



REPORT OF:	Head of Property
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TO:	EXECUTIVE
DATE:	22 nd June 2017
EXECUTIVE MEMBER:	COUNCILLOR MRS N. BRAMHALL

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

SUBJECT:	ACQUISITION OF FREEHOLD IN REDHILL
RECOMMENDATION: <p>(i) To authorise the Head of Property and Head of Finance in consultation with the Executive Members for Property and Acquisitions and Finance to acquire the Freehold referred to in this report.</p> <p>(ii) To recommend Full Council approve the purchase and funding for the acquisition of this Freehold interest, which is subject to a number of occupational interests.</p>	
Reason for Recommendation: To seek Executive authority to proceed with this property acquisition to support the Council's 5 Year Plan objectives to become financially self sufficient.	
EXECUTIVE SUMMARY This report seeks authority to acquire the freehold interest in an office building in Redhill. The property has been subject to a bidding process, where the Council submitted the successful bid. Full details of the Council's bid, and the property's address can be found in the exempt Part II part of this agenda. The Property occupies a recognised office pitch in the town. 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 are found to meet this shortfall. The acquisition would give the Council a revenue stream and an acceptable return on Capital invested.	
The Executive has authority to determine recommendation (i). Recommendation (ii) is subject to full Council approval.	

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 would provide financial, social and environmental enhancements to the well-being of the area for the reasons set out in the 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 report.

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's adopted Asset Management Plan and its medium term Financial Strategy undertakes to make property acquisitions, where assets add value to the Council's existing asset portfolio and in turn the Council's income.

ISSUES

5. The Council along with a number of other parties submitted bids for the purchase of this freehold interest in the proposed investment. Heads of terms have been agreed subject to Executive and Full Council approval.
6. The property occupies a recognised office pitch within the town. Acquiring this freehold interest, could provide development opportunities of the building in the future, however the acquisition will not affect the current occupational tenants of the building, however they will continue to pay their rent directly to the Council, providing the Council with a significant income stream.
7. The agreed purchase is subject to the usual due diligence to confirm there are no problems with the legal title, surveys or environmental. The costs associated with this due diligence are set out in the exempt Part 2 section of this agenda.
8. The financial implications for the Council are clearly relevant. This has partly been addressed in the preceding paragraphs but also in detail in the confidential Part 2 section of this report detailing all the financial information.

OPTIONS

9. Complete the purchase of the Freehold Interest

Subject to the due diligence set out in paragraph 7, this is the recommended option. The Council will acquire a long-term income producing investment and strategic interest in Redhill. In addition being in control of the building could realise additional redevelopment benefits in the future.

10. Investigate alternative property acquisitions

The investment property market continues to attract significant interest from investors. This investment offers an attractive yield and income to the Council with future potential. There are always opportunities being brought to the market, however the lot size and spread of income profile make this an attractive proposition. This option is not recommended.

11. Do Nothing

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

LEGAL IMPLICATIONS

12. The Council's in-house legal service has been consulted with regard to the acquisition. The in-house legal service would need to exercise due diligence in completing any purchase.
13. Local authorities have broadly drawn powers allowing them to invest and to borrow, in each case either for purposes relevant to the performance of any of their functions or generally for the prudent management of their financial affairs (s1 and s12 of the Local Government Act 2003). They may also acquire property by agreement located either inside or outside of their borough for the purposes of any of their functions, including their investment functions, or otherwise for the benefit, improvement or development of their area (s120 of the Local Government Act 1972). Lastly, they may also take any action (whether or not involving the expenditure, borrowing or lending of money or the acquisition or disposal of any property or rights) which is calculated to facilitate, or is conducive or incidental to, the discharge of any of their functions, which would again include their investment functions (s111 of the Local Government Act 1972).
14. The Council will ensure that in exercising its investment and borrowing functions to expand its property portfolio, that any actions are reasonable and proportionate and for proper purposes consistent with the Council's prudential regime and its investment strategy.
15. The wellbeing powers required to acquire the freehold interest and Section 123 requirements are also set out in the body of this report.
16. The acquisition of land is exempt from the Contract Procedure Rules under paragraph (f) of Appendix A of on page 194 of the Constitution.

FINANCIAL IMPLICATIONS

17. The purchase will be funded from the Council's reserves. Any VAT payable on the purchase will be fully recoverable.
18. This acquisition will provide the Council with a substantial income, that represents an acceptable initial yield (return on capital), much greater than could be achieved through other cash investments.
19. The acquisition meets the Council's medium term financial strategy and provides a long-term investment income.
20. The purchase would also incur incidental costs comprising Stamp Duty, valuation advice, surveys and legal fees, for which an approved budget has been identified in the exempt Part 2 section of this agenda.

21. The Council will have maintaining and insuring obligations as freeholder. However, the Occupational Leases contain service charge and insurance provisions that would allow the Council to recover these costs.
22. This investment is a strategic acquisition not without risk. Currently the property is substantially let. However, it should be recognised that rental income can decrease.

URGENCY AND CONSULTATION

23. Due to the urgency of this matter only The Leader, Deputy Leader and Portfolio Holders for Property and Acquisitions and Finance have been consulted about this acquisition.
24. As the matter is a Key Decision it should have been identified on the published 28 Day Notice by the Council. Due to the strict bidding timetable over the last couple of weeks this was not possible. The Chairman of the Overview and Scrutiny Committee has therefore been consulted, and in accordance with the Access to Information Rules in the Constitution, he has agreed that the item can be considered at the Executive notwithstanding it was not included on the 28 Day notice.
25. Additionally as the acquisition must proceed quickly to achieve the vendor's timetable the Mayor has also approved the disapplication of the Call-In procedure and has agreed that an Extraordinary meeting of Full Council be arranged for 29 June 2017 to consider the recommendations arising from reports being considered at this meeting of the Executive.

POLICY FRAMEWORK

26. 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.