

GREATER LONDON AUTHORITY

REQUEST FOR MAYORAL DECISION – MD2843

Title: Relocation to The Crystal – additional landlord repairs at The Crystal and final dilapidations settlement at City Hall

Executive Summary:

Work is progressing well to prepare The Crystal at The Royal Docks for occupation by the GLA at the end of this year, to take on and occupy additional space as planned at Union Street, and to leave the current City Hall in line with the terms of the now-exercised break clause within the City Hall lease.

Authority is sought now to:

- approve a further investment by GLA Land and Property Limited (GLAP), owner of The Crystal freehold, to cover what are considered necessary additional costs to make the building suitable for the GLA's occupation
- approve the draft terms of the negotiated dilapidations settlement for the current City Hall (detailed in Part 2 of this Decision) reached with St Martins Properties Investments Limited (hereafter St Martins), and to delegate authority to the GLA Chief Officer to finalise these terms
- approve GLA expenditure of up to £0.50m for additional work at Union Street to support effective hybrid working. It was originally planned to invest in the design of more collaboration space and related furniture to support this over the next couple of years.

Including all the above actions, this decision will increase the net savings arising to the GLA from the City Hall move compared to those set out in MD2705.

Decision:

That the Mayor:

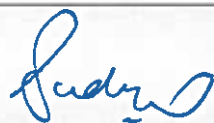
- 1) approves additional investment of up to £2.09m (£1.67m plus 25 per cent contingency) by GLAP for further landlord repairs and improvement works to The Crystal. This will result in a total GLAP investment of up to £5.39m (£3.30m previously approved and a further £2.09m)
- 2) approves the draft terms of the negotiated dilapidations settlement with St Martins, the City Hall landlord, as detailed in Part 2
- 3) delegates to the GLA Chief Officer authority to finalise the draft terms of the legal agreement as detailed in Part 2, and to complete the Settlement Deed incorporating those terms
- 4) approves new investment of up to £0.50m on design and furniture at Union Street to support our new hybrid working as effectively as possible.

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:

5/18/24

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

Decision required – supporting report

1. Introduction and background

- 1.1. On 2 November 2020 (MD2705), the Mayor agreed to relocate City Hall to The Crystal in the Royal Docks, and to exercise the break clause on the GLA's lease of the existing City Hall before 25 December 2020. Delegated authority to the GLA's Chief Officer was given to undertake this, and the break was formally served on 17 December 2020.
- 1.2. A significant amount of work is needed at The Crystal to convert it from an exhibition centre with ancillary office and conference facilities into a suitable space for the Mayor, the London Assembly and the GLA. These works include the construction of a new chamber, committee meeting rooms, and the reconfiguration of the office accommodation and other facilities.
- 1.3. As owner and landlord of The Crystal, the GLA's subsidiary GLA Land and Property Limited (GLAP) agreed to repair the premises and restore the building's sustainability features in return for the GLA taking a long-term full repairing lease at a market rent. To meet these costs, GLAP investment of £3.30m was approved under MD2722 by the Mayor.
- 1.4. In March 2021 the GLA appointed lead contractor ISG to undertake the repair and alteration works at The Crystal, required by both GLAP as landlord and the GLA as occupier. As part of the preparation work, detailed intrusive surveys were undertaken to examine the condition of the building fabric, and mechanical and electrical installations. Following these surveys, further repairs and improvement works required by the landlord were identified. These landlord works would be required whoever was the new tenant of The Crystal.
- 1.5. MD2705 considered the potential costs of meeting the GLA's contractual obligations when leaving City Hall. The Mayor was advised that dilapidation costs would be accounted for separately as the GLA had been accruing provision in light of the obligations under the current lease contract terms. A reserve of £10m was available to meet such costs and, on the advice of our consultants, its full use was assumed in the calculated savings arising from the move.
- 1.6. Under the terms of the lease, the GLA is required to reinstate City Hall to its condition upon initial occupation. However, it is common practice to negotiate a financial settlement with the landlord to remove the need for expensive and time-consuming reinstatement works that may be removed later by an incoming tenant.
- 1.7. Both parties to the lease appointed technical experts to determine the dilapidations liability. After a period of negotiation, a draft financial settlement has been reached in lieu of undertaking any reinstatement works. The financial settlement is in draft form and subject to final agreement. Its terms are confidential and laid out in Part 2, but they are significantly below the £10m assumed for this purpose.
- 1.8. MD2705 laid out plans to take on additional space at Union Street. This additional space has now been fitted out and the first GLA teams have already been moved across to Union Street. Further changes at Union Street had not been budgeted for in the short-term, but as more is learnt about hybrid working with some colleagues in the office and others working from home, there is a clear benefit to bringing forward some internal design changes and limited amounts of new furniture to better support the use of the building for collaboration, rather than entirely desk-based work. It is now proposed that the GLA invest £0.50m further at Union Street.
- 1.9. Taken together, these changes represent a net cost saving compared to the financial calculations set out in MD2705. This means we expect a greater financial benefit from the move than the £61m over five years reported in MD2705. Estimates of the scale of this improvement are set out in Part 2 of this Decision. Final figures will be reported following the completion of the move.

2. Objectives and expected outcomes

- 2.1. Further investment by GLAP at The Crystal will ensure the objectives of the relocation as detailed in MD2705 are met. These include significant cost savings for the GLA, and a permanent new home for London government that meets the requirements of the Mayor and the London Assembly on a sustainable basis, while contributing towards the Mayor's regeneration objectives for the Royal Docks.
- 2.2. Cost savings for GLAP have also been identified. The original business case to accept a surrender of Siemens' lease, as detailed in MD2476, set out substantial costs to re-let the building in terms of lost rent, maintenance liability and refurbishment works. Reletting the building to the GLA will be significantly less, saving £2.51m.
- 2.3. GLAP will also benefit from a market rental income over 25 years (subject to a tenant break in year 20) and a full repairing lease, which will secure long-term use and maintenance of the building.
- 2.4. Following the refurbishment of The Crystal, the sustainability features of the property will be restored, resulting in a high performance, energy-efficient building with an 'outstanding' BREEAM rating.
- 2.5. The proposed financial settlement for City Hall enables a clean break at the end of the lease and negates the need for procuring and letting contracts to undertake physical building works on site, and therefore any potential disputes regarding the quality and scope of such works.
- 2.6. The additional investment at Union Street will make an important contribution to making our new hybrid way of working successful.
- 2.7. Overall, this decision will increase the savings arising to the GLA and the GLA Group from this move.

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
 - 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 equalities implications of the decision to relocate City Hall were considered in detail in MD2705. The payment of dilapidations costs does not raise any specific equalities issues that were not explored in the previous MD.
- 3.3. 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. The reletting 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 new City Hall in E16 will be designed in a suitable manner for inclusive access, which includes wheelchair access and accessible gender-neutral WCs.

4. Other considerations

- 4.1. GLAP took over responsibility for The Crystal from Siemens plc in July 2019. Significant costs were expected to be incurred by GLAP as part of the business case to accept a surrender of Siemens' lease and re-let the building, and this was reflected in negotiations over the terms of the lease surrender (MD2476). Even after considering the increased investment required, GLAP's financial position from proceeding with the letting to the GLA is better than assumed in the original business case. This is illustrated in Part 2.
- 4.2. The negotiated settlement route significantly de-risks cost fluctuations and time delays and gives certainty at the end of the lease period.
- 4.3. To ensure that the property arrangements are on full market terms, 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. JLL has produced a report which reflects the current market. In this regard, the GLA is paying a fair market rent to GLAP.
- 4.4. Similarly, GLAP expenditure as landlord reflects expectations of the current market and is evidenced in the JLL report and a 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.
- 4.5. The additional costs presented by the contractor, ISG, have been reviewed and verified by the quantity surveyors on the project team, Core Five. The allocation of costs beyond those identified in the JLL and Avison Young reports has been assessed by Core Five and reviewed and agreed by GLAP Directors, Estate Management officers and officers at the GLA. Items which would be categorised as landlord obligations to any tenant, have been allocated to GLAP as landlord.
- 4.6. 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.
- 4.7. 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. Financial comments relating to the dilapidation settlement are included in Part 2.
- 5.2. This decision requests approval for GLAP to spend up to an additional £2.09m on repairing The Crystal for the purposes of reletting. This is in addition to the £3.30m already approved, making a total GLAP investment of up to £5.39m. The expenditure will occur in 2021-22 and will be funded from GLAP-retained earnings, which were previously supplemented by the surrender premium paid by Siemens.
- 5.3. This decision also requests approval to spend an additional £0.50m from the GLA's dilapidations reserve on further changes to Union Street, funding being available as set out in this Decision.

6. Legal comments

- 6.1. The terms of the current lease under which the GLA occupies City Hall were approved in 2003 under Mayoral Approval 284, signed by the then Mayor on 6 August 2003. The lease of the building was originally between the landlord and the Government Office for London and was transferred to the GLA by the Secretary of State under a statutory transfer scheme. That discharged the Secretary of

State's duty to provide the GLA with accommodation for the first five years of its existence under section 401 of the Greater London Authority Act 1999 ("GLA Act 1999").

- 6.2. Section 4 of the Local Government and Housing Act 1989 ("1989 Act") applies to the GLA, obliging it to secure the provision of sufficient staff, accommodation and other resources for the performance of its functions.
- 6.3. Under section 34(1) of the GLA Act 1999, the GLA, acting by the Mayor, is empowered to do anything (including the acquisition or disposal of any property or rights) that is calculated to facilitate, or is conducive or incidental to, the exercise of any functions of the Authority exercisable by the Mayor or the Assembly, or both acting jointly. As a result, section 34 authorises the Mayor to make arrangements that facilitate, or are conducive or incidental to, as regards his duty under section 4 of the 1989 Act, securing the provision of sufficient accommodation for the GLA as a whole (including for the Assembly), and as regards all the GLA's statutory functions generally as by the Mayor or the Assembly. These powers cover the GLA's vacation of City Hall and relocation to The Crystal and Union Street, and anything incidental – including the negotiation and settlement of the GLA's dilapidations obligations under the terms of the current City Hall lease and any works to fit out Union Street under the terms of its lease.

7. Planned delivery approach and next steps

Activity	Timeline
Mayoral Decision	August 2021
Complete dilapidations negotiation process	September 2021
Construction works at The Crystal	July - September 2021
Seal/execute deed of release for City Hall	September 2021
Payment of dilapidations invoice	September 2021
Occupation of The Crystal	Autumn 2021
Handover of City Hall to the landlord	24 December 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? YES

If YES, for what reason:

commercial confidentiality of negotiation.

Until what date: (a date is required if deferring) 31 January 2022

Part 2 – Sensitive information

Only the facts or advice that would be exempt from disclosure under the 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:

Milly Kiely-Horn has drafted this report in accordance with GLA procedures and confirms the following:

✓

Sponsoring Director:

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

✓

Mayoral Adviser:

David Bellamy 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 23 August 2021.

EXECUTIVE DIRECTOR, RESOURCES:

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

Signature

D. Gane

Date

23 August 2021

CHIEF OF STAFF:

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

Signature

D. Bellamy

Date

23 August 2021