

Executive Member for Finance & Performance Decision Session

Report of the Corporate Director Economy and Place

Proposal to Lease Winterscale House, Winterscale Street, York

Summary

1. The report sets out a proposal by which the Council would take a lease of a commercial property known as Winterscale House from a private landlord. The accommodation will be utilised to provide training facilities for the Council run service of York Learning who currently occupy part of Rougier House in Rougier Street, York. A location plan illustrating the location of Winterscale House is contained within Appendix 1 and which is situated on Winterscale Street on the southern edge of the city centre.
2. York Learning is currently based in part of Rougier House on Rougier Street. The Council lease part of Rougier House from a privately owned commercial landlord which provides the space for both York Learning and also York Blind and Partially Sighted Society (YBPSS and also known as My Sight). YBPSS previously had a lease to occupy part of the building from the Council. This has expired and they currently remain in occupation under a short term agreement. YBPSS are in the process of securing alternative premises within the city centre and their occupational agreement will be terminated upon their vacation of Rougier House. YBPSS has requested that the Council contribute £5,800 towards their removal and setting up costs.
3. Under the proposal, York Learning will move from Rougier House to Winterscale House. To facilitate such, the council will enter into a new lease on Winterscale House whilst surrendering its lease that it has on Rougier House.
4. The report sets out the revenue savings associated with the proposed relocation which total £17,120 and the business case is attached within the report.

Recommendation

5. The Executive Member is asked to;
 - i. Agree to take a lease of Winterscale House on the terms and conditions as set out within option 2 of this report
 - ii. Agree to surrender the council's current lease of part of Rougier House
 - iii. Agree to accept a developer contribution of £50,000 to reflect the value of the remaining portion of the lease on Rougier House
 - iv. Agree a compensation of £5,800 to YBPSS to fund the first two months of their occupation in their new premises to be funded from the above developer contribution.

Reason: To provide more cost effective premises for York Learning Service, within the city.

Background

6. In February 2014 the Council took a 10 year lease (from 1 February 2014) of the ground and first floors of Rougier House comprising 4,929 square feet in a privately owned office block adjacent to Northern House on Rougier Street. The rent is currently £55,000 per annum exclusive of VAT which reflects £11.15 per square foot, plus insurance rent (contribution towards costs incurred by the freehold owner/head landlord in insuring Rougier House) and service charge (contribution towards costs incurred by the freehold owner/head landlord in providing various services such as maintaining the exterior and structure of Rougier House).
7. The Council at that time decided to support YBPSS by stepping in to provide an alternative location for their service as they were required to move from premises in Holgate Villas which they rented privately.
8. The Council subsequently granted a five year sublease (from 17th February 2014) of the ground floor and one room on the first floor, comprising 2,893 square feet, to YBPSS at a fixed "all in" rental of £35,000 per annum. This equates to 58% of the building which would net to an occupational cost of £50,297 per annum

(excluding rates as their charitable status means they are exempt). The Council has therefore been subsidising their tenancy for 5 years by £15,297 per year, based on current running costs.

9. The remaining 42% of the property (2,036 square feet) has been occupied by the Council's York Learning team. York Learning is a City of York Council service, whose main focus is to support lifelong learning, develop people's skills and qualifications and help those seeking to return to the labour market. The delivery in this venue is targeted at some of the most vulnerable young people in the City aged between 16-19 who have struggled to remain in education and achieve their essential skills for employment prospects.
10. The initial 5 year tenancy for YBPSS has ended and the Council's lease with the private landlord contains an upward-only open market rent increase, which has created a budget pressure of £25,000 per annum which is not budgeted for.
11. The following two options set out the business case for either staying in Rougier House or relocating the York Learning service into Winterscale House for which terms have been provisionally agreed;
12. Option 1 – Remain in Rougier House

The following table outlines the current costs of occupying the Rougier House building;

Item	Cost (Per Annum)	Future costs
Base Rent	£55,000	This is subject to an outstanding rent review and will go up to £80,000 per annum reflecting £16.25 psf
Repairs & Maintenance	£5,000	
Premises Mtce Contracts	£250	
Electricity	£3,777	
Gas	£1,060	
Service Charge	£20,000	
Rates	£13,000	

BID Levy	£250	
Insurance	£1,390	
TOTAL	£99,720 per annum	£124,720 with rent increase

13. As outlined above the Council receive a payment of £35,000 per annum for rent and services from YBPSS, meaning that the Council currently pay the remainder of the occupational charges, being £64,720 per annum to occupy the property.
14. The rent review of February 2019 (which has been paused) will increase the rent of £55,000 by an additional £25,000 per annum to £80,000. If a pro rata split of the increase was passed to YBPSS (58%) their rent would increase from £35,000 to £49,500 and the council's ongoing liability would be £75,220 a year. However, the council's liability could be as high as £89,720 per annum if YBPSS did not contribute towards the rent increase where it's rent remained at £35,000 per annum, out of the total revised £124,720 per annum liability.
15. The lease expires in February 2024 but the owner of the building is willing for the council to surrender its lease to enable it to vacate and cease all of its future liabilities on the property lease.
16. Option 2 – Lease in and Relocate to Winterscale House

A 10 year lease has been provisionally negotiated between the council and the owners to enable York Learning to relocate to Winterscale House. The property is slightly larger than the space that York Learning occupy in Rougier (2,422 sq ft compared to 2,036 square foot) and the adult service team consider savings could be made by utilising this extra space for hire, bringing in potentially an extra £10,000 per annum.

The following table illustrates the estimated costs of occupying Winterscale House for York Learning, compared against the Rougier House budget.

Item	Winterscale Hse Cost (Per Annum)	Current Rougier Hse Budget (Per Annum)
Base Rent	£26,000	£55,000 rising to £80,000
Repairs & Maintenance	£10,000	£5,000 + £20,000 service charge
Premises Maintenance Contracts	£1,500	£250
Electricity	£3,500	£3,770
Gas	£2,500	£1,060
Water	£600	Inc in service charge
Rates	£12,000	£13,000
BID Levy	n/a	£250
Insurance	£2,000	£1,390
Gross Expenditure	£58,100 pa	£99,720 rising to £124,720
YBPSS rent		£-35,000
Net Cost	£58,100	£64,720 rising to £89,720

17. Taking into account the £35,000 paid to the council from YBPSS, the cost of occupying Rougier is currently £64,720 per annum. This would rise to £75,220 per annum, assuming that YBPSS would pay a share of the increase in rent, based on their share of the premises. If they did not pay a share of the rent increase then the cost to the Council would be £89,720 per annum.

18. The current room layout at Rougier House restricts other services due to the size of the rooms which are configured for small group sizes and has thus restricted the use of Rougier House for other Adult Education Classes. As a result of this, Rougier House is not used for other purposes in the evenings or at weekends, meaning it is empty for a substantial part of the week. There is a potential at

Winterscale House for creating a more flexible adult learning provision which could be utilised for increased usage.

Capital Fit Out Costs & Funding

19. The Council's Construction Design and Facilities Management team and York Learning have looked at Winterscale with a view to the likely costs of fit out at Winterscale. Given the specific needs of York Learning there is a requirement for disabled access and disabled toilets as well as providing for compartmentation of the space, which is predominantly open plan at present. York Learning previously spent c. £70,000 fitting out Rougier House to illustrate the costs associated with their specific needs.
20. Two schemes have been provided, one costing an estimated £111,000 and another costing £126,000 which the service consider will enable them to use the space more intensively and cease having to hire in space elsewhere which costs them approximately £10,000 per annum. The budget encompasses alterations and upgrades to the mechanical and engineering systems; provision of DDA required alterations; IT set up costs and removal costs. These estimated costs would be subject to tender
21. Given the specific requirements of York Learning their fit out costs are much higher than other users would require. It is thus unrealistic to expect the landlord of Winterscale House to contribute to cover such costs wholly when they have had other offers for the building. However, a contribution of 6 months rent free has been negotiated, which amounts to £13,000.
22. The owner of Rougier House has also agreed to make a £50,000 contribution be made towards the removal and fit out costs of Winterscale split over 2 years given the monies previously spent in Rougier House by the council.
23. On the basis of the above funding for the estimated capital this leaves a capital shortfall of £48,000 plus contribution to YBPSS removal and set up costs. This would be funded from the Asset Maintenance capital repairs budget.

24. Financial Summary

The capital cost of the base programme is £111,000 which will be funded as set out below from existing budgets and contributions as detailed:-

Winterscale Fit Out costs	£111,000
Contribution to YBPSS costs	£5,800

Funded by:

Asset Mgt Revenue budget (Winterscale rent free period)	£13,000
Developer Contribution	£50,000
Asset Mtce budget	£53,800

25. The additional £15,000 for the improved scheme can be funded by York Learning service in lieu of anticipated savings made through greater use of the facility and hire out charges.
26. The revenue implications of the two options outlined above can be summarised as follows:

	Rougier House	Rougier House	Winterscale House
	Current Rent	After Rent Review	
	£	£	£
Cost to CYC			
Rent	55,000	80,000	26,000
Overheads	44,720	44,720	32,100
Less YBPSS rent	-35,000	-49,500	n/a
Total	<u>64,720</u>	<u>75,220</u>	<u>58,100</u>

27. The move to Winterscale House therefore provides a revenue saving to the Adult Learning Service based on current rent levels

and avoids a significant rent uplift, whilst also providing longer term security through a longer lease term.

Options

28. The two options are set out above and it is recommended to proceed with Option 2. If option 2 is not pursued then remaining in occupation (Option 1) would result in the council having to pay the higher rent for the premises by virtue of the rent review due and would need to seek additional budget to do so. Given YBPSS have found alternative premises, all the rent increase would be the liability of the Council unless it found an alternative space to occupy the YBPSS space. The lease on Rougier House runs out in 2024 in any event and the landlord could require the council to vacate, requiring alternative accommodation to be found at that time.

Council Plan & Values

29. The proposed policy supports the Council policy of “A Prosperous City for All” and “A Focus on Frontline Services”.

Implications

Financial – The recommendation to accept Option 2 to move to Winterscale House will result in a revenue saving of c. £17,000 compared to remaining in Rougier House and paying an increased rent. There is an Asset Maintenance capital budget available to carry out property improvements and whilst the budget is already committed to carry out works on other properties, there is a £54,000 budget available to contribute to the fit out costs.

Human Resources (HR) – None

Equalities, Crime and Disorder and IT – The Winterscale House fitting out works will incorporate works as required to ensure it adheres to the Disability Discrimination Act and all associated Building Regulations and statutory approvals.

Legal – Surrender of the Council’s current lease of part of Rougier House and the proposed lease to the Council of Winterscale House will be subject to negotiation and completion of necessary formal legal documentation.

Property – Contained within the Report.

Other – None

Risk Management

30. Remaining in Rougier House brings the risk that the full rent increase cannot be covered by existing budgets and that a new tenant will need to be found if YBPSS continue with their planned move. Risks of the move to Winterscale House will be mitigated through entering into legal documents which will document the terms agreed.

Contact Details

Report Author:

Nicholas Collins
Head of Commercial &
Operational Asset
Management
Ext: 2167

Chief Officer Responsible for the Report

Neil Ferris
Corporate Director Economy and Place

Angela Padfield
Curriculum Manager
ICT & Learning

Report Approved Date 15/7/19

Specialist Implication Officer(s)

Implication - Legal
Gerard Allen
Senior Solicitor – Property
Ext: 2004

Implication - Finance
David Gladders
Accountant
Ext: 1101

Wards Affected: Mickelgate and Fishergate Ward

For further information please contact the author of the report

Annexes

Appendix A - Location Plan

Appendix B - Photograph of Property