

<b>Report to:</b>	Cabinet	<b>Date:</b> 15 February 2023
<b>Subject:</b>	Relocation of Pennine Care into 3 Knowsley Place – Part A	
<b>Report of</b>	Leader and Cabinet Member for Strategic Growth and Skills	

## Summary

- Approval in principle is sought to approve the relocation of Pennine Care from Humphrey House to 3 Knowsley Place.
- The relocation will result in a revenue savings to the Council and the generation of a capital receipt from the subsequent sale of Humphrey House, which will be used to make a capital contribution towards the fit out costs of 3KP.

## Recommendation(s)

### That Cabinet:

- Approves the current Heads of Terms of the assignment of the Councils' Lease at 3 Knowsley Place to Pennine Care.
- Approves the relocation of Council staff currently occupying 3 Knowsley Place to 6 Knowsley Place and the Town Hall subject to appropriate consultation.
- Approves the Capital contribution towards Pennine Care's fit out at 3 Knowsley Place.
- Delegate any minor variations to the final Heads of Terms to the Director of Regeneration & Capital Growth in consultation with the Monitoring Officer, Section 151 Officer and the Leader of the Council.
- Delegate the signing of all contracts required to complete the assignment, lease and landlords' consent to the Councils Monitoring Officer.

## Reasons for recommendation(s)

- Relocation of Pennine Care from Humphrey House into 3 Knowsley Place will bring about a capital receipt from the sale of Humphrey House. It will also deliver revenue savings from the shared occupation of 3 Knowsley Place for the duration of the lease term. However, that income will in part be a replacement for the income currently received for Humphrey House.

## Alternative options considered and rejected

### Option 1 – Do Nothing

- In this scenario Pennine Care would remain in Humphrey House.

- The Council would be faced with significant capital expenditure to refurbish Humphrey House which would provide very little in the way of additional income.
- The Council would forgo the opportunity to sell Humphrey House and generate a capital receipt and would lose the opportunity to develop the site for an alternative purpose (housing).
- The revenue savings from the shared occupation of 3 Knowsley Place would be lost.
- As such, this option has been discounted.

### **Option 2 – Proceed with assignment lease to Pennine Care**

- This option would see Pennine Care relocated.
- Whilst this option requires the Council to contribute towards Pennine Care's fit-out costs, in the medium to longer term this is outweighed by the capital receipt from the sale of Humphrey House and revenue savings from the Council assigning its current lease to Pennine Care and the shared occupation of 3 Knowsley Place.

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#### **Key considerations**

##### **1. Background**

- 1.1 Humphrey House is currently identified for disposal in the Accelerated Land Disposal Programme. An update on the programme was approved by Cabinet on 22 March 2022.
- 1.2 Pennine Care occupy the majority of the building under a 10 year lease which expired in July 2020. They are currently holding over under the same terms. The current rent is £293k (inclusive of VAT) per annum. In addition, there is an annual service charge, which covers utilities costs, repairs, insurance and cleaning and security.
- 1.3 Humphrey house is an outdated building with high running costs due to the fabric of the building and age of the mechanical, electrical and Plumbing (MEP) services. The building currently has an EPC rating of F, which is below the minimum standard required for commercial buildings of E which comes into effect in April 2023. To allow Pennine Care to continue

in occupation beyond this date, or to re-let the building, the Council would have to invest significant capital to bring it up to modern standards, which would not be recouped with current rent levels.

- 1.4 Greater Manchester Mental Health also occupy a small part of Humphrey house (3,000 sqft) paying a rent of £26,920 (inclusive of VAT) per annum. Discussions are ongoing with them regarding alternative accommodation in the Town Centre.

## **2. Proposal – Relocation to 3 Knowsley Place**

- 1.1. The Council occupies 3 Knowsley Place (3KP) under a 25 year lease from February 2010.
- 1.2. 3KP comprises of some 42,750 sqft of accommodation over five floors. Pennine Care were originally looking to relocate to the Ground and First Floors at 3KP.
- 1.3. Pennine are now looking to take the Ground, 1<sup>st</sup> and 2<sup>nd</sup> Floors at the outset and occupying the remainder of the building in circa 4 years as part of a wider asset rationalisation strategy. Pennine have instructed external consultants to prepare a business case to support the financial case for taking an assignment of the whole of 3KP, which should be completed by the end of March 2023. Pennine will thereafter seek formal approval to the proposed heads of terms.
- 1.4. The requirement for Pennine to take the 2<sup>nd</sup> floor in the short term would require Council staff from Business, Growth and Infrastructure (BGI) Directorate to relocate in the spring of 2023. The Council also lease 6 Knowsley Place (6KP), although it sublets the whole of the building to Six Town Housing. Sufficient surplus accommodation has been identified on the 1<sup>st</sup> & 2<sup>nd</sup> floors at 6KP to accommodate the current staff from level 2 at 3KP. Other Council staff on level 1 will also need to be relocated when Pennine commence their fit-out works in late 2023. This provides sufficient time to identify suitable alternative accommodation in either 3KP, 6KP or the Town Hall.
- 1.5. In addition to Council staff, some former CCG staff occupy part of level 1. Pennine have confirmed in principle that these staff will be able to stay within 3KP following the assignment of the lease.
- 1.6. The rationale for the council taking a leaseback of the 3<sup>rd</sup> & 4<sup>th</sup> Floors at 3KP for a period of up to 4 years is to allow sufficient time to identify alternative accommodation for Council staff. A refurbished Town Hall building is one option that is under consideration.
- 1.7. In December 2021 Cabinet approved it's Let's do it Flexibly Policy, as part of the Corporate Transformation Programme with the aim of reducing the costs of operating the Councils corporate estate by £500k. The relocation

of Pennine Care into 3KP will provide a significant proportion of this saving.

- 1.8. Should the Council, choose not to contribute to the fit-out costs it is likely that Pennine Care would seek to remain in Humphrey House, resulting in the council having to spend significant capital to improve the building, with no additional financial return.

## **2. Proposed Heads of Terms**

- 2.1. As set out in Part B of this report.

## **3. Pennine Care Approvals**

- 3.1. As noted in Para 1.3, Pennine Care have appointed external consultants to prove the business case for the relocation of staff to 3KP. Pennine expect the report to be completed in March and have it formally signed off in April.
- 3.2. Pennine are currently reviewing their programme for the design, tender and contract dates for the fit-out works to the Ground & 1<sup>st</sup> Floors of 3KP. Until this is received it is not possible to confirm the dates Council staff will need to vacate these floors.

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### **Links with the Corporate Priorities:**

4. This proposal is fully aligned with the Let's do It Strategy.

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### **Equality Impact and Considerations:**

5. An EIA is not required

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### **Environmental Impact and Considerations:**

6. Humphrey House currently has an EPC rating of F, which falls well short of current standards. The relocation of Pennine Care into 3KP, which has a much-reduced carbon footprint than Humphrey House, will assist in the Councils overall carbon reduction targets.

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### **Assessment and Mitigation of Risk:**

<b>Risk / opportunity</b>	<b>Mitigation</b>
Pennine Care fail to get formal approval to the relocation.	The detail in the heads of terms have been discussed with senior officers at Pennine Care.

The final fit out costs exceed the current budget.	The council is making a fixed contribution to the costs. Any over-spend would be the responsibility of Pennine Care.
Failure to secure Landlords consent for the assignment to Pennine Care.	Informal discussions have already been held with the landlord who has so far raised no concerns.
Failure to secure alternative accommodation for Council Staff in 4 years' time.	Plans in place to consider refurbishment of the Town Hall building.
Failure to find alternative accommodation for GM Mental Health leading to delays in receipt from sale of Humphrey House	Discussions are ongoing with GMMH to identify alternative premises.

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### **Legal Implications:**

All arrangements with Pennine care as set out in this report will be subject to approval by their Board. It is proposed that the Council assign the lease in respect of 3 Knowsley Place to Pennine Care. Following the assignment, the Council will sub lease accommodation within the building. Legal advice will be provided throughout all lease arrangement will be subject to detailed negotiation on the precise terms.

As with all disposals the Council must obtain best value for its assets.

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### **Financial Implications:**

It should be noted that the agreement for Pennine Care to take the lease at 3KP on the proposed terms is yet to be agreed by their Board. The capital receipt for Humphrey House is still an estimate and subject to a red book valuation and actual receipt within the proposed timeframes. The anticipated capital receipt is not sufficient to fully fund the capital contribution to Pennine Care for the fit out costs of 3KP and there will also be a timing issue in respect of when the payment is to be made to Pennine Care and when the receipt is realised. The shortfall will therefore, need to be funded from capital receipts delivered from alternative disposals or from reserves. This is referenced within the capital programme budget report elsewhere on this agenda.

The agreement with Pennine Care does deliver savings over the medium to long term but due to the capital contribution to fit out it doesn't deliver direct savings in the short term. However, consideration must be given to the capital costs that would be required to bring Humphrey House up to the required standards if the Council were to retain it. This proposal is inextricably strategically linked with the separate report on this agenda about the Town Hall.

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### **Background papers:**

*None*