



REPORT OF:	Head of Property
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TO:	EXECUTIVE
DATE:	13 JULY 2017
EXECUTIVE MEMBER:	COUNCILLOR MRS N. BRAMHALL

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

SUBJECT:	ACQUISITION OF FREEHOLD PROPERTY INVESTMENT IN REIGATE
<p>RECOMMENDATION:</p> <p>To authorise the Head of Property in consultation with the Head of Finance and the Executive Members for Property and Acquisitions and Finance to acquire the Freehold interest of the property referred to in the Executive's Part 2 (Exempt information) report which is subject to a single occupational lease.</p>	
<p>EXECUTIVE SUMMARY</p> <p>This report seeks authority to acquire the freehold interest in an investment in Reigate. The property has been subject to a bidding process, where the Council submitted the successful bid. Full details of the Council's bid can be found in the exempt Part 2 part of this agenda.</p> <p>The Property occupies a prominent office pitch in the town.</p> <p>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.</p>	
<p>The Executive has authority to determine the recommendation.</p>	

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 enhancement 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 5 Year 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 the freehold interest in an investment in Reigate. Our offer has been accepted subject to Executive approval.
6. The property occupies a recognised office pitch within the town.
7. The agreed purchase is subject to the usual due diligence to confirm there are no problems with the Legal Title. In addition a building survey, mechanical & electrical survey, environmental report, measured survey and Red Book valuation will be undertaken. 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. As set out in paragraph 4, the Council has seen a significant reduction in funding from Central Government. In response to this challenge, our 5 Year Plan sets out priorities to increase income from other sources, in particular from property assets, in order to provide financial sustainability. This will ensure that we can continue to invest in our services and facilities for residents. The specific financial implications for this proposed acquisition are set out in the part 2 section of this report.

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 Reigate. In addition, being in control of the building could realise additional potential 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 income stream make this an attractive proposition. This option is not recommended.

11. Do Nothing

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

LEGAL IMPLICATIONS

12. The wellbeing powers required to acquire the freehold interest and Section 123 requirements are set out in the body of this report.
13. 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

14. The purchase will be funded from the Council's reserves. As the purchase is to be treated as a Transfer of a Going Concern, VAT will not be payable.
15. This acquisition will provide the Council with a substantial income stream, which represents an acceptable initial yield (return on capital), much greater than could be achieved through other cash investments.
16. The acquisition meets the Council's medium term financial strategy and provides a long-term investment income.
17. The purchase would also incur incidental costs comprising Stamp Duty, valuation advice and surveys for which an approved budget has been identified in the exempt Part 2 section of this agenda.
18. The Council will have insuring obligations as freeholder. However, the occupational lease requires the tenant to maintain the building and reimburse the landlord for the insurance premium.
19. This investment is a strategic acquisition not without risk. Currently the property is let to a single tenant, globally renowned and of excellent covenant strength. The current lease expires in 2019 and we are informed that the tenant may be interested in remaining in occupation and renewing their lease. Although, this assumption cannot be made, in the current market the Council should be confident of securing a letting at a higher level of rent than that passing.

URGENCY AND CONSULTATION

20. 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.
21. The strict bidding timetable for this acquisition has required Officers to proceed quickly to achieve the vendor's timetable. The vendor has other interest in the property at a similar level and currently the Council's offer has been 'accepted' on the basis of a 15 day exchange period with completion 5 working days thereafter. The timetable starts when full legal papers are received which is expected imminently. In the circumstances the Mayor has approved the disapplication of the Call-In procedure to allow this acquisition to proceed as quickly as possible.

POLICY FRAMEWORK

22. 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