

**SURREY COUNTY COUNCIL****CABINET**

**DATE:** 23 JULY 2024

**REPORT OF CABINET MEMBER:** NATALIE BRAMHALL, CABINET MEMBER FOR PROPERTY, WASTE AND INFRASTRUCTURE

**LEAD OFFICER:** SIMON CROWTHER, DIRECTOR OF LAND AND PROPERTY

**SUBJECT:** CONSORT HOUSE, REDHILL

**ORGANISATION STRATEGY PRIORITY AREA:** GROWING A SUSTAINABLE ECONOMY SO EVERYONE CAN BENEFIT/ TACKLING HEALTH INEQUALITY

<b>Purpose of the Report:</b>
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Consort House, Redhill is a former administrative office of Surrey County Council (the Council) which was vacated on the relocation of services to Woodhatch Place, Reigate. Following an extended period of marketing since September 2022, no acceptable commercial proposals for a freehold sale have been received.

Cabinet is asked to approve a letting of the whole building that will support its retention as an investment holding, pending future decisions on the asset by Strategic Investment Board (SIB).

A separate Part 2 report is appended containing information which is exempt from Access to Information requirements by virtue of paragraph 3, Schedule 12A Local Government Act 1972 as it relates to the Financial and Business affairs of the Council and includes commercially sensitive information.

<b>Recommendations:</b>
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It is recommended that Cabinet:

1. Approves the details of the letting of Consort House as outlined in the Part 2 report.
2. Delegates authority to the S151 Officer in consultation with the Director of Land and Property to conclude best value terms and complete all associated legal documentation.
3. Notes the Financial and Value for Money implications recorded in this Part 2 report.
4. Formally declares the asset surplus to operational service requirements, and upon completion of the letting, to hold the asset for Investment purposes pending any future Cabinet or Strategic Investment Board decisions on its future.

### **Reason for Recommendations:**

A letting of the entire building now provides an opportunity for the Council to not only mitigate its void holding costs, but to secure a long-term rental income stream enabling the asset to be held as an investment property, pending any future decisions of the Council.

The proposed tenant is a significant provider of services supporting Surrey communities.

Consort House has remained largely vacant since late 2022, other than the current temporary occupation by library services for storage and a short term click and collect service. The Council has incurred void holding costs on the building and has a rental liability for some related car parking. Marketing of the building, on either a freehold or leasehold basis, has been pursued against the background of a very depressed office market over the past 2 years.

There have been no recent commercial proposals received for the freehold interest that would be recommended to Cabinet.

### **Executive Summary:**

1. Consort House comprises of offices totalling 26,699 sq. ft in Redhill town centre, vacated by the Council in late 2022 as part of their relocation of staff to Woodhatch Place. At present empty rates, void running/security costs and a rental liability for car parking total in the region of £375k + per annum.

The building has remained largely vacant since late 2022, other than the current temporary occupation by library services for storage and a short term click and collect service.

2. Marketing of the building, on either a freehold or leasehold basis, has been pursued against the background of a very depressed office market over the past 2 years.

In the intervening and post Covid period the non-Grade A office market has contracted considerably with 30-50% wiped off rental and capital values. Redhill is specifically highlighted as currently having an oversupply of Grade B office space, and only one significant letting has been concluded (10,000 sq. ft) in the past 21 months.

3. The Council has received a small number of speculative and conditional bids for its freehold interest, but none have been recommended as acceptable, supporting our best value obligations or desires to mitigate our void costs. Bids received have been very low or conditional upon variant matters such as i) asking the Council to enter into a sale and leaseback – requiring the Council to retain a lease and provide a secure rental income to the bidder ii) deferred capital receipt linked to future income streams if the building were to be converted for alternate uses iii) or non-compliant bids where parties remained unwilling to provide full status information to satisfy our compliance obligations.

In addition, the asset has been assessed, and rejected, by several residential developers despite the recent relaxation in permitted development rights that enable larger offices (no cap on size) to now be converted to residential uses.

If concluded this letting would be the largest office transaction in Redhill and Reigate for over 2 years.

4. Despite the depressed office market, the Council has received a comprehensive proposal for the whole building (see Part 2 Report for the commercial terms).

**Consultation:**

5. The proposal has been reviewed by Property Panel, Capital Programme Panel and briefings issued through Asset Strategy Board and informally to Cabinet Members
6. Library services who have been occupying the building for storage and a temporary click and collect service have been briefed and a separate report on Redhill Library service provision will form part of a separate business case and report to Cabinet shortly.
7. The Chair of the Resources and Policy Select Committee has been briefed.

**Risk Management and Implications:**

Risks identified at this stage and mitigating actions are set out below:

	<b>Risk description</b>	<b>Mitigation</b>
1	Tenant withdraws from the negotiations	The Council has ability to remarket site.
2	Legal delays on securing landlords' consent to assign the Car park headleases	Early conversations with landlords who are not able to unreasonably withhold consent to a request to assign or underlet the headlease of the car park spaces held by the Council
3	Library Services relocation decision delays handover	Subject to separate report to Cabinet
4	Net Zero Carbon targets	Any further improvements to the building will be taken forward by the occupier. There are no further proposals approved by the Council for this vacant asset
5	Survey	The tenant will undertake due diligence ahead of contract completion but any unexpected issues arising from surveys will be negotiated to reflect the nature of the works needed. The Council have no risk appetite to explore speculative or extensive refurbishment works on this asset but may support matters that support the long-term investment benefit.

**Financial and Value for Money Implications:**

8. The Cabinet decision, in April 2020, to purchase Woodhatch Place noted that the acquisition of the site was to support rationalisation of the estate which would enable assets to be marketed, and this included Consort House. It proposed that the capital receipt from the sale of Consort House, or the rental income, would be utilised to support the financing costs of purchasing Woodhatch Place.
9. The Council has received a small number of speculative and conditional bids for its freehold interest, but none have supported best value. This full market rental bid for the whole building enables the Council to hold the asset as an investment proposition pending further decisions by the Council.
10. Further detail is provided in the Part 2 report.

### **Section 151 Officer Commentary:**

11. The Council continues to operate in a very challenging financial environment. Local authorities across the country are experiencing significant budgetary pressures. Surrey County Council has made significant progress in recent years to improve the Council's financial resilience and whilst this has built a stronger financial base from which to deliver our services, the cost-of-service delivery, increasing demand, financial uncertainty and government policy changes mean we continue to face challenges to our financial position. This requires an increased focus on financial management to protect service delivery, a continuation of the need to deliver financial efficiencies and reduce spending in order to achieve a balanced budget position each year.
12. In addition to these immediate challenges, the medium-term financial outlook beyond 2024/25 remains uncertain. With no clarity on central government funding in the medium term, our working assumption is that financial resources will continue to be constrained, as they have been for the majority of the past decade. This places an onus on the Council to continue to consider issues of financial sustainability as a priority, in order to ensure the stable provision of services in the medium term.
13. The MTFS already assumes that either a capital receipt or rental income from Consort House would partly finance the purchase of Woodhatch Place. The rental income from the recommendation will cover the assumed capital costs of Woodhatch Place. The additional revenue savings arising from the recommendation will offset building running cost pressures elsewhere. As such, the Section 151 Officer supports the recommendation.

### **Legal Implications – Monitoring Officer:**

14. Under Section 123 of the Local Government Act 1972 (LGA 1972), local authorities have the power to dispose of land in any manner they wish, subject to the disposal being for the best consideration reasonably obtainable. In pursuing any options to dispose, the Council should ensure that the price for any such disposal is 'market value' to comply with Section 123 LGA 1972. The recommendation to enter into a lease to generate rental income for the Council would fall within the definition of a disposal under the LGA 1972 where the term of any lease exceeds seven years.
15. Legal advice should be sought at all relevant stages to ensure the Council meets its obligations.

### **Equalities and Diversity:**

16. An Equality Impact Assessment is not normally required for a property disposal transaction however there are no factors arising from this proposal which should negatively affect any particular party.
17. The proposal comprises a relocation of a local company from an edge of town warehouse estate to a town centre location, providing enhanced accessibility to public transport, retail facilities and adjacent car parking for their wider client base.

## Other Implications:

18. The potential implications for the following council priorities and policy areas have been considered. Where the impact is potentially significant a summary of the issues is set out in detail below.

<b>Area assessed:</b>	<b>Direct Implications:</b>
Corporate Parenting/ Looked After Children	No specific implications save that accessibility for all our communities is enhanced by a town centre location for this Tenant.
Safeguarding responsibilities for vulnerable children and adults	No specific implications.
Environmental sustainability	An EIA is not required for a property leasing transaction and would normally only arise on an Infrastructure or major development proposal. <a href="https://snet.surreycc.gov.uk/organisational-info/council-wide-projects/environmental-sustainability-appraisal">https://snet.surreycc.gov.uk/organisational-info/council-wide-projects/environmental-sustainability-appraisal</a>
Compliance against net-zero emissions target and future climate compatibility/resilience	The Climate Change Strategic lead officer advises that Consort house is a high-emitting building (around 50t CO2eq per year).  Moving it from an owned and operated building to a leased (investment) building will take it out of the scope of SCC's organisational carbon emission net-zero 2030 target, having an overall positive impact on meeting our 2030 target.  As the asset is retained for lease, it will still be part of our indirect emissions impact and therefore still falls under the scope of the corporate climate plan.
Public Health	Beneficial implications. The proposed Tenant provides contracted services to the National Health Service and the proposal enables enhanced service offers.

## What Happens Next:

- 19.
- Lawyers have been instructed on the Heads of Terms outlined in this report and attached as Appendix 1 to the Part 2 report.
  - It is proposed to target 1st September 2024 to handover the building and have all leasing matters concluded by that time.
  - Library Services current use of the asset is under review and subject to a separate report to Cabinet.
  - Completion of the transaction and associated legal agreements would be pursued as part of the recommended Delegated approval process.
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**Report Author:** Graham Glenn Head of Acquisitions and Disposals, 07890 561245

**Consulted:**

- **Cllr Natalie Bramhall**, Cabinet Member for Property, Waste & Infrastructure SCC
- Chair of Resources and Policy Select Committee
- **Katie Stewart**, Executive Director, Environment, Infrastructure and Growth, SCC
- **Simon Crowther**, Director, Land and Property, SCC
- **Colin Galletly**, Assistant Director, Estates, SCC
- **Property Panel and Capital Programme Panel members**, SCC
- **Asset Strategy Board**, SCC
- **Finance and Legal Teams, SCC (Kara Burnett, Louise Lawson, Rachel Wigley)**

**Appendices:**

Appendix A: Marketing details

Part 2 report

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