

SLOUGH BOROUGH COUNCIL

REPORT TO: Cabinet

DATE: 12 April 2021

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WARD(S): All

PART I **NON-KEY DECISION**

OBSERVATORY HOUSE – UPDATE AND LEASE ARRANGEMENT FOR PART OF THE SECOND FLOOR

1. **Purpose of Report**

- 1.1 The purpose of this report is to provide members with an update on progress with increasing occupancy of Observatory House and seek approval for a proposed lease of part of the second floor.

2. **Recommendation(s)/Proposed Action**

- 2.1 It is recommended that Cabinet:

- 1) delegate authority to the Executive Director of Place to agree terms of and approve the grant of a lease and any supplemental document(s) of part of the second floor Observatory House for a maximum term of 10 years, the lease to be granted at best consideration.

3. **The Slough Joint Wellbeing Strategy, the Slough Joint Strategic Needs Assessment and the Five Year Plan**

3a. **Slough Wellbeing Strategy Priorities**

The intensification and diversification of occupation of Observatory House will further increase footfall and spend per head in and around the High Street increasing the viability of the retail offer and the associated employment opportunities. Improving the viability of the town centre should also contribute towards improving the image of Slough as a town.

3b. **Five Year Plan Outcomes**

Outcome 3 - Investing in Council buildings will encourage people to live, work and stay in Slough. The new facilities will generate employment and attract people to the area.

Outcome 5 - Investing in Council buildings will help attract and retain businesses whilst directly creating opportunities for our residents.

4. Other Implications

(a) Financial

This business case for the leasing 4,000 sqft of the second floor predominantly focuses on maximising the flexibility, opportunities and the ongoing sustainability of the Observatory House building. The proposed lease will provide a financial return to the Council for floor space that was previously assumed to be paid for and utilised by SBC.

The Council's approved Medium Term Financial Strategy assumes rental income for Observatory House of £75k in 2021/22, a further £300k in 2022/23 and a further £150k in 2023/24, £525k in total ongoing. Subject to completion, the lease of this part of the second floor will deliver an income of over £100k per year from 2022/23. The remaining additional income is anticipated to come from renting an additional 12,000 sqft of space within 2 years.

(b) Risk Management

Recommendation from section 2 above	Risks/ Threats/ Opportunities	Current Controls	Using the Risk Management Matrix Score the risk	Future Controls
Delegate authority to the Executive Director of Place to agree terms of and approve the grant of a lease and any supplemental document(s) of part of the second floor Observatory House for a maximum term of 10 years	Legal – competing priorities could create delays.	The Council will appoint HB Public Law to prepare the lease / licence as required.	4	The proposed tenants will be under contract to comply with their obligations which will be monitored.
	Property – The property could have internal or external defects that emerge.	The landlord (SBC) will maintain and recover part of the cost under the 2 nd floor lease.	3	Building Management monitor the building and the performance of the plant / equipment services.
	Staff Issues – Impact of loss of 2 nd floor space on those occupying this area.	The project will relocate those within this area to other parts of the building.	4	There are other opportunities for working space outside of Observatory House which can be used.
	Impact of COVID-19 pandemic on viability and safety.	Build capacity into the design. Liaise with Council's Workplace Safety Group.	9 (Critical impact. Low probability)	Ongoing review pre and post handover.

(c) Human Rights Act and Other Legal Implications

- There are no human rights implications in these proposals.
- The disposal of the second floor complies with market subsidy rules.
- Pursuant to section 123 (2) of the Local Government Act 1972, local authorities are not to dispose of general fund land for a consideration which is less than the best consideration that can be reasonably obtained without the consent of the Secretary of State. The proposed lease of the 2nd floor for the will be at open market value.

(d) Procurement Implications

There are no procurement implications in these proposals.

(e) Equalities Impact Assessment

There are no equalities implications in these proposals.

5. **Supporting Information**

Background

- 5.1 In May 2018 a paper was brought before Cabinet for the purchase of Observatory House. In addition to the operational benefits for the Council, the purchase proposed that relocating SBC's headquarters to the town centre will increase footfall and spend per head in and around the High Street increasing the viability of the retail offer and the associated employment opportunities.
- 5.2 The paper also highlighted the Council strategy to reduce desk ratios from 8:10 for most staff to 5:10 for all staff as part of the Transformation Agenda. In addition, the Council has been working to develop a network of community hubs that will allow council staff to work in the localities. Together these will create additional space to lease and generate additional income for the Council.
- 5.3 In approving the recommendation to purchase Observatory House, it was agreed that the 4th and 5th floors would be released to third parties to generate income and maximise the benefits of the building.
- 5.4 The fourth floor is now dedicated to Slough Children First Limited (formerly Slough Children's Services Trust) along with a suite of public offices on the ground floor. The Trust was the last remaining occupant of St Martin's Place, the successful relocation to Observatory House enables the redevelopment of that site to create new homes.
- 5.5 The decision taken by Cabinet last year to dedicate the 5th floor to the Slough Innovation Space and Future Skills Hub will ensure that the space is contributing positively to the economic development of Slough. An update on this project will follow at the next meeting of Cabinet.

5.6 Whilst it was always intended that the move to Observatory House would deliver smarter and flexible working as part of the transformation agenda, the unforeseen increase in home working from March 2020 has accelerated this outcome. Taking account of changing working patterns when the country comes out of lockdown, the Medium Term Financial Strategy (“MTFS”) assumed that the equivalent of an additional floor of space (circa 16,000 sqft) could be leased within three years. In accordance with the MTFS and the budget for 2021/22, this report seeks approval to lease circa 3,600 sqft of space on the 2nd floor.

2nd Floor – Lease to Third Party

5.7. A lease of circa 3,600 sq. ft. on the second floor of Observatory House will increase utilisation, and secure further financial benefits to the Council. It is proposed that this will be on the basis of a 10 year internal repairing lease, inside the Landlord & Tenant Act 1954. Car parking spaces will be provided at Herschel Car Park as part of the arrangement and it is also proposed to allow the tenant access to the kitchen on the second floor to simplify the fit-out and also to promote interaction between the tenant and staff, particularly planning. As a further benefit, the tenant will be paying business rates and contributing to maintaining the upkeep of common parts of the building.

5.8 The final terms of the lease including the rental charge and rent free period are still subject to negotiation.

5.9 The expectation is that occupation could take place by the end of September, 2021. The area is currently assigned to the Food Safety team and Adult Social Care. These services will be re-located within the building. Whilst interest has been shown from an additional third party to co-locate within Observatory House, further analysis will be required before making any recommendations. This analysis will take into account insight that emerges in a post-lockdown environment and the results will be presented to Cabinet if the recommendation will be to proceed with the third party.

5.10 The occupation of the space will be subject to the same rules which apply to Council staff and will be subject to approval by the Workplace Safety Group. Currently the government roadmap suggests that businesses can start to return to work with COVID-secure restrictions from 21st May 2021. Unless the national picture changes, it is anticipated that staff would start to return on an approved and phased basis from June with a high occupancy level starting to appear by September 2021.

5.11 Programme

Based on the most up-to-date programme, timescales for the 2nd floor letting are as follows:

Milestone	Target
Cabinet Decision	April 2021
Agreed Heads of Terms	May 2021
Executed Lease	May 2021
Fit-out Completion Complete	September 2021
Occupation	October 2021

6. **Comments of Other Committees**

None

7. **Conclusion**

- 7.1 The leasing part of the 2nd floor of Observatory House will improve the financial performance of the asset. It will also contribute to the achievement of the overall strategy to maximise its value while contributing to the economic development of the town centre. This together with the completed occupation of the fourth floor and ongoing plans for the fifth floor will mean Observatory House will be fully let, creating a vibrant, multi-purpose environment for users.

8. **Appendices Attached**

None

9. **Background Papers**

None