

GREATER LONDON AUTHORITY

REQUEST FOR MAYORAL DECISION – MD2722

Title: Crystal Repair and Lease

Executive Summary:

GLA Land & Property Limited (GLAP) is the commercial property subsidiary of the Greater London Authority (GLA) and is freeholder of the Crystal building in the London Borough of Newham. A lease is required between GLAP and the GLA for the GLA to relocate City Hall to the Crystal (MD2705). Heads of terms for a lease have been agreed between GLAP and GLA which is to be entered into on market terms.

It is proposed that the GLA will enter into a 25 year lease with GLAP for the purpose of relocating City Hall to the Crystal and that £3.3 million is expended by GLAP to restore the Crystal, particularly in respect to sustainability equipment upgrade and repair, prior to the GLA moving into the building. This expenditure is comprised of £2.8m of GLAP landlord investment and £0.5m in general repairs to bring the building to a re-lettable condition.

MD2476 additionally included budget for professional fees to facilitate a new use at the Crystal. This budget is now to be spent through this Decision.

Decision:

That the Mayor approves:


1. That GLAP enter into a 25-year lease of the Crystal to the GLA on terms materially in line with the Heads of Terms set out in Appendix 3 of Part 2 to this Mayoral Decision and any other ancillary documentation required to facilitate the occupation of the Crystal by GLA;
2. That GLAP enter into the Section 106 agreement in connection to the planning application sought by the GLA for the Crystal, as freeholder of the land;
3. Expenditure of up to £3.3 million by GLAP for mechanical and electrical upgrades and general repairs works to the Crystal building;
4. GLAP entering all necessary documentation, including appointments and warranties as necessary to facilitate the works outlined at 3 above, to be undertaken at the Crystal; and
5. Expenditure of up to £150,000 towards professional fees by GLAP for legal costs and property management costs including drafting a Schedule of Condition.

Mayor of London

I confirm that I do not have any disclosable pecuniary interests in the proposed decision and take the decision in compliance with the Code of Conduct for elected Members of the Authority.

The above request has my approval.

Signature:



Date:

14/12/20

PART I - NON-CONFIDENTIAL FACTS AND ADVICE TO THE MAYOR

Decision required – supporting report

1. Introduction and background

Context

- 1.1. The building known as the Crystal sits within the Royal Docks Enterprise Zone in the London Borough of Newham. It was designed and built by Siemens PLC (SPLC) with an ambition to showcase cutting edge sustainable technology. This was by using sustainable mechanical, electrical and plumbing services within the building and by means of a permanent 'Sustainable Cities' public exhibition.
- 1.2. The Crystal was bought by GLAP in 2016 (MD2035). The acquisition was made to protect and take advantage of one of the most important sites in the Royal Docks and provide rental income of £1.75m per annum from SPLC through a leaseback arrangement until 2023.
- 1.3. In July 2019 under MD2476, the SPLC lease was surrendered early due to continued reduction in SPLC's requirements for the building. GLAP benefitted from a premium paid by SPLC which covered a) the remaining rental income expected from GLAP until 2023, b) a budget of approximately £3.3 million to cover refurbishment costs to re-let the building and c) partial allowance for GLAP to run the building with existing commitments, including housing the Royal Docks Team.
- 1.4. In November 2020 (MD2705), a decision was taken to relocate City Hall from More London in Tower Bridge to the Crystal in the Royal Docks. The decision to move was prompted by an opportunity to break the existing lease at the More London site in 2021, which would result in significant financial savings to the GLA Group. Due to the COVID-19 pandemic, the GLA Group has suffered financial losses due to reduced council tax and business rate income. The savings generated by the move will therefore help to safeguard services and programmes that Londoners rely on.
- 1.5. The GLA have submitted a planning application for the Crystal which proposes a change of use and minor external alterations. GLAP are required to be a party to the associated Section 106 agreement as the GLA does not yet have a legal interest in the land. The GLA, as developer, will meet all obligations in the Section 106 agreement.
- 1.6. GLAP and GLA budgets are separate and this Decision Form considers a GLAP budget. The £3.3m expenditure request is reflective of the sum that GLAP will spend as landlord to bring the building into a lettable condition attractive to the current market. This commercial deal is described in Part 2 of this Decision Form.
- 1.7. The move will also support an ambitious regeneration programme underway at the Royal Docks. In August 2018 a £212.5 million Royal Docks Delivery Plan was approved by the LEAP Board and the Mayor (MD2338) to regenerate the Royal Docks. The Delivery Plan aims to ensure the successful and inclusive regeneration of the Royal Docks by investing in a number of projects and initiatives based on five key themes: place, connectivity, activation, economy and promotion. These will assist in attracting inward investment and economic development that in turn will generate the growth in business rates within the Enterprise Zone which is the basis for the Delivery Plan budget.

2. Objectives and expected outcomes

Re-letting the building

- 2.1. The lease between GLAP and GLA will activate an otherwise under-utilised building on a key site within the wider Royal Docks regeneration programme. The regeneration benefits of the relocation are detailed in MD2705.

- 2.2. GLAP will also benefit from a market rental income over 25 years and repairing lease which will secure long term appropriate maintenance of the building. Jones Lang LaSalle (JLL) have provided commercial advice to GLAP regarding a market rent and package of incentives usually required to re-let the Crystal to a third party. JLL have proposed a competitive market rent, which includes a landlord contribution to refurbish the building of £2.8m. This report can be found in Part 2 of this Decision Form.
- 2.3. The Heads of Terms agreed for the lease between GLAP and GLA are found in Appendix 3 to the Confidential Part 2 of this Decision Form.
- 2.4. A GLAP budget of £150,000 was authorised by MD2476 for professional fees associated with re-letting the building and this will now be utilised through this Decision. This will include professional fees and commissioning a Schedule of Condition. A breakdown of anticipated fees is provided in Part 2.

GLAP investment towards sustainability upgrade

- 2.5. The Crystal is renowned for its sustainability credentials including a BREEAM Outstanding rating. However, since 2012 some mechanical, electrical and plumbing (MEP) items have either reached the end of their life, or do not provide the most energy efficient means of servicing the building considering its new use. GLAP will invest £2.8m for refurbishment works which will create a more energy efficient building and restore or upgrade equipment.
- 2.6. ARUP were commissioned in 2020 to carry out a review of the building and proposed a package of works to bring the building back into energy efficient use; making best use of the existing equipment and replacing or repairing equipment where required. ARUP were the original engineers who designed the bespoke MEP services when the Crystal was first built. A summary of ARUP's proposals together with their anticipated costs is provided in Part 2 of this Decision Form.

General repairs

- 2.7. General repairs are required throughout the Crystal building. This budget was previously scoped through a dilapidations report which was commissioned in 2019 and carried out by Avison Young on behalf of GLAP. The 2019 report informs the overall budget for general repairs; however, the exact activities are now superseded 18 months on. For reference, the dilapidations survey is included in Part 2 of this document.

Overall costs

- 2.8. The activities are set out below.

Activity	Cost	Notes
Landlord refurbishment contribution	£2,800,000	
General repairs	£400,000	
Contingency (general repairs)	£100,000	Accounts for any unexpected repairs or costs to the works.
Professional Fees	£150,000	Previously approved in MD2476
Total	£3,450,000	

- 2.9. GLAP will invest £2.8m on MEP items that have either reached the end of their life, or do not provide the most energy efficient means of servicing the building considering its new use. This will be combined with the general repair costs and paid directly to the supplier up to the value of £3.3m. Professional fees are described in paragraph 2.4 of this document.
- 2.10. The GLA will procure all refurbishment works, including repair and MEP works, acting as agent on behalf of GLAP who will contract directly with the suppliers. Appropriate provision will be made for warranties between the two parties and the suppliers, as appropriate for a landlord and tenant.

3. Equality comments

- 3.1. Under Section 149 of the Equality Act 2010, as a public authority, the GLA must have 'due regard' of the need to:
- eliminate unlawful discrimination, harassment and victimisation; and
 - advance equality of opportunity and foster good relations between people who have a protected characteristic in respect to racial background, disability, age, religious beliefs or gender, and those who do not.
- 3.2. The London Borough of Newham is one of the most disadvantaged boroughs in London and one of the most diverse in terms of faith and ethnicity. It is paramount to communicate what is happening across the Royal Docks effectively, considering the substantial investment to regenerate the area for the benefit of all communities. The re-letting of the Crystal for a civic use will provide an increase in public access to the building, as well as opportunities to use facilities when not in use by the GLA. As a result, the GLA's assessment is that this initiative will not have an adverse effect on any groups with a protected characteristic and will assist in fostering good relationships between groups. The Crystal has been designed in a suitable manner for inclusive access which includes wheelchair access and accessible WCs.

4. Other considerations

- 4.1. The Mayor is committed to tackling the climate and ecological emergencies and is delivering this through the London Environment Strategy which sets out targets for London to become a zero carbon, circular economy.
- 4.2. These targets are reflected in the London Plan, along with a wide range of other targets to enhance the impact of the built environment on energy and carbon, green space, waste, water usage, climate resilience and flooding. The requirements also flow through to boroughs' Local Plans, including Newham's. Furthermore, these goals are also reflected in the London Recovery Programme's aim to "Accelerate delivery of a cleaner, greener London", and the Green New Deal mission specifically which aims to "Scale-up programmes to retrofit and improve existing buildings".
- 4.3. The London Environment Strategy also commits to the GLA Group 'Leading by example' – embedding Mayoral policies and aspirations in the GLA's own operations. This places a clear expectation on the GLA to demonstrate leadership on delivering – and ultimately inhabiting – a City Hall building with excellent sustainability performance.

Key risks

- 4.4. The sustainability and general repairs required are contained within a budget based on approximate quotations from ARUP and Avison Young. Whilst ARUP have built in contingency, there is a risk that these works may exceed the budget. In order to get the best result from the available budget, ARUP have provided further advice on which repairs have high impact and where other works could be delivered at a later date.
- 4.5. These works must be carried out in parallel to the GLA's work to fit-out the building for future use. The GLA will be retro-fitting the internal fit-out of the building, such as replacing the auditorium with an Assembly Chamber. In order to have overall management and sight of both work streams, a construction project management consultant, Gerald Eve, has been appointed to oversee all works. This will avoid any conflict in the programme.

Conflicts of interest

- 4.6. To avoid conflicts of interest GLAP has sought independent advice from commercial advisors, JLL, to value the Crystal lease which has been done by comparing other commercial buildings in the area.

Based on comparable evidence, JLL has produced a report which reflects the current market. In this regard, the GLA is paying a fair market rent to GLAP.

- 4.7. Similarly, GLAP expenditure as landlord reflects expectations of the current market and is evidenced in the JLL report and previous dilapidations report from Avison Young. The budget was previously forecast in 2019, prior to any plans for City Hall to relocate. GLAP is treating the GLA as it would any desirable tenant to occupy the building and is putting in place a lease with suitable terms to manage the 'landlord and tenant', albeit intra-group, relationship.
- 4.8. The drafting officer has had a role in supporting aspects of the GLA's planning application regarding the Crystal's use as City Hall, due to their background knowledge of the building. This does not present a conflict of interest however should be logged for full transparency.
- 4.9. There are no other conflicts of interest to note for any of the officers involved in the drafting or clearance of this decision form.

5. Financial comments

- 5.1. This decision requests approval to spend up to £3.3m in upgrading and repairs of the Crystal building for the purposes of re-letting. The expenditure will occur in 2020-2021 and 2021-2022 and will be funded from GLAP retained earnings, which were previously supplemented by the surrender premium paid by Siemens.
- 5.2. This decision authorises expenditure of £150,000 from the budget allocated towards professional fees required to re-let the building by MD2476.

6. Legal comments

- 6.1. Section 30 of the Greater London Authority Act 1999 (as amended) (GLA Act) gives the Mayor a general power to do anything which he considers will further one or more of the principal purposes of the GLA as set out in section 30(2) which are:
 - i. promoting economic development and wealth creation in Greater London;
 - ii. promoting social development in Greater London; and
 - iii. promoting the improvement of the environment in Greater London

and, in formulating the proposals in respect of which a decision is sought, officers confirm they have complied with the GLA's related statutory duties to:

- pay due regard to the principle that there should be equality of opportunity for all people;
 - consider how the proposals will promote the improvement of health of persons in Greater London, promote the reduction of health inequalities between persons living in Greater London, contribute towards the achievement of sustainable development in the United Kingdom and contribute towards the mitigation of or adaptation to climate change in the United Kingdom; and
 - consult with appropriate bodies.
- 6.2. The GLA can acquire interests in land, and so enter into the proposed lease with GLAP, on the basis that doing so will further one or more of the principal purposes set out in (i) to (iii) above. The GLA also has the power to do anything that facilitates, is conducive of incidental to doing so. In addition, it has the power to acquire and hold land for regeneration purposes under s 333ZA(1) and (8) by agreement for the purposes of regeneration. The contents of sections 1-3 of this Mayoral Decision indicate that the decision sought of the Mayor falls within the GLA's statutory powers.

- 6.3. GLAP must ensure an appropriate procurement process is undertaken for the works it intends to carry out at the Crystal and that tender documents include any specific requirements outlined in the draft Section 106 agreement (such as those relating to local labour) where appropriate. Suitable warranties should be sought by the contractors supplying the GLAP works, for the benefit of GLA as a tenant with repairing obligations under the proposed lease. Similarly, GLAP should ensure it receives warranties from the contractors providing the GLA works.

7. Planned delivery approach and next steps

Activity	Timeline
Mayoral Decision	December 2020
Construction Works	February 2021 – September 2021
New tenant (GLA) in place	Autumn 2021

Appendices and supporting papers:

None.

Public access to information

Information in this form (Part 1) is subject to the Freedom of Information Act 2000 (FoIA) and will be made available on the GLA website within one working day of approval.

If immediate publication risks compromising the implementation of the decision (for example, to complete a procurement process), it can be deferred until a specific date. Deferral periods should be kept to the shortest length strictly necessary. **Note:** This form (Part 1) will either be published within one working day after it has been approved or on the defer date.

Part 1 - Deferral

Is the publication of Part 1 of this approval to be deferred? NO

Until what date: (a date is required if deferring)

Part 2 – Sensitive information

Only the facts or advice that would be exempt from disclosure under FoIA should be included in the separate Part 2 form, together with the legal rationale for non-publication.

Is there a part 2 form – YES

ORIGINATING OFFICER DECLARATION:

Drafting officer to
confirm the
following (✓)

Drafting officer:

Jennifer Gutteridge has drafted this report in accordance with GLA procedures and confirms the following:

Sponsoring Director:

David Lunts has reviewed the request and is satisfied it is correct and consistent with the Mayor's plans and priorities.

Mayoral Adviser:

Tom Copley has been consulted about the proposal and agrees the recommendations.

Advice:

The Finance and Legal teams have commented on this proposal.

Corporate Investment Board

This decision was agreed by the Corporate Investment Board on 14 December 2020.

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EXECUTIVE DIRECTOR, RESOURCES:

I confirm that financial and legal implications have been appropriately considered in the preparation of this report.

Signature

D. Gane

Date

14 December 2020

CHIEF OF STAFF:

I am satisfied that this is an appropriate request to be submitted to the Mayor

Signature

D. Bellamy

Date

14 December 2020

