



REPORT OF:	Head of Property
AUTHOR:	JOHN REED
TELEPHONE:	01737 276571
E-MAIL:	John.Reed@Reigate-Banstead.gov.uk
TO:	EXECUTIVE
DATE:	19 JULY 2018
EXECUTIVE MEMBER:	COUNCILLOR MRS N. BRAMHALL

KEY DECISION REQUIRED:	YES
WARD (S) AFFECTED:	REDHILL

SUBJECT:	ACQUISITION OF FREEHOLD IN REDHILL
RECOMMENDATION: 1. Subject to a satisfactory due diligence report being received, the Head of Property, in consultation with the Head of Finance and the Executive Members for Property and Regeneration and Finance, be authorised; a. To acquire the Freehold referred to in this report for investment purposes. b. Agree any variations to the heads of terms and to the acquisition price further to external valuation advice and due diligence investigations.	
Reason for Recommendation: To obtain Executive authority to acquire, subject to the usual due diligence, this property in Redhill which will produce additional income to support the Council's 5 Year Plan.	
EXECUTIVE SUMMARY This report seeks authority to acquire the freehold interest of a building in Redhill, which is subject to the occupational leases set out in the exempt Part 2 section of this agenda. The Council has submitted a bid to acquire the investment ahead of it being fully marketed. Full details of the Council's bid, the financial implications and the property's address are set out in the exempt Part 2 section of this agenda. Central Government funding for Local Authorities is reducing, and the Revenue Support Grant ended in the 2016/17 financial year for this Council. To enable the Council to continue to deliver the level of services its residents currently enjoy and to ensure Corporate Plan objectives are met, it is essential alternative sources of income and capital receipt are found to meet this shortfall.	

The Executive has authority to determine recommendation (i)

STATUTORY POWERS

1. Section 2 of the *Local Government Act 2000* gives local authorities the power to do anything in the furtherance of the economic, social or environmental wellbeing of their area. The exercise of that power is specifically linked, in section 4 of the Act, to works required in furtherance of community and corporate plan objectives.
2. This acquisition is anticipated to provide financial enhancements to the well-being of the area for the reasons set out in the exempt Part 2 section of this report.
3. Whilst there is no statutory requirement to achieve best consideration on an acquisition, the Council's adopted Asset Management Plan and its medium term Financial Strategy require that any acquisitions made add to the value of the Council's existing asset portfolio and in turn the Council's income. These aspects are addressed in the exempt Part 2 section of the agenda. .

BACKGROUND

4. The Council's corporate plan identifies property investment and development as one of its key objectives. As Central Government funding reduces for Local Authorities this produces a budget shortfall. In order to meet this shortfall, the Council has embarked on a programme of acquiring additional income and potential capital-generating commercial investment and development opportunities. This acquisition is a longer term strategic investment opportunity providing investment income as set out in the exempt Part 2 section of this agenda.
5. It is likely the Council will be an unsuccessful bidder on some occasions, or that due diligence following agreement of terms may lead to a conclusion that a property is not a suitable investment.
6. Each investment is assessed on its own merits. Viable opportunities will be recommended to Executive individually.

ISSUES

7. The Council submitted a bid for the purchase of this freehold interest.
8. Acquiring this freehold interest, is only likely to provide limited development opportunities in the future, the plan is to hold the building in its current form for the longer term for its investment income. The acquisition will not affect the terms of the current occupational tenants lease arrangements, however if the acquisition is successful the occupational tenants will continue to pay rent directly to the Council, providing the Council with an income stream.
9. The agreed purchase is subject to the usual due diligence to confirm there are no problems with the legal title, purchase price, surveys or environmental assessments. The costs associated with this due diligence are set out in the exempt Part 2 section of this agenda.

10. The financial implications for the Council are clearly relevant. This has partly been addressed in the preceding paragraphs but also in detail in the exempt Part 2 section of this report detailing all the financial information.

OPTIONS

11. Complete the purchase of the Freehold Interest

Subject to the due diligence set out in paragraph 9, this is the recommended option. The Council will acquire the building for investment purposes in Redhill.

12. Investigate alternative property acquisitions or joint venture on the purchase

The property market continues to attract significant interest from investors. This acquisition offers an attractive prospect for investment income through the rental income stream in the longer term. However acquisitions of this nature do not come without risk and this is set out in more detail in the Part 2 report in the confidential annex to this agenda. There are always property opportunities being brought to the market, however the opportunity associated with this acquisition makes it an attractive proposition. This option is not recommended.

13. Do Nothing

For the reasons set out in this report this is not the recommended option.

LEGAL IMPLICATIONS

14. In accordance with section 120 of the Local Government Act 1972 the Council has the power to acquire land by agreement for the benefit, improvement or development of its area.
15. There is no legal duty to consult the public on any commercial terms of the acquisition. These are matters for the authority. Executive is entitled to determine them at its discretion, notwithstanding any previous decisions it has made, having considered the contents of this report.
16. Although the Council is not under an explicit duty to acquire property at market value it still must have regard to its fiduciary duties to its Council tax payers and its best value duty.
17. Legal and valuation advice will be sought as necessary throughout the acquisition process.
18. The acquisition of land is exempt from the Contract Procedure Rules under paragraph (f) of Appendix A of on page 194 of the Constitution.

EQUALITIES IMPLICATIONS

19. There are no equalities implications; this is the acquisition of a freehold building with occupational leases already in place.

COMMUNICATIONS IMPLICATIONS

20. Until the Council has exchanged contracts on the acquisition there would be no plans to issue any communications. This is the procedure when confidential

contract negotiations are being held by the Council on acquisitions. Further detail on communications is described in the confidential annex at Part 2 of this agenda.

RISK MANAGEMENT CONSIDERATIONS

21. These are set out in the Part 2 report in the confidential section of this agenda.

FINANCIAL IMPLICATIONS

22. The purchase price and acquisition costs comprising stamp duty land tax, introducing agents fees, valuation advice, surveys and legal fees are set out in the Part 2 report.
23. This acquisition will provide the Council with a significant income stream. The acquisition is for investment purposes which are explored more fully in the confidential annex at Part 2 of this agenda.
24. This investment is a strategic acquisition and not without risk. Currently the property is let on a number of leases as set out in the attached schedule. However, it should be recognised that rental income can be interrupted due to tenant default or void periods between lettings. Furthermore, there is always a risk of rental values falling due to fluctuations in the market.
25. The purchase falls within the capital budgets for property acquisition planned by the Council. The property will be funded from the Council's reserves and/or borrowing in line with the prevailing cash flow requirements and treasury management policy at the date of purchase. Any VAT payable on the purchase will be fully recoverable.
26. This acquisition will provide the Council with a rental income stream the details of which are set out in the Part 2 report in the confidential section of this agenda.

CONSULTATION

27. The Leader of the Council, Deputy Leader of the Council and Portfolio Holders for Property and Regeneration and Finance have been consulted about this acquisition.

POLICY FRAMEWORK

28. The acquisition also reflects the aim of the Council's Asset Management Plan to undertake acquisitions, to add to the value of existing asset or to produce a greater financial return than alternative investment options in accordance with the Council's medium-term financial strategy.

Background papers: None.