provides accommodation over basement and three storeys. It is situated in a prominent location on the Royal Mile, at the corner of George IV Bridge and Lawnmarket, as shown shaded red on the plan attached as Appendix 1. A section of the building (south section ground and basement levels) is the Signet Library which is not within the ownership of the Council.
- 2.5 The building currently accommodates the following services:
- Registrars;
 - Nationality Checking Service;
 - Statutory venue for weddings;
 - Training suites/meeting rooms; and
 - Electoral Commission (lease to external agency)

329 High Street

- 2.6 329 High Street is category A listed, seven storey property with frontage onto the Royal Mile. The property is separated from the rest of the City Chambers complex at Royal Mile street level (level 5) by Writers Court Close but joins to the Chambers building by a link corridor at level 6 and by rooms at level 10. The building is shown shaded blue on the plan attached as Appendix 1.
- 2.7 329 High Street currently accommodates the following services:
- Through Care and After Care (Communities and Families);
 - Career Transition Service (Council wide);
 - Leith and City Centre Neighbourhood Team (Place); and
 - Young Persons Service (Communities and Families).

Relocation of Services

- 2.8 It is proposed that the key public facing functions from both buildings are co-located with the Customer Hub at 249 High Street, level 5, as there are synergies in the way the public services are delivered. It is proposed that a project, funded from part of the financial return, allows for this area to be enhanced in order to offer more flexibility and accommodate more services.
- 2.9 Wedding bookings have been taken for Lothian Chambers to September 2017 and the intention would be to honour these. The proposal is for wedding bookings beyond this date to be taken forward through liaison with the Events Team and to consider venue spaces within the City Chambers complex and other buildings within the Council estate.

- 2.10 Options for an alternative leased location for the Electoral Commission from Lothian Chambers are being negotiated by Estates Services. There are alternatives for this within the Council estate and relocation will be agreed prior to any onward sale/lease completing.

3. Main report

- 3.1 A key part of the business case, for the release of both buildings, is the financial return received by way of capital receipt/lease rental. This will, in part, be used to fund the works to create the Customer Hub at 249 High Street and other adaptations required to relocate the services within the buildings.
- 3.2 Since the potential release of the properties was placed the public domain in the Transformation Programme – AMS Update to the Finance and Resources Committee on 17 March 2016, Estates have received a number of enquiries which would suggest that there is strong private sector interest in securing the future use of the properties for commercial uses. However, both properties occupy strategic locations on the Royal Mile and it is therefore considered that the Council may wish to retain additional controls over their future use and/or redevelopment.
- 3.3 In accordance with the approved mechanism for disposal of surplus assets, there are three principal options available to the Council as follows:
1. **Market the properties for disposal** – This option has the advantage of exposing the properties to the market, which, in theory, should generate the highest level of return due to the competitive nature of the process. However, this option significantly dilutes the Council's control over the future use of the assets as it is possible that the highest bids received, whilst acceptable uses in planning terms, maybe overall detrimental to the buildings and/or the immediate environment of the Royal Mile.
 2. **Disposal through direct negotiated sale** – This allows some element of control over the disposal process by either negotiating with an adjoining landowner or specific purchaser who is seeking to put a building to a specific use, which could support the Coalition Pledges and Council Priorities. However, this can lead to the same issues as option 1 as the Council will not retain an interest, and will have little control over the buildings after the disposals are complete.
 3. **Disposal by way of a lease** – Disposing of an asset by way of a lease allows the Council to retain ownership and control over future use. A suitably long lease allows a return equivalent to an outright disposal to be achieved. Further control over the future use of the buildings could also be secured through direct negotiation.
- 3.4 Due to the historical significance and location of both buildings that Option 3, a disposal of the buildings by way of a lease on a direct negotiated basis, is recommended.

- 3.5 To meet the savings targets, negotiations will take place to secure a direct disposal, on a lease, of both buildings. This will provide for a specific timescale and level of receipt, to fully inform each business case. This proposed approach will facilitate a direct lease of the properties, which is considered in more detail below.

Lothian Chambers

- 3.6 The French Consulate has been seeking new premises within Edinburgh for a number of years and have identified Lothian Chambers as being ideally suited for their requirements of creating an expanded Consulate. The Consulate General of France and the French Institute in Scotland are, effectively, the Scottish outpost of the Embassy of France. Their combined mission comprises:
- the official representation of the French Government in Scotland (liaising with British, Scottish and local governments and the driving forces of society);
 - the protection of French interests (French nationals and French companies or investments); and
 - the promotion of French and francophone culture (French language classes for all, access to books and films from its members' library, as well as cinema screenings, live performances and talks).
- 3.7 The aim of the project is to establish a wider and denser possible network of contacts throughout Scotland and in all Scottish walks of life. The premises will be a homebase for the French community and an open house for artistic expressions of all kinds and backgrounds, both indoors and outdoors including during the Edinburgh festivals, of which the French Institute has been a committed partner since the very first editions.
- 3.8 Their current office and cultural base has been established on Randolph Crescent, in the West End, for 70 years. The French Institute and the French Consulate General in Edinburgh wish to share its 70th anniversary with that of the Edinburgh International and Fringe Festivals, and the proposed relocation coincides with a deepening of relations with Scotland in the context of the reshaping of the UK's relationship with the European Union and its Member States.
- 3.9 The proposals will see a new House of France at Lothian Chambers on Parliament Square and be home to:
- a 100-seat auditorium, featuring an extensive programme of theatre, music, dance and artist residencies that aim to support as well as showcase performances from Scottish, French and international artists;
 - a 20,000 book and multimedia library, offering a variety of lectures, reading groups and youth activities;
 - an art gallery and a Scotland centre for photography;
 - a French and European language school;
 - an information and support centre for French and European citizens;
 - an outsourced café offering refreshments and light catering; and
 - continued space rental for receptions, weddings and civic occasions.

3.10 In summary, the proposal will provide for a long lease, e.g. typically 99 years, through which the Council will receive a premium at the outset equivalent to the market value of the property, and retain a significant element of control over the further use as described above. In addition, the Council will retain rights for use of the property for civic occasions.

329 High Street

3.11 Following the acquisition of the former Council owned properties at Market Street, Cockburn Street and Advocate's Close, the Chris Stewart Group (The Group) has undertaken a multi award winning £45m mixed use redevelopment, providing office, retail, leisure and serviced apartment uses. The Group has approached the Council on the basis that their ownership extends up to the boundary of Roxburgh Court, which adjoins 329 High Street, i.e. an adjacent proprietor. Outline proposals have been produced for a high quality serviced apartment development and how this will directly link, and act as an extension, to the existing Advocates Close development.

3.12 It is expected that the proposals will produce a return in excess of market value due to the share of 'marriage value' created. The proposals would initially be a long lease, to ensure the proposed development was delivered, but would eventually convert to outright ownership once complete.

Conclusions

3.13 The recommendations of the report allow the Council to obtain market value for its assets and retain significant control over their future use and redevelopment. This report will be referred to the next meeting of the Finance and Resources Committee for ratification and, if approved, a further report, detailing the financial terms and conditions, will be presented to a future meeting of the Finance and Resources Committee.

4. Measures of success

4.1 The release and disposal of the properties will support the Asset Management Strategy Objectives by:

- reducing the size of the estate;
- creating savings in property running costs to apply against AMS Estate Rationalisation targets;
- creating an opportunity for a capital receipt to apply against targets in the Investment Optimisation work stream; and
- assist in improving the condition of the estate by releasing a capital receipt to be reinvested in the remaining estate.

4.2 The proposed method of disposal will allow the Council to retain ownership of both buildings to ensure that the proposed developments and use are delivered. The lease of 329 High Street will fall when the development has been completed

however this will allow the Council to ensure that the proposed high quality development for an acceptable use will be delivered.

5. Financial impact

- 5.1 The annual running costs savings from exiting from both properties is expected to be a minimum of £173,000 pa. Additional savings will be created from removing the need to provide FM services for these buildings, which will be incorporated within the AMS redesign.
- 5.2 The disposal of the properties will result in a financial return in excess of £7m in financial year 2017/18. In order to accommodate the staff groups and services moving out of these buildings, adaptations will be required to the receiving location – the customer hub at 249 High Street - where it is expected that synergies in customer interaction can be achieved and the customer journey improved as a consequence. The detailed designs for 249 High Street are currently being developed and costed, and it proposed that these adaptations are funded from part of the financial return. This issue will be addressed in the future report referred to in recommendation 1.1.3.
- 5.2 Disposal of the properties will also relieve the Council from the annual repair and maintenance costs which was reported as an estate-wide £110m pressure to Finance and Resources committee in June 2016.

6. Risk, policy, compliance and governance impact

- 6.1 The capital receipt for 329 High Street would be contingent upon planning permission being granted. This report has no bearing on the statutory planning process and normal governance procedures will be observed.
- 6.2 There will be a risk to the disposal of both properties progressing if the works to create the Customer Hub at 249 High Street is not completed within the proposed schedule.

7. Equalities impact

- 7.1 By agreeing to an off market disposal of the properties, potential purchasers will be prevented from submitting a bid. However any disposal will be at market value.
- 7.2 A direct disposal allows the Council to retain an element of control over the future use and/or redevelopment of two strategically located buildings within the Royal Mile.
- 7.3 The proposed use for both buildings will create economic benefits to Edinburgh and create employment which will enhance the right of residents to productive and valued activities.

- 7.4 Development works following the disposal of 329 High Street will cause disturbance to neighbouring residents. Guidelines for any construction works in terms of recognising the proximity of adjoining properties will form part of the conditions attached to any planning permission.

8. Sustainability impact

- 8.1 Any redevelopment of the property following disposal will be to modern standards and will comply with current building regulations to minimise impact to the environment.

9. Consultation and engagement

- 9.1 Strategic engagement has taken place with the services currently using the building.
- 9.2 Local elected members have been consulted on the recommendations of the report.

10. Background reading/external references

- 10.1 N/A

Hugh Dunn

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11. Links

Coalition Pledges	P17 – Continue efforts to develop the city’s gap sites and encourage regeneration.
Council Priorities	CP5 – Business growth and investment. CP6 – A creative, cultural capital. CP7 – Access to work and Learning. CP8 – A vibrant, sustainable and local economy. CP9 – An attractive city.
Single Outcome Agreement	SO1 – Edinburgh’s economy delivers increased investment, jobs and opportunities for all.
Appendices	Appendix 1 - Location Plan.



SITE PLAN

PHOTOGRAPHICALLY REDUCED NOT TO SCALE

• EDINBURGH • THE CITY OF EDINBURGH COUNCIL	
SERVICES FOR COMMUNITIES EDINBURGH	
LOTHIAN CHAMBERS AT 59-63 GEORGE IV BRIDGE AND 329 HIGH STREET EDINBURGH	
DATE	18/1/17
SURVEYED BY	
DRAWN BY	Mark Ballantyne
SCALE	N.T.S.
NEG. NO.	A3/1733

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