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| Council name | COTSWOLD DISTRICT COUNCIL |
| Name and date of Committee | CABINET – 1 FEBRUARY 2023 |
| Subject | AGILE WORKING UPDATE AND TENANCY PROPOSALS FOR TRINITY ROAD COUNCIL OFFICES IN CIRENCESTER |
| Wards affected | All |
| Accountable member | Councillor Mike Evemy, Deputy Leader and Cabinet Member for Finance Email: mike.evemy@cotswold.gov.uk |
| Accountable officer | Claire Locke, Assistant Director - Property & Regeneration Email: claire.locke@cotswold.gov.uk |
| Report author | Claire Locke, Assistant Director - Property & Regeneration Email: claire.locke@cotswold.gov.uk |
| Summary/Purpose | To update Cabinet on the work that has been completed to make changes to the Trinity Road offices to facilitate agile working and free up space for tenants and to make recommendations on a future tenant for the space created. |
| Annexes | EXEMPT Annex A – Business case comparing modelled costs and income for both Serviced Office Providers who expressed an interest in the building. |
| Recommendation(s) | That Cabinet resolves to: <ol style="list-style-type: none">1. Agree to enter into a legal agreement with the Serviced Office Provider shown in Annex A as the Preferred Tenant.2. Delegate authority to the Deputy Chief Executive and S.151 Officer in consultation with the Head of Legal Services to agree the appropriate form and terms of a legal agreement. |
| Corporate priorities | <ul style="list-style-type: none">● Deliver the highest standard of service● Respond to the climate crisis● Enable a vibrant economy |
| Key Decision | YES |
| Exempt | YES – Annexes Only |



COTSWOLD
DISTRICT COUNCIL

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| Consultees/ Consultation | Chief Finance Officer Asset Manager Deputy Leader and Cabinet Member for Finance |
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1. EXECUTIVE SUMMARY

- 1.1** The Council has undertaken work to consolidate office space required for staff and members, to enable additional space to be released for tenants. Office accommodation has been refurbished ensuring lettable space is attractive and income can be maximised.
- 1.2** Changes and improvements at Trinity Road have included refurbishment and lighting upgrade of the east atrium and side offices, refurbishment of side offices off the west atrium and first floor offices on the north side of the west atrium; new security doors to demarcate new tenant areas, including swipe card access to all meeting rooms; newly created accessible/unisex WC and refurbished WCs adjacent to the bistro; re-opening and refurbishment of two offices in the south wing.
- 1.3** Once the roof replacement has been carried out, remaining refurbishment works can be completed, including lighting upgrade, decorating and carpeting in the west atrium and refurbishment of the bistro. The total capital spend to date is £495,000 from an allocation of £675,000. A proportion of remaining capital spend is scalable, e.g. furniture for staff 'break out' areas; as such, the Agile project is due to complete within budget.
- 1.4** The original business case assumed that one or two larger tenants would be found that would lease all of the office accommodation. This Direct Letting approach where the Council acts directly as landlord to tenants would generate the best income. As the lettings market has changed significantly in the last 18 months, no tenants could be found who wanted to lease all of the space available. Alternative options have therefore been reviewed with two offers from Services Office Providers considered. It is recommended based on the business case set out in Annex A that the Council enters into a Legal Agreement with the Preferred Tenant.
- 1.5** In the interest of transparency and to reflect the degree of risk around voids and income this decision is being taken by Cabinet rather than as a standard Delegated Decision for a Lease.

2. BACKGROUND

- 2.1** In December 2021 Cabinet received a report on the Options for the Future Use of the Trinity Road Offices and agreed to reduce its occupation of the Offices and actively market the estimated 30 - 40% spare space generated for commercial tenants, providing both revenue savings and a revenue return for the Council.
- 2.2** In March 2022 a more detailed report considered the investment required and the potential revenue return to deliver this option. Cabinet agreed to allocate funding of up to £975,000 from the Recovery Investment Strategy budget in the Capital Programme to facilitate the changes to the Trinity Road offices (£673,000) and fund structural repairs identified in the



building condition survey. It was noted that gross revenue savings of £202,000 (income and a reduction in utilities and Business rates) would contribute towards the savings from the Recovery Investment Strategy. A sum of £151,000 annual savings (utilities and Business Rates) and income (tenants) was included in the MTFs in February 2023.

- 2.3** The Project to reallocate space within the building, moving staff, carrying out building improvements and freeing up space for tenants is now nearing completion and a decision therefore needs to be made on prospective tenants.

3. MAIN POINTS

- 3.1** The original business case included income from the Council letting space directly to tenants, as this presents the best return. However, a number of options have been explored to secure tenants.
- 3.2** Direct approaches have been made to a number of public sector partners, as a public sector hub would be an attractive option. The Police initially expressed some interest but then concluded the location was not right for them. Discussions with the County Council have elicited some initial interest but this has not developed further. One public sector partner has indicated some interest in the medium term but is not in a position to take a tenancy in the next couple of years.
- 3.3** A proactive approach has been made to Bromford Housing Association to enquire if they are interested but they have not indicated any interest. Cirencester Town Council have expressed an interest in taking a relatively small amount of space but this would still leave the majority of the lettable space available and potentially restrict other options. The option for serviced office accommodation in this paper would still enable the Town Council to lease some space, should they wish to.
- 3.4** Local agents were contacted and asked to quote for marketing the space. Only one expressed an interest and their fees meant they would take a fee of 10% of the annual rents agreed plus VAT which had a detrimental effect on the business case.
- 3.5** The Council has used its contacts through the Assets team and Economic lead to stimulate interest locally but the only interest to date has been from organisations seeking small areas of space.
- 3.6** The current trend is for businesses to reduce their own office footprints in the same way the Council is doing, so only interest for small areas of space has been identified. There has been no interest from companies that would take all or at least a substantial proportion of the office space.
- 3.7** Whilst the Council could in theory let out individual offices or desks to multiple small businesses there is a significant workload involved in this. There is likely to be a lot of turnover with businesses seeking space for a few months at a time. Whilst the Council is the landlord for a number of properties these are usually let on full repairing leases for a number of years. The leasing of serviced office accommodation would be a very different



model and require additional staff capacity and different skills to provide tenant support, individual billing, lease agreements and marketing.

- 3.8** The Council has therefore invited interest from Companies who already offer serviced office accommodation, as they will have the economies of scale for services like marketing the office space and managing tenants. Two companies have submitted offers, set out in Annex A.

4. ALTERNATIVE OPTIONS

- 4.1** The Council could wait to see if a single larger tenant can be found. However, a number of direct approaches have already been made and no tenant has been found to date who wishes to take the space within the next couple of years. Post Pandemic a lot of companies are downsizing so the likelihood of finding a suitable tenant is considered low.

5. CONCLUSIONS

- 5.1** Entering into a Legal Agreement with the Preferred Provider provides the best option available to the Council at this time and provides a good return against its original investment in building changes. This option is flexible allowing the Council to further explore the interest expressed by one Public Sector partner and potentially enter into a lease with them or any other interested party in the medium term (3 years or more).

6. FINANCIAL IMPLICATIONS

- 6.1** The business case attached as Annex A shows the projected income and expenditure for both Serviced Office Providers. This includes costs for workstations and the separation between Council and tenant spaces and the related security measures. A comparison is also provided for the Council providing a similar service and increasing its staff resource to do so.
- 6.2** The Preferred Tenant has indicated that there is latent demand in the market and the individual offices should be fully occupied quite quickly (circa 6 months). However, the open plan atrium area will be harder to let. If there are difficulties in letting this space the Council could consider purchasing some large movable screens which could be used to sub-divide the space. These tall screens would act as walls and create demarcated office space, allowing increased privacy. The advantage of this approach is the screens provide the flexibility to change the size of allocated office space to meet current demands.
- 6.3** Whilst the best financial option is Direct Letting, no suitable tenants have been identified and therefore this option is not currently viable. The Council providing individual leases to



multiple smaller tenants and effectively delivering serviced office accommodation directly is not financially viable due to the additional management, marketing and legal costs involved. The best financial option is therefore to enter into a legal agreement with the Preferred Provider identified in Annex A.

- 6.4** The projected income is lower than that originally estimated when the business case for releasing office space was prepared. This is due to the broader economic picture, the changing rental market over the last 18 months and the fact attempts to secure one or two larger tenants to enable direct letting of all available space, has not been successful. The MTFS includes income/savings of £151,000/year. Whereas service office accommodation is projected to deliver in the region of £114,882/year.
- 6.5** Break clauses are not typically included within management agreements but the Preferred Provider has proposed a 3 year agreement initially. This limited duration would also limit the financial risk to the Council and enable options to be reviewed if the minimum financial outturn projected is not achieved. It also enables the Council to continue to explore Direct Letting with a Public Sector partner or other party.

7. LEGAL IMPLICATIONS

- 7.1** The Council will enter into a Legal Agreement which sets out the terms under which the Preferred Provider will occupy the building. This includes liability for costs as set out in the Business Case and Risks section below. The agreement is likely to be a Management Agreement with the Preferred Tenant sub-letting to individual tenants or a Lease. The terms of these options are being explored to ensure the Agreement would not present any unacceptable risks to the Council.

8. RISK ASSESSMENT

- 8.1** The principal risk with either provider is under occupation. Both serviced office providers work off a percentage fee of gross revenue. If take up of space is slow, if there is ongoing under occupation or if long void periods occur between tenants, income will be reduced but the Council will still carry cost liabilities for the running and management of the accommodation. This risk is mitigated by the 3 year initial agreement. It is understood that the greatest risk for under occupation is for the open plan atrium area. There would be scope to install large moveable screens, which could create allocated office space, greater privacy and noise screening. However, the cost is circa £70,000 so should be considered only if letting this space becomes problematic and would be the subject of a business case.



The risk of under occupation should also be considered against the risk of not proceeding and continuing to fail to find a tenant who will let the space. In this scenario the Council will continue to bear utility and business rate costs and receive no income against its capital investment.

9. EQUALITIES IMPACT

- 9.1** The office moves and changes to the building have considered the individual needs of staff with consultation of all staff and discussion with all Team Leaders and in some cases individual staff members to ensure their specific needs are met. This has enabled changes which reflect that not all staff can work from home safely and some staff have specific needs in terms of workspace.

10. CLIMATE AND ECOLOGICAL EMERGENCIES IMPLICATIONS

- 10.1** The Cabinet and Council reports in March 2022 set out the Climate benefits of Agile working and reducing the Councils Office Footprint. In addition, Cabinet agreed in July 2023 to install Solar PV on the roof at Trinity Road which will reduce the Council's carbon impact and enable green energy to be used by tenants. The Management Agreement means the Council retains responsibility for utility costs so the installation of Solar PV will have a financial benefit.

11. BACKGROUND PAPERS

- 11.1** None

(END)