	<p style="text-align: center;">Executive 13th March 2006</p> <p style="text-align: center;">Report from the Director of Finance and Corporate Resources</p>
For Action	Wards Affected: ALL
<p style="text-align: center;">Lease of Chancel House by Brent Housing Partnership – Property Implications for the Council</p>	

Above the line with the
exception of Appendix B
which is not for publication

Forward Plan Ref: F&CR-05/06-36

1.0 SUMMARY

- 1.1 This report advises Members on the proposal by Brent Housing Partnership (BHP) to decant from their current main office premises and to relocate to Chancel House. It advises on the implications arising from this decision and also seeks authority for the Council to act as guarantor to the proposed lease

2.0 RECOMMENDATIONS

- 2.1 To **NOTE** the financial and space implications of the proposed decant from Council premises.
- 2.2 To **APPROVE** the Council acting as guarantor to the lease to be taken by BHP on the heads of terms appended to this report below but subject to final approval of the lease terms (Appendix B) and settlement of any financial compensation from BHP being delegated to the Director of Finance & Corporate Resources.

3.0 DETAIL

- 3.1 The bulk of Brent Housing Partnership staff are currently based in Council offices at Mahatma Gandhi House (1,066m²) and Dyne Road (683m²) a total of 1,755 m² of space. They are paying an overall occupancy charge of £686,000 per annum for this space. This is equal to the pro rata amount paid by the Council to the Landlords of these premises and includes rent and a service charge incorporating NNDR and insurance. BHP also has officers based at Pitfield Way on St Raphaels estate and at the CRC

building in Albert Road, South Kilburn. The proposal set out in this report does not include a change in use or occupation of those buildings.

- 3.2 Recently, it is understood that, as part of a wider consideration of service delivery, value for money and arms-length relationship with Brent Council, BHP has undertaken a review of their office requirements. This has resulted in a decision by BHP to decant from Council space into privately owned space in Chancel House. BHP were informed by Council officers that BHP's strategy could be supported as there were Council operational imperatives for at least BHP vacating Mahatma Gandhi House. It is further understood that the establishment of a truly arms length company within the 'Inspection Regime' requires evidence that it procures services independent of the Council, and while separate premises are not a requirement of that, they will help to reinforce the separate identity of BHP.
- 3.3 It is the view of the Managing Director of Brent Housing Partnership that there are substantial operational benefits of having staff located in one building. They include better joint working between co-located repairs and housing teams, combination of support services and consequential savings in operational costs, better accommodation for those currently occupying the Pitfield Way portacabin, as well as significant savings over the life of the lease which can be invested in services to tenants.
- 3.4 Council officers are of the view that the proposal will facilitate the implementation of the housing management related priorities identified in the Council's Community Plan, by putting BHP in a better position to improve the existing stock and to continue making advances in tenancy management.
- 3.5 The relocation of BHP has wider implications beyond the obvious accommodation issues. It could potentially raise issues in respect of IT and reception services for example. BHP has confirmed that it will not make any changes to the way services are currently provided and/or procured as a result of the intended relocation. In respect of the examples therefore, BHP will still use the Council's IT system and the One Stop Shops will still be the reception service for BHP as well as for the Council. Issues of access by service users are addressed at paragraph 6. . Members are referred to the map appended to this report (Appendix A) which shows the location of the current and proposed offices.
- 3.6 In addition to the Mahatma Gandhi House and Hampton House (Dyne Road) premises, BHP were occupying 4 other sites when they commenced operation on 1 October 2001. Of those 4 the status is as follows:
- a) Brent House – BHP staff no longer at this site
 - b) Kingsbury Road – BHP staff no longer at this site
 - c) Pitfield Way portacabin – still occupied (Warden service) and will remain in use by BHP although not necessarily for staff
 - d) CRC building, Albert Rd, South Kilburn – BHP staff still at this site and will remain there for the time being pending the wider South Kilburn regeneration programme

- 3.7 BHP has engaged property consultants, Dutch & Dutch, to negotiate the terms of the lease and the heads of terms provisionally agreed are appended to this report. However the Landlord has made the offer conditional upon the Council acting as guarantor to the lease. The potential implication is that should, for whatever reason, BHP fail to honour any of the terms of the lease, such as rental payment or repair of the premises, the Council will be financially liable to discharge any consequential costs or debts. The major issue for the landlord is not so much the possibility of BHP not meeting its obligations whilst having a management agreement but that in the event of the Council deciding, for whatever reason, it does not want an ALMO arrangement that the lease obligations will continue with the new provider. Clearly whatever organisation manages the stock in future it will need premises to operate from.
- 3.8 The Head of Property Services considers the draft Heads of Terms are reasonably standard for this type of property and that the proposed rent is within acceptable margins. The current management contract between the Council and BHP is due to expire in 2007 unless extended by Brent for a further 5 year term. A decision as to whether to extend is required not less than six months prior to expiry date. Therefore whoever manages the housing estate for the next period will be expected to deliver the service from Chancel House. However a break clause at year six has been included to coincide with the second anticipated expiry of the management contract in 2012). Therefore should the Council choose not to renew the contract with BHP (or another provider if any change is made next year) there would be an opportunity to terminate the lease earlier than the 10 year term proposed.
- 3.9 BHP is hoping to relocate to its' new premises by summer 2006. Their indicative timetable is as follows:
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|-------------------------------|-------------------------------------------------------------|
| Executive Decision Obtained: | 13 March 2006 |
| Sign Agreement to lease by: | As soon as possible (subject to all parties agreeing terms) |
| Landlord works completed by: | 12-14 weeks after lease signed |
| IT installation completed by: | 2 June 2006 (latest) |
| MG House staff move: | 2 weeks following above installation |
| Dyne Road staff move: | 2 weeks following MGH staff move |
- 3.10 Currently the Council has yet to decide how best to utilise the space to be decanted by BHP and it is likely that there will be a financial cost to be borne as a consequence of this BHP decision to quit as a tenant of the Council. However we are currently evaluating options to relocate Council staff and will aim to mitigate the costs.
- 3.11 The Brent Property Management Manual Section 6.7 Disposal requires all occupying services to give not less than nine months notice of their intention to decant muniport office space. There is also a presumption that services bear the cost of vacant space and other related costs, such as dilapidations until the property is sold or re-occupied. However, because BHP is a separate organisation and in the absence of legal agreements governing BHP's occupation of the 2 premises, the Council cannot

unilaterally impose such a condition upon BHP and therefore any financial settlement will be by way of negotiation taking into account the long term relationship between the parties.

- 3.12 However, regardless of the outcome of these discussions, as any financial compensation will be a one-off settlement, the Council will be forced to look critically at its existing portfolio as a direct consequence of this decision to quit. For example, although we are reasonably confident of identifying staff to move into MGH, we have no significant leased office buildings which can be vacated with occupiers subsequently moving to Dyne Road. Both of these scenarios for MGH and Dyne Road will have an impact on our portfolio and the overall occupational charges.
- 3.13 The possibility of converting one of the floors in Dyne Road to a touchdown area available to any staff is being investigated. However, if this is not financially feasible or there is no significant demand for such a space then, without any other internal uses this space along with a further 500m² on two other floors might have to be sub-let. It is likely that the council will have to offer a rent free period to an incoming tenant as an incentive to take a sub lease and this, of course, will be an additional cost.
- 3.14 In conclusion we do not appear to be in a position to prevent BHP from decanting our space, there is no formal lease in place and therefore they can quit as and when it suits their business. However, as it is a requirement of CLS Holdings Plc that the Council act as guarantor to the lease, we do have an opportunity to use our position to influence the timing and impact of this decision

4.0 FINANCIAL IMPLICATIONS

- 4.1 In 2005/06 the council will receive £688k from BHP for their occupation of Mahatma Gandhi House and Dyne Road. This covers both rental and full service charges. The payment accrues to the Corporate Landlord account and it has been assumed for the purposes of the 2006/07 budget that both sites will be occupied. The intention is to cover all or the majority of the lost income through rationalisation of the current portfolio, recouping some costs through letting to other external parties and to use the opportunity to seek other efficiencies through better use of accommodation within our overall requirements.
- 4.2 The proposed move of BHP does offer the chance to bring together most of the staff of the new Housing and Community Care Department into a single location. It is also anticipated that this will allow more effective use of space. There are also proposals to expand the services by Brent Mental Health from Brondesbury Road. Potentially other properties will then not be required which would bring revenue savings and capital receipts.
- 4.3 However, there are financial risks associated with the proposals. There are currently no obvious tenants for the space at Dyne Road. The costs or removals, redecoration and conversion need to be met and contained within existing budgets. There is also the risk of significant timing

differences between the projected moves of BHP in the summer and the subsequent filling of the vacant accommodation.

- 4.4 Further work needs to be undertaken as the moves unfold to establish the actual cost and this will be fully reported to Members as part of the regular revenue budget monitoring reports.
- 4.5 As the Guarantor to this lease the Council will be entering into an arrangement whereby in the event of BHP defaulting on the lease and the guarantee is called, then the council will have to meet all liabilities under that lease including meeting all rental payments due. The accounting treatment for guarantees requires this liability to be disclosed as a contingent liability in the accounts and in circumstances where that guarantee is likely to be called, then the council has to make provision in its budget. However, because the risks of the guarantee being called are small, no provision is required to be made but the risk still has to be disclosed in the notes to the accounts. If as a result of the guarantee being called the council takes a lease of the premises itself, it will have to recognise the status of its ownership of the asset and its value in its fixed assets.

5.0 LEGAL IMPLICATIONS

- 5.1 BHP was set up by the Council for the better performance of its housing management functions. The Council relied on Section 2 of the Local Government Act 2000 which gives local authorities a power to do anything which they consider is likely to achieve the promotion or improvement of the economic, social or environmental well being of their area..
- 5.2 As the proposed guarantee will be used to enable BHP to continue to achieve the objectives for which it was set up, the Council may give the guarantee under Section 2 of the Local Government Act 2000. In exercising section 2, Members should have regard to the Community Plan, as set out in paragraph 3.3.
- 5.3 The effect of the guarantee and the likely cost implications are stated in the body of this report and Members must take those into account before authorising the guarantee, particularly as the Council is not bound to give the guarantee.
- 5.4 Although the Council wholly owns BHP, the management agreement and company arrangements do not contemplate the Council dictating BHP's location; however the Council is under no legal obligation to give the requested guarantee and could therefore refuse it.
- 5.5 There is no legal requirement governing co-location of an ALMO with its 'parent' Council.
- 5.6 In respect of those Council premises still occupied by BHP (Pitfield Way and the CRC building), agreements ought to be put in place to regularise the legal position and clarify the respective obligations of the Council and BHP.

- 5.7 As proposed by the landlord of Chancel House, the lease includes some provision for the council to take a new lease if BHP becomes insolvent, however it does not expressly contemplate the council taking a lease of the premises if the guarantee is called on. Officers will endeavour to negotiate a term to protect the council's position in this regard. If that is not possible there will be some protection from the Landlord and Tenant (Covenants) Act 1995 under which a guarantor can get an overriding (head) lease where monies have been paid under the original lease to the landlord. It should be noted however that this procedure is not available in the event of any other breach of lease by BHP, for example breach of the assignment prohibitions.

6.0 DIVERSITY IMPLICATIONS

- 6.1 It is understood that BHP will continue to utilize the Council's One Stop Shop facilities for public access. It is not yet known whether Chancel House meets the DDA standards for public access buildings. It obviously is not as well located as MG House for residents and tenants from the North of the Borough. This is however not considered as a problem by the Director of Housing and Community Care as tenants will still have access to locally based one stop shops .

7.0 STAFFING/ACCOMMODATION IMPLICATIONS

- 7.1 A reduction in space occupied by the Council has a number of accommodation implications which are outlined in the main report.

8.0 BACKGROUND PAPERS

- 8.1. Property and Asset Management File


Contact Officers

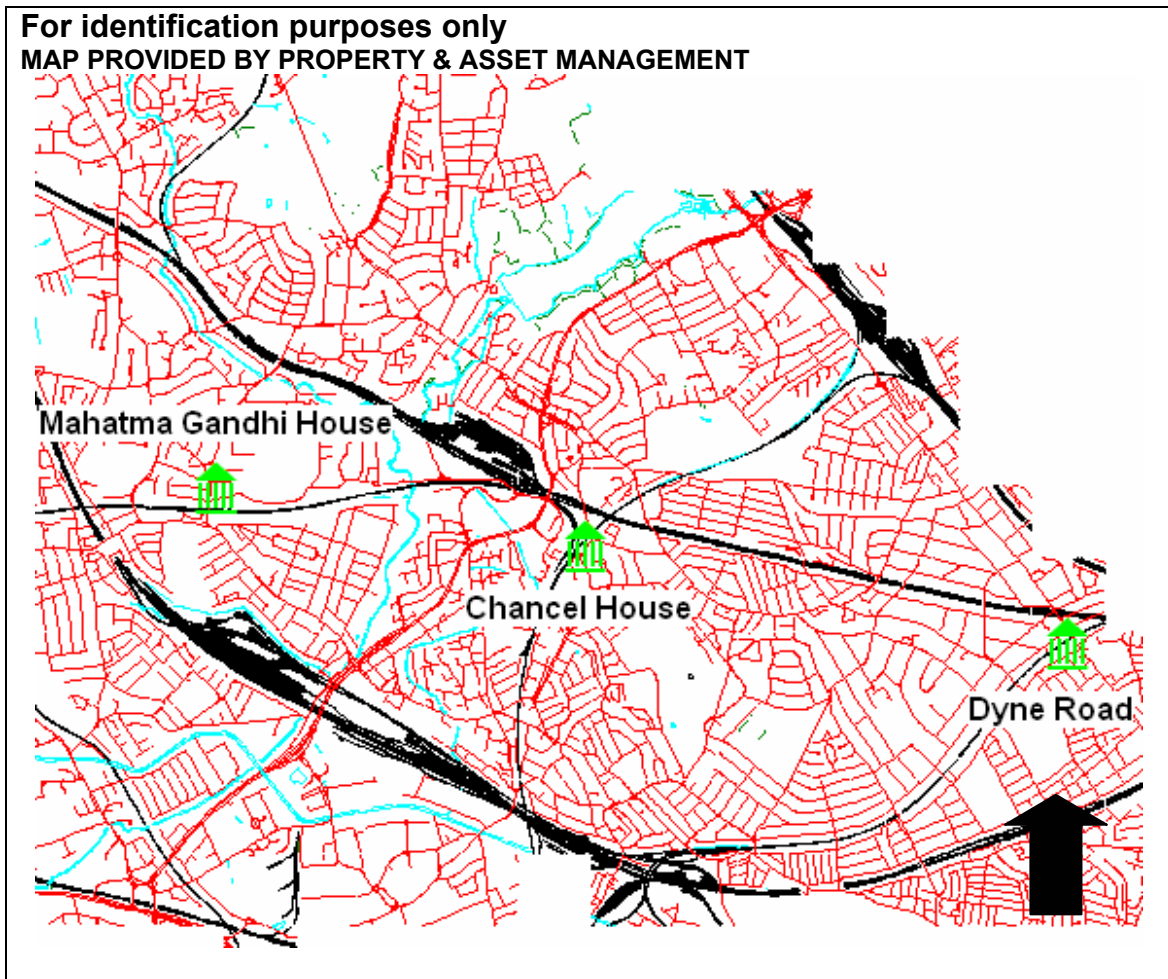
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 <p>The logo of Brent Council, featuring a central coat of arms with a shield, a crown, and two lions, surrounded by the words 'BRENT COUNCIL' in a circular arrangement.</p>	<p>PROPERTY AND ASSET MANAGEMENT</p> <p>EXECUTIVE COMMITTEE – 13TH MARCH 2006</p> <p>REPORT TITLE: LEASE OF CHANCEL HOUSE BY BRENT HOUSING PARTNERSHIP – PROPERTY IMPLICATIONS FOR THE COUNCIL</p>
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