

Acquisition of Mayland House, Witham

Agenda Item 6b

Portfolio Area:	Efficiency & Resources
Report Presented by:	Councillor Michael Lager

Background Papers:	Report to Cabinet 12 th October 2009
Corporate Implications:	Please refer to table at end of report
Options:	Detailed in the report
Risks:	Detailed in the report

Executive Summary

Braintree District Council (BDC) has recently been given an option to acquire a building in Witham (Mayland House) built by Marsh on land owned by the council. Marsh currently leases the land from BDC but now wish to vacate the building and consolidate their operations into a neighbouring building. They are offering Mayland House to the council: freehold building, 3 floors (65k sq ft), and fully furnished offices with on-site car parking at no cost.

Coincident with this offer the council had decided that, in the long term, it would relocate its Braintree office-based staff to the Braintree Town Centre redevelopment behind the Town Hall. This includes the potential to decant office-based staff at Millennium Tower into Braintree Town Centre. (Causeway House is no longer fit for purpose and the cost of refurbishment outweighs the cost of new provision within the overall town centre development).

It had also been agreed with Essex County Council (ECC) that they would co-locate some staff with BDC (initially at Causeway House and eventually in the town centre development).

With the proposal from Marsh, and with specific regard to Mayland House, the options available to the council are:

1. Accept the offer of Mayland House, re-locate Causeway House and Millennium Tower office staff into part of the building, rent the rest of it to a third party and dispose of Causeway House
2. Accept the offer of Mayland House and rent the building to a third party
3. Accept the offer of Mayland House and dispose of it on the open market
4. Accept the offer of Mayland House, re-locate Causeway House and Millennium Tower office staff to it – occupying the building solely - and dispose of Causeway House
5. Decline the offer to acquire the building, continue to receive the ground rent and dispose of Causeway House as part of the Braintree Town Centre redevelopment

(As noted above, these options do not exclude the deliberations and discussion on the Braintree Town Centre development. In the event of option 2, 3 or 5 being selected the move to the Braintree Town Centre development would continue.)

This paper explores the various options, recommends the way forward and presents the business case to support it.

Decision

1. That the Council accepts the surrender of the lease for Mayland House, Witham with Marsh McLennan in accordance with the Draft Heads of Terms as detailed on Appendix B.
2. That the Council continues to develop options 1,2 and 3 as detailed in the report, with an updated position reported back to Cabinet early in the new year.

Options Appraisal

Option 1: Accept the offer for Mayland House, re-locate office staff from Braintree and rent part of the site to a third party

This option appears to be financially viable as outlined below.

This option is based on the assumption that the council would occupy half the building with ECC and/or other public sector bodies occupying the other half. This would provide the council with space for approximately 300 desks and a meeting area of 2,500 sq ft (current meeting area is 2,000 sq ft). Space would also need to be factored in for the ICT provider. Currently, there are approximately 390 desks/staff in Causeway House so the proposal is based on a 75% desk to staff ratio and would involve the council in looking at more flexible ways of working and maximising the use of technology

Outcomes

- The option supports the council objective to improve its financial position especially in the light of the current economical climate and the need to make the best of our resources
- It provides long-term, well-maintained, fit for purpose office accommodation for the council
- Secures a valuable investment site

Benefits

The benefits expected from this project are:

- Acquisition (and freehold ownership) of a valuable asset
- Potential for increased revenue through rental of accommodation
- Reduced costs of the Braintree Town Centre redevelopment
- Possibility of sharing services with partners.

Opportunities

A major relocation like this becomes a catalyst for the council to consider new ways of working to improve the efficiency of our processes, their value for money and their effectiveness. These include (but are not limited to)

- The mechanisms for handling the working between the front office and back office
- The provision and location of front office and face-to-face services
- Provision of shared services with Essex County Council and other public sector organisations
- Implement improved workstyle options:
 - home-working
 - flexible working
 - touchdown centres
 - hot desking

Risks & Issues

- Finding a suitable tenant for the other part of the building, although ECC have agreed in principle to rent one half of the building
- Increased travel to/from work
- Staff resistance and potential loss of key personnel
- 75% desk to staff ratio not achieved
- Additional costs of providing front line services (not yet quantified)

These risks will require mitigation if this option is chosen.

Financial Implications – Summary

Details can be found at Appendix A

Revenue	£
Annual Running Costs:	882k
Loss of ground rent from Marsh:	73k
Less Rent & Service Charge from ECC / Partners	<u>(608k)</u>
Net running costs	347k
Less: net running costs of Causeway House	(408k)
Net saving against current budget	(60k)

(Whilst the figures indicate a small saving against current budgets it would be prudent to assume a breakeven position due to the large number of uncertainties at this point in time)

Additional one-off costs

Revenue	700k
Capital	659k

One-off gains

- The cost of the proposed Braintree Town Centre redevelopment would reduce by £5m
- Asset gained with an ongoing rental income, with a value of up to £7m

Option 2 – Accept the offer for Mayland House, rent the building to another organisation and continue with the planned move to the Braintree Town Centre location

On the basis of the current market rate, the rental expected from the building would be at least £465k p.a. and the council would acquire a capital asset worth in the region of £7m. (Note that this is the anticipated value attached to the site if it is occupied by a 'high-value' organisation.) As previously mentioned ECC have agreed to rent half of the building. This could extend to the whole building depending on their needs. If they do, a smaller building would be required on the Braintree Town Centre redevelopment site with a subsequent reduction in the cost of the redevelopment by £3m.

Outcomes

- Improves the council's revenue finance position
- Reduced capital commitment for Town centre office accommodation

Benefits

- Increased revenue (through rental of accommodation)
- Acquisition of a valuable investment asset

Risks

- Finding a suitable tenant for the building
- If ECC take on the whole building, shared services opportunities may be lost

Financial Implications

- If ECC occupy Mayland House then finding another suitable tenant for Causeway House could result in a loss of £171k as this is already assumed as income for next year. However, the redevelopment of Braintree Town Centre would also be reduced in scope and the capital investment would reduce by £3m.
- Acquisition of a property worth: £7m
- Net revenue stream: £221k p.a.
(£465k rental income, less £171k if an alternative tenant cannot be found for Causeway House, less £73k loss of ground rent on Mayland House)

Revenue	£
Rental Income	465k
Potential loss of rental income from Causeway House	(171k)
Loss of ground rent from Mayland House	(73k)
Total income p.a.	221k

Capital

Capital receipt value of Mayland House	7m
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Option 3 – Accept the offer to acquire Mayland House, dispose of it on the open market and continue with the planned move to the Braintree Town Centre location

It is estimated that it would cost approximately £100k for consultants and legal fees and that the net site value would be in excess of £4m. This value is subject to planning and could vary depending on the end use. If the site is sold for more valuable use (e.g. retail) then there is a 'claw-back' provision for Marsh McLennan as detailed in paragraph 10 of the draft Heads of Terms.

Outcomes

- Increased capital receipts

Benefits

- Improved capital base

Risks

- Potential income stream lost
- Unable to sell/lease the site within a reasonable timeframe

Financial Implications

- Council improves capital position by at least £4m
- Revenue stream decreased by £73k due to loss of ground rent

Revenue	£
Loss of ground rent for Mayland House	(73k) p.a.
Capital	
Disposal of Mayland House –Estimated minimum of	4m

Option 4 - Accept the offer for Mayland House and re-locate office staff from Braintree with sole occupation of the building

This option is not financially viable due to the running costs for the site which would have a negative impact on our revenue costs of over £500k. It has therefore been discounted from further consideration in this paper.

Option 5 – Decline the offer to acquire Mayland House and continue with the planned move to the Braintree Town Centre location

The pros in support of this option are:

- The council continues to receive the £73k p.a. from the ground rent of the land
- The uncertainty of renting Mayland House and finding a suitable tenant is removed

The main disadvantage with this option is that it passes up an opportunity to acquire a property with a potential for generating revenue and which is itself a capital receipt worth in excess of £4m.

Benefits

- Council continues to receive ground rent

Risks

- Potential income stream lost
- Loss of a potential capital receipt

Financial implications

- No change to the council finances

Options Appraisal Summary

1. Accept the offer of Mayland House, re-locate Braintree office staff into part of the building, rent the rest of it to a third party and dispose of Causeway House
2. Accept the offer of Mayland House and rent the building to a third party
3. Accept the offer of Mayland House and dispose of it on the open market
4. Accept the offer of Mayland House, re-locate Braintree office staff to it – occupying the building solely, and dispose of Causeway House
5. Decline the offer to acquire the building and continue to receive the ground rent

Option	Capital		Revenue		Follow-up?
	Gain	One-off Costs	One-off Costs	Gain on-going	
1	Capital Asset worth £7m & Reduced cost of Braintree Town Centre redevelopment - £5m	£659k	£700k	-	Yes
2	Capital Asset worth - £7m & Reduced cost of Town Centre redevelopment - £3m	-	-	£221k	Yes
3	Sale of Mayland House > £4m	£100k	-	-£73k	Yes, if options 1&2 are not feasible
4	Reduced cost of Town Centre redevelopment site - £5m	£659k	£700k	-£547k	No
5	-	-	-	-	No

Timescales

- Business case to Cabinet to acquire Mayland House: 7th December '09
- Ratification by full council: 14th December '09
- Report to Cabinet on preferred option: Early 2010

A full timetable will then be developed dependent on the option agreed.

Corporate Implications				
Financial:	Outlined in the report and on Appendix A			
Legal:	Surrender of lease agreed			
Equalities & Diversity:	None at this stage			
Customer Impact:	None at this stage			
Environment & Climate Change:	Dependent on option selected			
Consultation/Community Engagement:	Local Committees	Not at this stage	Partners	Not at this stage
	Public	Not at this stage	Staff	Not at this stage
Key Decision:	No			
Public/Private Report:	Public			
Officer Contact:	Chris Fleetham			
Designation:	Corporate Director			
Ext No:	2800			
Email:	chrfl@braintree.gov.uk			

Appendix A – Financial Breakdown for Option 1
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	Causeway House (2010/11 draft estimates)	Mayland House	Difference
	£	£	£
<u>Annual Running Costs</u>			
Rates	192,940	246,000	
General Maintenance	86,710	187,050	
Office Cleaning	42,790	74,000	
Electricity	88,430	159,110	
Gas	26,940	32,240	
Water Rates	7,000	25,000	
Refuse Collection	6,560	15,000	
Insurance	5,680	7,000	
Rent - Car park	15,000	0	
Miscellaneous Running Costs	7,700	4,500	
	<hr/>	<hr/>	
	479,750	749,900	
Income from ECC:			
Rent	-75,000	-232,500	
Service Charge (based on occupation of 1½ floors in Mayland House)	-96,070	-374,950	
Alternative arrangements for stray dogs		30,000	
ICT infrastructure	99,000	102,000	
	<hr/>	<hr/>	
Net Cost	<u>407,680</u>	<u>274,450</u>	<u>133,230</u>
Loss of Rental Income for Mayland House		73000	
	<hr/>	<hr/>	
	<u>407,680</u>	<u>347,450</u>	<u>60,230</u>
 <u>One-off costs</u>			
Staff disturbance allowance payments		up to 500,000	
Potential loss of income and additional running costs of unoccupied building, removal costs & publicity for change of location etc		up to 200,000	
Total Estimated one-off costs		<hr/>	
		<u>700,000</u>	

	<u>Causeway House</u>	<u>Mayland House</u>
<u>Capital Costs</u>		
Legal fees		15,000
Building Survey		10,000
Consultants fees - negotiation and advice		80,000
ICT costs (including new telephone system, UPS, equipment relocation and network connections)		319,000
Alterations to building:		
Members accommodation		10,000
Council meeting accommodation		30,000
Provision for webcasting and sound system		20,000
Front office - minimal provision at Mayland House, additional requirement at Libraries		20,000
CCTV requirements		35,000
Door security	20,000	20,000
Contingency		100,000
sub-total		<u>659,000</u>
Refurbishment of Causeway House	6,500,000	
Saving on the Braintree Town Centre development		-5,000,000
	<u>6,520,000</u>	<u>-4,341,000</u>

DRAFT HEADS OF TERMS

Mayland House, Mayland Road, Witham

SUBJECT TO CONTRACT AND WITHOUT PREJUDICE

26 OCTOBER 2009

1. Landlord/Purchaser

Braintree District Council
Causeway House
Backing End
Braintree
Essex CM7 9HB

Contact:

Telephone:

Email:

01376 552525

TBC

2. Purchaser's Solicitor

Braintree's Internal legal team

3. Purchaser's Agent

Cushman & Wakefield
43/45 Portman Square
London
W1A 3BG

Contact

Telephone

Email

Michael Sudlow

020 7152 5030

Michael.sudlow@eur.cushwake.com

4. Tenant

Marsh Corporate Services Limited
1 Tower Place West
London
EC3R 5BU

Contact:

Telephone:

Email:

Mike Pullen

020 7357 1589

Michael.J.Pullen@mmc.com

5. Tenants Solicitor

Eversheds
1 Wood Street
London
EC2V 7WS

Contact:

Telephone:

Email

Jeremy Brooks

020 7919 4893

jeremybrooks@eversheds.com

6. Tenants Agent

Bidwells
Number One Legg Street
Chelmsford
Essex CM1 1JS

Contact: John Spice
Telephone: 01245 505075
Email: john.spice@bidwells.co.uk

7. Property:

Mayland House
Mayland Road
Witham
Essex CM8 2UP

8. Lease Terms

The property is occupied under a lease between Braintree District Council and Sedgwick Forbes Holdings Ltd dated 23/3/1978 for 125 years from 29/9/73 subject to review every 14 years at a current rent passing of £73,000 pax payable quarterly.

9. Conditions

9.1 The tenant to remain in occupation paying all outgoings and costs for a period of time post completion up to no more than 12 months. The rent to be reduced to a peppercorn after the 30 June 2010.

9.2 On giving vacant possession the tenant will leave an agreed schedule of furniture and fixtures and fittings in situ with ownership transferring to Braintree District Council for nil consideration.

9.3 The tenant will maintain the property in good and substantial repair in accordance with a Schedule of Condition prepared by the tenant's surveyor and agreed by the Council and that there will be a Deed of Release when Marsh vacate in respect of any outstanding dilapidations, etc. The tenant should also be permitted to leave all alterations in situ.

9.4 The tenant at their own cost will sever services running between Mayland House and The Grove together with any physical connections. A Scope of Works will be agreed prior to the commencement of works which will only commence on the date of vacant possession, or earlier if prudent to do so and with the agreement of all parties.

9.5 Subject to contract.

9.6 Subject to structural survey, at the cost of the purchaser.

9.7 Subject to Braintree District Council Cabinet approval.

9.8 Subject to Marsh & McLennan Companies Inc Board approval.

10. Claw back

10.1 The claw back provision to run for 20 years from the date of surrender **and will run with any successors in title and will be secured by a restriction on the title(to ensure a direct Deed of Covenant is given by any successor to the tenant).**

10.2 Overage is payable on the grant of one or more planning permissions, i.e. the claw back does not fall away after the grant.

10.3 On receipt of planning permission, a sum based upon 50% of the uplift in site value will be due to the tenant and be payable on either the sale of the site to a third party or commencement of the development. If only part of the site is redeveloped, the sum will be payable on a proportion of the site (subject to the consent) expressed as a percentage of the whole. For example, if a retail permission was achieved on a scheme utilising 50% of the site then the claw back payment would be 50% of the difference between the then current site value (to be agreed) and the new site value reflecting the new permission.

10.4 The site value to be either agreed between the parties or to be calculated at the time of receipt of planning permission by a Chartered Surveyor, appointed by joint agreement between the tenant and Braintree District Councillor their successors in title. If agreement between the parties is not reached, recourse will be had to an Arbitrator appointed by the president of the RICS.

11. Timescale

11.1 Heads of Terms to be agreed by 30 October.

11.2 **.The occupational lease will be varied (to reflect paragraphs 9.1 – 9.3 above) by 18 December 2009 .**

11.3 Vacant possession will be given no earlier than 30 June 2010.

11.5 Tenant Board approval to the Heads of Terms to be obtained on or before the November Board meeting.

13. Legal Costs

Both parties to be responsible for their own legal costs.