

Executive Agenda



Reigate & Banstead
BOROUGH COUNCIL
Banstead | Horley | Redhill | Reigate

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17 April 2018

To the Members of the EXECUTIVE

Councillors:	V. W. Broad (Leader);	
	L. R. Hack	Deputy Leader, Neighbourhood Services
	N. J. Bramhall	Property and Acquisitions
	K. Foreman	Planning Policy
	A. C. J. Horwood	Community Support
	E. Humphreys	Business and Economy
	G. J. Knight	Community Safety
	R. Mill	Leisure and Wellbeing
	R. Renton	Housing and Infrastructure
	T. Schofield	Finance

For a meeting of the **EXECUTIVE** to be held on **THURSDAY, 26 APRIL 2018** at **7.30 pm** in the New Council Chamber.

John Jory
Chief Executive

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Notice is given of the Executive's intention to hold part of its meeting on Thursday, 26 April 2018 in private for consideration of reports containing "exempt" information

1. **MINUTES** (Pages 7 - 18)

To confirm as a correct record the Minutes of the meeting held on 29 March 2018.

2. **APOLOGIES FOR ABSENCE**

To receive any apologies for absence.

3. **DECLARATIONS OF INTEREST**

To receive any declarations of interest.

4. **DEVELOPMENT OF UNIT 1, PITWOOD PARK** (Pages 19 - 26)

**Executive Members: Councillor Mrs N. J. Bramhall,
Councillor Mrs R. Renton**

To consider a report concerning the development of Unit 1, Pitwood Park.

5. **DEVELOPMENT OF 14-46 CROMWELL ROAD, REDHILL** (Pages 27 - 32)

**Executive Members: Councillor Mrs N. J. Bramhall,
Councillor Mrs R. Renton**

To consider a report concerning the development of 16-46 Cromwell Road, Redhill.

6. **PROPERTY ACQUISITION OF FREEHOLD IN REDHILL** (Pages 33 - 36)

Executive Member: Councillor Mrs N. J. Bramhall

To consider a report seeking authority to acquire the freehold interest in a retail and office building in Redhill.

7. **PROPERTY ACQUISITION OF FREEHOLD IN REIGATE** (Pages 37 - 40)

Executive Member: Councillor Mrs N. J. Bramhall

To consider a report seeking authority to acquire the freehold interest in an industrial building in Reigate.

8. **STATEMENTS**

To receive any statements from the Leader of the Council, Members of the Cabinet or the Chief Executive.

9. **ANY OTHER URGENT BUSINESS**

To consider any item(s) which, in the opinion of the Chairman, should be considered as a matter of urgency – Local Government Act 1972, Section 100B(4)(b).

(Note: Urgent business must be submitted in writing but may be supplemented by an oral report).

10. **EXEMPT BUSINESS**

RECOMMENDED that members of the Press and public be excluded from the meeting for the following item of business under Section 100A(4) of the Local Government Act 1972 on the grounds that:

(i) it involves the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Act; and

(ii) the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

11. **DEVELOPMENT OF UNIT 1, PITWOOD PARK** (Pages 41 - 52)

**Executive Members: Councillor Mrs N. J. Bramhall,
Councillor Mrs R. Renton**

To consider exempt information in relation to the development of Unit 1, Pitwood Park.

12. **DEVELOPMENT OF 16-46 CROMWELL ROAD, REDHILL** (Pages 53 - 56)

**Executive Members: Councillor Mrs N. J. Bramhall,
Councillor Mrs R. Renton**

To consider exempt information in relation to the development of 16-46 Cromwell Road, Redhill.

13. **UPDATE: PATHWAY FOR CARE AND NEW DIGITAL MONITORING COMPANY** (Pages 57 - 62)

Executive Member: Councillor Mrs R. Mill

To consider an update with exempt information regarding Pathway for Care and the new Digital Monitoring Company.

14. **PROPERTY ACQUISITION OF FREEHOLD IN REDHILL** (Pages 63 - 64)

Executive Member: Councillor Mrs N. J. Bramhall

To consider exempt information in relation to these proposals.

15. **PROPERTY ACQUISITION OF FREEHOLD IN REIGATE** (Pages 65 - 66)

Executive Member: Councillor Mrs N. J. Bramhall

To consider exempt information in relation to these proposals.

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Agenda Item 1

Executive
March 2018

Minutes

BOROUGH OF REIGATE AND BANSTEAD

EXECUTIVE

Minutes of a meeting of the Executive held at the New Council Chamber on 29 March 2018.

Present: Councillors V. W. Broad, K. Foreman, A. C. J. Horwood, G. J. Knight, R. Mill, R. Renton and T. Schofield

Also present: Councillors Mrs R. H. Absalom, D. Allcard, M. Blacker, J.M. Ellacott, J. C. S. Essex, N. D. Harrison, M.J. Selby, B. A. Stead and Mrs R. S. Turner.

74. MINUTES

RESOLVED that the minutes of the meeting held on 25 January 2018 be approved as a correct record and signed.

75. APOLOGIES FOR ABSENCE

Executive Members: Councillors Mrs N. Bramhall and E. Humphreys.

Non-Executive Members: Councillor J.M Stephenson.

76. DECLARATIONS OF INTEREST

Councillor Mrs R. Mill declared a personal interest in agenda items 6 and 13, Appointments to the Board of the Banstead Commons Conservators, because her husband was a Conservator (until 31 March 2018) and a nominee for a further term.

Councillor V.W. Broad declared a personal interest in agenda items 6 and 13, Appointments to the Board of the Banstead Commons Conservators, because he was a Conservator (until 31 March 2018) and a nominee for a further term.

Councillor V.W Broad declared a personal interest in agenda item 14, Pathway for Care: Next Steps, because he was friends with a potential investor.

John Jory, Chief Executive, indicated that, as he had been appointed, by Reigate and Banstead Borough Council, as a Director for Pathway for Care Ltd, he would not take part in item 14, Pathway for Care: Next Steps.

77. REVISED CONTRACT PROCEDURE RULES

The Executive Member for Finance, Councillor T. Schofield, explained Contract Procedure Rules formed an important part of the Council's governance framework. It was noted that they helped to ensure best value, efficiency, transparency, accountability and protected the Council from allegations of impropriety.

Councillor Schofield informed the Executive the Council's Contract Procedure Rules had last been updated in 2016. As a result, it had been necessary to consider revisions due to both an internal review and legislative changes. The following points were noted:

- An internal review of the practical implementation of the rules had highlighted the need to introduce amendments in order to simplify the process.
- In view of rising costs, lower thresholds had become impractical to maintain and had created a cumbersome procurement process.
- Recent legislative amendments to the financial limits in respect of UK and European Union regulations governing procurement.

During the discussion, a number of issues were considered in relation to the procedural rules for procurement, including:

- The process for both seeking a 'waiver', including roles and responsibilities for Heads of Service.
- The process for nominating subcontractors and suppliers.
- The procedural steps of a procurement.
- The use of performance bonds.

In response to questions, Councillor Schofield advised that the report recommended authorisation for any minor administrative and legislative amendments to be undertaken as required in future. The Executive was informed any minor changes would only be introduced in consultation with the Executive Member for Finance, the Chief Finance Officer and Monitoring Officer. It was noted that this authorisation was required in order to ensure compliance and effective operational business management of the Contract Procedure Rules.

RECOMMENDED that:

- (i) The revised Contract Procedure Rules be approved;**
- (ii) The Monitoring Officer be authorised to amend the Constitution to include the revised Contract Procedure Rules;**
- (iii) The Monitoring Officer be authorised, in consultation with the Executive Member for Finance and the Chief Finance Officer, to undertake any minor amendments to the Contract Procedure Rules as may be necessary to comply with any future legislative requirements;**
- (iv) The Monitoring Officer be authorised, in consultation with the Executive Member for Finance and the Chief Finance Officer, to undertake any minor and administrative amendments to the Contract Procedure Rules as may be necessary to achieve internal practical implementation and compliance.**

Reasons for decision: To ensure legal and administrative compliance.

Alternative options: To reject or request amendments to the Contract Procedure Rules.

78. TREASURY MANAGEMENT STRATEGY 2018/19

Councillor T. Schofield, Executive Member for Finance, reported on the current position in relation to the adoption of the proposed Treasury Management Strategy for 2018/19.

The report set out relevant statutory powers, issues (objectives, the current treasury position, matters for consideration and prudential indicators) legal, financial and equalities implications, risk management and other considerations, consultation undertaken and policy framework factors. The report had five Annexes:

- An Investment Strategy
- A Borrowing Strategy
- A Cash Management Strategy
- Risk Management Assessment
- Minutes from the Overview and Scrutiny Committee on 15 February 2018

It was noted that the draft Strategy had been considered by the Executive in January 2018 and reviewed as part of the consultation by the Treasury Management Portfolio Holder Panel and by the Overview and Scrutiny Committee.

It was emphasised that the 2018/19 Strategy had been prepared at a time of significant changes to the guidance frameworks for Local Authorities, arising in response to the increase in commercial approaches across the sector. The Executive noted that changes to the Prudential Code and the CIPFA Treasury Management Code of Practice had been published in December 2017.

Councillor Schofield went on to explain that the Ministry of Housing, Communities and Local Government had published guidance on Investment and Minimum Revenue Provision in January 2018 and there would be a significant accounting standard change to IFRS 9 Financial Instruments in April 2019.

The Executive noted that these changes reflected the increasingly complex business models that were being adopted by Local Authorities in response to reductions in other funding streams. Councillor Schofield informed the Executive that the effective date for implementation of the Prudential Code and the guidance from Government was April 2018. It was recognised that these late publication dates had created practical difficulties and as a result implementation by 2019/20 was considered acceptable. The following points were noted:

- The Treasury Management Strategy for 2018/19 was based on the 2011 guidance and only had a few changes from the 2017/18 document.

- The strategy would be comprehensively reassessed in 2018 in accordance with updates contained within the Prudential Code and the Treasury Management Code produced by CIPFA.

Councillor Schofield concluded by informing the Executive that the Treasury Management Strategy 2018/19 provided a framework for treasury operations in 2018/19 and that this would ensure the Council delivered value for money for residents whilst protecting reserves.

During the discussion, a number of issues were considered in relation to link asset services and the role of asset managers. In addition, the differences between returns on property investments and yields obtained in relation to managed funds were highlighted.

RECOMMENDED that the Treasury Management Strategy for 2018/19 be approved.

RESOLVED that the comments of the Overview and Scrutiny Committee be noted.

Reasons for decision: To adopt a Treasury Management Strategy for the 2018/19 financial period.

Alternative options: To not support the contents of the report or to defer it and ask Officers to provide more information and/or clarification on specific points.

79. APPOINTMENTS TO THE BOARD OF THE BANSTEAD COMMONS CONSERVATORS

The Deputy Leader and Executive Member for Environment and Infrastructure, Councillor Dr L.R. Hack, invited the Executive to review the nominations received for vacant appointments to the Banstead Commons Conservators.

The board consisted of eight conservators appointed on a rolling basis, each serving a three year term of office. Councillor Dr Hack advised that the posts were voluntary and unpaid and that three vacant appointments needed to be determined, including one that had been filled by a member of the local community and two that had been filled by councillors (one of which had been vacant).

It was noted that four nominations had been received for the three vacant positions, including applications made by Councillor V.W. Broad and Mr J. C. Mill, who were representatives coming to the end of their tenure.

The Executive reviewed all nominations and the following points were highlighted as important in reaching a decision:

- The proven knowledge and active involvement of the current incumbents over a number of years.
- Ensuring two councillors were represented on the Conservators beyond the local elections in May 2018.

Note: Councillor V.W. Broad, Leader, and Councillor Mrs R. Mill, Executive Member for Leisure and Wellbeing, both left the room for the consideration of this item.

RESOLVED that Councillor G. Curry be appointed and Councillor V.W. Broad and Mr J.C. Mill be reappointed to fill the three positions that had come to the end of their term for a three year period to 2021.

Reasons for decision: To ensure that positions on the Board of the Banstead Commons Conservators were suitably filled.

Alternative options: To appoint other applicants or to seek new nominations.

80. **OVERVIEW AND SCRUTINY COMMITTEE WORK PROGRAMME 2018/19**

A report was submitted with the proposed 2018/19 work programme for the Overview and Scrutiny Committee. The report set out relevant statutory powers, information on the work programme and how it had been prepared, resource, legal and equalities implications and consultation undertaken. The work programme was appended to the report.

The Leader of the Council, Councillor V.W. Broad informed the Executive that he and the Chief Executive had been consulted during the preparation of the work programme and that it delivered a good range of activities that were achievable and added value to the work of the Council.

It was noted that the Committee had continued to recognise the increased pressures on the Council and had maintained a streamlined approach to its activities to ensure its work programme reflected the Council's priorities.

Councillor Broad concluded by highlighting that Local Government continued to change and that as a result the Council would continue to monitor both its governance and scrutiny arrangements. Councillor Broad advised that any changes to these arrangements would involve input from the Overview and Scrutiny Committee.

RECOMMENDED that the Overview and Scrutiny Committee work programme for 2018/19 be adopted.

Reasons for decision: To agree a work programme for the Overview and Scrutiny Committee for the 2018/19 Municipal Year.

Alternative options: To add to or not adopt the Overview and Scrutiny Committee work programme for 2018/19.

81. **QUARTERLY PERFORMANCE REPORT (Q3 2017/18)**

The Executive Member for Finance, Councillor T. Schofield submitted a report that detailed major variances on performance for the third quarter of 2017/18 in relation to the Council's Key Performance Indicators, Revenue Budget Monitoring, Capital Budget Monitoring and Internal Audit. The report also provided an update on Key Performance Indicators and Strategic Risks for 2018/19.

The Executive Member confirmed that 10 of the Council's 11 key performance indicators were on target. The Executive was informed KPI 4 was a contextual

indicator and no target had been set. With regards to the financial aspects within the report, it was noted that there was a healthy underspend on the revenue budget. It was explained that this had been driven by higher than budgeted recycling prices. The Executive also noted good progress was being made on the capital programme.

The report was presented to the Overview and Scrutiny Committee on 15 March 2018 and Councillor Schofield advised that the Committee had raised a number of comments for the Executive to note which had been addressed at the meeting.

During the discussion, a number of issues were considered, including:

- Recycling prices, including market fluctuations
- The increase in Garden Waste membership numbers
- The process for recovering money that had been spent on urgent and unbudgeted health and safety work
- Acquisition fees for Forum House

It was noted that further information on the major revenue and capital variances had been set out in sections 2 and 3 of the report.

RESOLVED that the performance outlined in the quarterly performance report to December 2017 be noted and the revised Key Performance Indicators for 2018/19 and Strategic Risks for 2018/19 be approved.

Reasons for decision: To consider the performance for the third quarter of the financial year 2017/18 and to ensure appropriate arrangements for performance and risk were in place for 2018/19.

Alternative option: None.

82. PROPERTY ACQUISITIONS

There was no business to be considered under this agenda item.

83. STATEMENTS

John Jory, Chief Executive, informed the Executive that, at the end of the financial year, he was very pleased with the performance of services across the organisation and highlighted the healthy underspend on the revenue budget. Mr Jory placed on record his thanks to staff and paid tribute to Gavin Handford, Head of Corporate Policy, Performance and Legal, for work undertaken as the Council's Monitoring Officer, and to Jocelyn Convey, Head of Finance, for work delivered as the Council's Chief Finance Officer.

84. ANY OTHER URGENT BUSINESS

None.

85. EXEMPT BUSINESS

RESOLVED that members of the Press and public be excluded from the meeting for the following items of business under Section 100A(4) of the Local Government Act 1972 on the grounds that: (i) it involved the likely disclosure of exempt

information as defined in paragraph 3 of Part 1 of Schedule 12A of the Act; and (ii) the public interest in maintaining the exemption outweighed the public interest in disclosing the information.

86. APPOINTMENTS TO THE BOARD OF THE BANSTEAD COMMONS CONSERVATORS

The Deputy Leader, Councillor Dr. L. Hack, advised that the Part 2 section of the report set out background information provided by the candidates in support of their nominations.

RESOLVED that the exempt information in relation to the Banstead Commons Conservators set out in the report be noted.

87. PATHWAY FOR CARE: NEXT STEPS

Councillor Mrs R. Mill, Executive Member for Leisure and Wellbeing, explained that the report, and information set out in Addendum 1 and Addendum 2 (tabled at the meeting), set out proposals in relation to the future structure and ownership of Pathway for Care.

Councillor Mrs Mill advised that the Council had established Pathway for Care in August 2016 to offer a better care service to local residents, particularly those paying privately, by using new digital technology to help customers maintain happy, healthy and independent lives.

The Executive noted that as a new venture, the company had required investment. Councillor Mrs Mill explained the Council had provided funding in the form of the loan which had increased over time to £1.1m. Due to lower than anticipated income within the company during start-up it was noted that the company had fully drawn down the loan.

Councillor Mrs Mill advised that the company had diversified into supported living, providing high quality services in Horley and that this, together with interest from health and social care organisations for the digital care service, provided a positive outlook for future growth. However, it was noted that the company required further investment in order to maintain and grow the business. The Executive Member commented that there was no support for increasing the Council's loan to the company, and that as a result the Directors had sought external investment.

The Executive noted that the report, and information contained in Addendum 1 and Addendum 2, set out proposals for securing two significant investments and to separate the supported living and digital businesses. The report also set out relevant statutory powers, legal, financial and equalities implications, risk management and other considerations, consultation undertaken and policy framework factors.

Councillor Mrs Mill advised that on 15 March 2018 the Overview and Scrutiny Committee had considered the draft Executive report on the next steps in relation to Pathway for Care. The Executive Member attended this meeting and thanked the Committee for their time in reviewing the proposals.

In response to the Overview and Scrutiny Committee's comments, and in view of ongoing negotiations, it was noted Addendum 1 and Addendum 2 provided all Councillors with additional information. This included:

- A summary of the discussions, updates, and changes that had been made to the Executive report in relation to the proposals.
- An extract of the minutes from the Overview and Scrutiny Committee.
- Financial information relating to Pathway.
- A summary of the terms of the share transactions.
- Additional recommendations for the Executive's consideration in relation to the points addressed by the Overview and Scrutiny Committee.

Councillor Mrs Mill explained the recommendations before the Executive proposed for the Council to split the company and to sell its majority stake in each to external investors. It was noted that a complete set of recommendations had been set out in Addendum 2 (to take account of the additional recommendations arising from the Overview and Scrutiny Committee's consideration of the report).

The Executive Member concluded by stating that the proposals, whilst not how the Executive envisaged the company developing, presented a positive step for growing the business, expanding the quality of the service offered to local residents, and generating future revenue income and capital returns for the Council.

During the discussion a number of issues were considered, including:

- Shareholding arrangements for the new company.
- Accounting treatment and implications.
- The company's finances and balance sheet.
- The inclusion of a repayment of a debt financing arrangement, where the Council would provide short term lending against invoices.
- Assets in relation to digital monitoring.
- The importance of safeguarding the Council's interest in the companies
- The Council's liabilities.
- The fact a number of individuals were either benefiting from, or scheduled to benefit from, services provided by Pathway for Care.
- The importance of considering lessons learned from the experience with the company, ensuring input from both Members and Officers.

- The importance of keeping all Councillors informed as transactions for both the sale of Pathway for Care and the incorporation / other actions for the Pathway Digital Company progressed.

In view of the Companies Act 2006, issues were considered in relation to the Council's current and future representation on company boards to allow for the Council's Executive and Committee's to be fully advised. It was highlighted that the legal duties of a company and a Local Authority were very different.

The importance of pre-decision scrutiny was recognised. It was noted, in response to comments from the Overview and Scrutiny Committee and ongoing negotiations, that a number of issues had been highlighted for further consideration. These were set out in the report, Addendum 1 and Addendum 2.

During the discussion it was also identified, as highlighted in the minute from the Overview and Scrutiny Committee, that the restructured Pathway for Care company expected to have a more significant asset base. It was noted that this would improve the security of the Council's investment, although it was recognised any assets may also be subject to charges from lenders.

In response to questions about the proposed review, concerning the Council's experience with the company, it was noted that this would be led by the Council's Monitoring Officer. Clarity was provided on both the functions of the Monitoring Officer, set out in the Council's Constitution, and the role of the Monitoring Officer as the lead officer for the review. It was noted that the scope of this review, with the support of a Member Working Group, would be confirmed in due course.

The Executive was informed that in the event transactions to secure investment in the digital company were unable to proceed before or on the same date as Pathway for Care transactions, the Council would provide a loan of up to £15,000 to fund working capital of the digital monitoring company to continue operating whilst investment was finalised.

It was noted that the Mayor had authorised the disapplication of the Call-In procedure as this item was considered urgent under the Council's procedure rules.

Note: Councillor V.W. Broad, Leader, and John Jory, Chief Executive, both left the room for the consideration of this item.

RESOLVED that:

- (i) The Council purchase the remaining shareholding in Pathway for Care from T7 Group for a nominal value set out in the report;
- (ii) The Council receive 1,100,000 redeemable preference shares in Pathway for Care in exchange for the debt currently owed to the Council and the Finance Director be authorised to complete this transaction;
- (iii) The proposal to split all activities of Pathway for Care into 2 companies (the existing company Pathway for Care and a new digital monitoring company) and secure external investment for these companies be supported;

- (iv) The proposal for the Directors of Pathway for Care to transfer appropriate assets, contracts and liabilities to the digital monitoring company be noted;
- (v) The Council subscribe for 80% of the digital monitoring company 'B' shares representing 40% of the digital monitoring company's share capital;
- (vi) The Finance Director be authorised, in consultation with the Executive Member for Finance and the Head of Legal, to agree the terms of, finalise and sign all documents required to complete the purchase and sale of shares as set out in the report and summarised as follows:
 - i. Purchase of Pathway for Care shares from T7;
 - ii. Sale of 70% of Pathway for Care shares to private sector investor;
 - iii. Sale of 10% of Pathway for Care shares to Director A;
 - iv. Sale of 10% of Pathway for Care shares to Director B;
 - v. Subscription for 80% of the digital monitoring company 'B' shares representing 40% of digital monitoring company's share capital;
- (vii) Subject to advice from the Head of Legal and Finance Director, the Deputy Leader of the Council be mandated to make all shareholder decisions required to complete the transactions set out in the recommendations of this report, including:
 - i. Any new shareholder agreements
 - ii. Any new Articles of Association
 - iii. Any new Director appointments
 - iv. Any other matters reserved for shareholder consideration
- (viii) In the event that the transactions to secure investment in the digital monitoring company are not able to proceed before or on the same date as Pathway for Care transactions, the Finance Director, in consultation with the Deputy Leader of the Council and the Head of Legal, be authorised to:
 - i. Establish appropriate corporate governance structures for the digital monitoring company, including Articles of Association and Shareholder Agreement
 - ii. Determine any shareholder decisions as required
 - iii. Appoint Directors to the digital monitoring company for the purpose of finalising and agreeing investment
 - iv. Provide a loan of up to £15,000 to fund working capital of the digital monitoring company to continue operating whilst investment is finalised

In order to support the completion of Pathway for Care transactions. If these actions are required, the Head of Finance provide a report on

options for the digital monitoring company to the next meeting of the Executive.

- (ix) The comments of the Overview & Scrutiny Committee be noted and in particular the suggestion to consult with Members and Officers to consider the lessons learned from its experience with the company;
- (x) The Overview & Scrutiny Committee be thanked for their thorough consideration of the report; and
- (xi) The Monitoring Officer be requested to review the Council's experience with the company as part of a wider governance review, with the support of a Member Working Group.

Reasons for decision: The Council, as majority shareholder, must agree any investment proposals and changes to share ownership that result.

Alternative options: To reject the recommendations, and for the Council to retain majority ownership, and either increase the loan to Pathway for Care or reject the recommendations with no increase or delay making a decision to enable further negotiations.

88. **PROPERTY ACQUISITIONS**

There was no exempt business to be considered under this agenda item.

The Meeting closed at 8.28 pm

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Agenda Item 4

Executive
26 April 2018

Agenda Item: 4
Development of Unit 1, Pitwood Park



Reigate & Banstead
BOROUGH COUNCIL
Banstead | Horley | Redhill | Reigate

REPORT OF:	Head of Property
AUTHOR:	Mark Byles
TELEPHONE:	01737 276386
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TO:	EXECUTIVE
DATE:	26 April 2018
EXECUTIVE MEMBERS:	COUNCILLOR MRS N.J. BRAMHALL / COUNCILLOR MRS R. RENTON

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

SUBJECT:	DEVELOPMENT OF UNIT 1, PITWOOD PARK
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RECOMMENDATIONS:

That :

- (i) the Head of Property be authorised, in consultation with the
 - a) Head of Finance
 - b) Executive Member for Property and Acquisitions; and
 - c) Executive Member for Finance

to make the necessary consultancy appointments to progress and submit a Planning Application for the development of Unit 1, Pitwood Park, in accordance with the budget set out in the Exempt information contained in Part 2 of this agenda;

- (ii) the Head of Finance be authorised, in consultation with the Head of Property and Executive Members for Property and Acquisitions and Planning Policy, subject to key stage sign off as set out in this report to include the costs of the project within the Capital Programme as detailed in the Exempt information Part 2 of this agenda
- (iii) the Head of Property be authorised in consultation with the Executive Member for Property and Acquisitions to appoint the necessary Consultants for the redevelopment of Unit 1, Pitwood Park to prepare the necessary documentation and to obtain competitive construction tenders, subject to key stage sign off set out in this report;
- (iv) the Head of Property be authorised in consultation with the Executive Members for Property and Acquisitions and Finance to finalise, agree and sign construction contracts subject to key stage sign off set out in this report;
- (v) the Head of Property be authorised in consultation with and Executive Member for Property and Acquisitions to agree the plot sales and subsequently enter into and complete individual sales for each of the residential dwellings, on the basis outlined within this report.

REASONS FOR RECOMMENDATIONS:

The existing asset is in poor condition, represents an ongoing cost burden to the Council whilst it remains vacant and has been identified for residential redevelopment. The property is vacant and would require significant investment in order to be suitable for re-letting as an industrial unit, with the prospect of only minimal rental income for the Council for all other possible uses.

A variety of development options have been considered for the site but as the site is currently allocated for business uses, in planning terms the only alternative acceptable use is residential redevelopment, with the majority of dwellings being sold as starter homes – homes that are sold at a 20% discount to make them affordable to first time buyers (under 40 years old).

The Council's purpose of redeveloping this site is in part to help the Council to meet its 5 Year Plan aspirations to be financially self-sufficient but the primary objective being to provide homes that help address the local housing affordability challenge. This is in support of the principle adopted by the Executive in approving the Emerging Housing Policy in April 2017 that requested schemes such as this, be considered on a case by case basis to determine what accessible housing product be provided.

The recommended option will deliver shared equity homes to local residents via starter homes and a further shared equity purchase option whilst also delivering a commercially acceptable return on capital deployed.

EXECUTIVE SUMMARY:

Unit 1 Pitwood Park is an important regeneration opportunity in Preston and the Council-owned site is identified as being in need of investment/redevelopment. This has become more apparent as the existing building continues to depreciate and demand for industrial uses in the area remains low.

The property is a former industrial unit, which is vacant and in poor condition. In its existing form it is considered to be unattractive to potential industrial occupiers without substantial capital investment. The site is currently allocated for business uses and in planning terms the only alternative acceptable use is redevelopment with the majority of units being offered as starter homes.

This site has been identified by the Executive as a priority site for providing homes that help address the local housing affordability challenge in adopting the Emerging Housing Policy at its meeting in April 2017 and identified that a planning application be submitted on this site for starter homes.

Redevelopment of the site is proposed, which will require the existing building to be demolished to make way for a new development of 25 residential units, consisting of a mix of 1 & 2 bedroom flats and 2 and 3 bedroom family homes. To satisfy planning requirements for change of use, 17 of the new dwellings will be delivered as starter homes, which under government guidelines can only be sold at a maximum of £250,000 or 20% less than market value, whichever is the lower. The remaining 8 dwellings will be priced at full market value.

It is proposed that, in addition to the cap on value the starter home criteria stipulates, all 25 dwellings on the site will be sold on a shared equity basis, with the Council retaining 25%

ownership via an equity charge.

The 25% equity stake would be recouped by the Council at the time the property is sold by the first owner or through staircasing (if the owner wishes to purchase all or part of the remaining equity share at any point), noting that government guidance prohibits the sale of the homes at full market value until five years after the first sale. This Council's equity share would be secured by means of a second charge on the property and a restriction would be entered on the registered title to the property, requiring the Council's written consent to any disposal of the property. The risk to the Council of not being repaid its 25% equity stake is considered to be low in view of the measures which would be taken to protect its interest at the Land Registry.

In addition, and reflecting the financial benefits to the first owner of the considerable discount to market values that the starter home product includes, it is proposed that the Council would share in 60% of any uplift in value obtained on the purchased 75% (as the initial value of the units was capped due to their starter homes status). This would be secured by way of a clawback charge / covenant.

The financial aspects of this development are set out in the exempt information Part 2 section of this agenda.

Executive has authority to approve the above recommendations subject to approval of recommendation (ii) by Full Council.

STATUTORY POWERS

1. The Council has no statutory obligation to undertake this work but has general powers of competence under section 1 of the Localism Act 2011 to do anything that individuals with full capacity generally may do, subject to the provisions of the Act.

BACKGROUND

2. The freehold of Unit 1, Pitwood Park is owned by the Council and comprises of a 1,625 sqm disused laboratory with associated landscaping and car-parking. The industrial estate borders the Preston regeneration area to the east and south and the property is 1 mile from Tattenham Corner Train Station.
3. The property was constructed in the early 1970's as a perfume factory and laboratory and forms the southern-most end of the Pitwood Park industrial estate in Tadworth, adjacent to the railway line. The last tenant of the property vacated occupation in 2013 and the property has been vacant ever since, although the lease continued until the Council agreed to take a surrender of it in 2016.
4. An application to have the building listed was refused in 2017.
5. In the April 2017 the Executive received a report on the Emerging Housing Policy which reported that acquiring housing is challenging for many in the Borough on low to moderate incomes. By way of update to the figures tabled in that report, the average price of property in the Borough sits at £420,831¹ according to the Housing Price Index HPI, this is among the highest value the average price has been since

¹ Average price as at December 2017.

the financial crash in 2006/7. The average price of housing is more than 9 times² the average salary of a person working in the Borough.

6. The April 2017 report sought agreement by the Executive for the Council to use its property portfolio to provide housing that meets local needs on a case by case basis, rather than adopting a 'one size fits all' approach to the provision of affordable housing, including recommending the exploration of innovative models of housing delivery.

KEY INFORMATION

Current Position

7. The existing property is in poor condition and is likely to require a minimum of c. £3.5m of capital investment to bring the property to a lettable condition for any use. These works would include reroofing, major repairs to external walls, renewing and replacing all existing windows and external doors, redecoration of internal walls, floors and finishes, new boilers and electrical rewiring, new fire alarm, sprinklers and lightning protection including the removal and repair of existing services. Resurfacing work would also be required for the external car park and pathways.
8. In addition, due to the building's specialised design, these costs are expected to increase once a detailed scope of refurbishment has been agreed to bring the property into a lettable condition for the chosen use. The above figure assumes the property will continue to be used as a pharmaceutical laboratory.
9. A marketing report obtained from Stiles Harold Williams advises, even with significant capital investment to refurbish the unit, that the level of income achieved through re-letting would not provide a sufficient level of return within a reasonable period to justify the investment and that it is unlikely that there would be demand for a pharmaceutical laboratory in that area. They also conclude that projected rental values for other uses would result in an estimated 13 – 40 years (excluding inflation) before the rent obtainable would pay off the initial capital works. Further information is provided in the Exempt Part 2 section to this agenda.
10. Alternative uses for the site have therefore been considered. In accordance with paragraph 7 of the starter homes guidance to justify a departure from the current employment allocation on the site, a residential starter home scheme is required.

Development Proposals

11. The redevelopment scheme proposes the demolition of the existing industrial unit and the creation of a shared equity, traditional housing development of one and two bed flats to compliment an offer of two and three bed family homes.
12. The combination of starter homes and shared equity means that homes on this site can be made even more accessible for the type of people that the Council wishes to assist through this scheme. This is because the initial value of a starter home is capped at £250k or 80% of market value (whichever is lower), and the shared equity 'benefit' is applied to the capped value rather than the market value. Starter homes

² According to the Office of National Statistics 2017 data.

are specifically targeted at people who have not previously been a home buyer, and who are below the age of 40 at the time of purchase.

13. The proposal is outlined below:
 - 4 x one bedroom 'starter flats', sold on a 75:25 shared equity basis
 - 4 x two bedroom 'starter flats', sold on a 75:25 shared equity basis
 - 10 x two bedroom 'starter houses', sold on a 75:25 shared equity basis
 - 7 x three bedroom homes, initially marketed on a 75:25 shared equity basis
However, the demand for larger shared equity units may not be as high as for smaller units so if there is no local demand after a fixed timescale, these would likely revert to full price market units, without purchasers being subject to any qualifying criteria.
14. For all shared equity units, the equity stake would be recouped either via staircasing or on sale of the unit by the first owner. In addition, and reflecting the financial benefits to the first owner of the considerable discount to market values that the starter home product includes, it is proposed that the Council would share in 60% of any uplift in value obtained on the purchased 75% (as the initial value of the units will be capped due to their starter homes status). This would be secured by way of a further clawback charge / covenant.
15. The sale receipts upon first sale will cover the construction costs of the project. In the event that the projected development costs rise, it is proposed that a number of three bedroom homes will be offered at market value instead of the discounted value to ensure the development costs are met upon completion of all initial sales.
16. The project will be governed by key stage sign off;
 - Stage 1 - Appointment of relevant members of the professional team and sourcing necessary surveys with the submission of a planning application and an updated development appraisal.
 - Stage 2 – Appointment of consultants and surveys required to prepare and tender the construction contract.
 - Stage 3 – Review of tender costs and sales values to inform a decision to enter into a contract with a developer to construct the scheme, followed by a contract with a local agent to complete plot sales.

OPTIONS

17. The financial implications of the options below are set out in the exempt report in Part 2 of the agenda.

Option 1

18. Demolish and redevelop the property as set out above. **This is the recommended option**, which will provide another much needed homeownership option to local residents whilst also delivering the most economically viable outcome for the property. It will also contribute to the regeneration activities taking place in Preston. By retaining an interest in the development via the shared equity component of the residential units and the overage covenant, the Council will also benefit from a future income stream that accrues from the benefit of predicted growth in property values.

Option 2

19. Refurbish the existing property. **This is not the recommended option** as the property is not configured to current industrial market requirements, which severely limits potential occupier interest and rental value. Significant capital investment is required to render the unit lettable and the potential rents for all uses that would be achievable are too low to render this a viable option.

Option 3

20. Dispose of the property in its current condition. **This is not the recommended option** as, without planning permission, any sale would only happen at a deeply discounted price to reflect the poor quality of the existing property as an investment.
21. Furthermore, any opportunity for maximising the sites' potential to improve housing accessibility, income generation and profit from development for the Council will be lost, as well as any potential to control the regeneration of this site.

POLICY FRAMEWORK

22. Preston is identified in the Core Strategy 2014 as a priority regeneration area, with the site within the Preston Regeneration Area. The document states that existing housing offers do not meet the needs of local residents and that there is a lack of affordable housing options in the area – particularly for those, in line with the objectives of the Preston Planning Framework, who are able to move up the property ladder.
23. Pitwood Park Industrial Estate is identified in the emerging Development Management Plan (Regulation 19 version) under policy EMP2 – Local Employment areas, as a Local Employment Area and would generally be safeguarded from a total loss of employment space by, and unless justified by, the provisions of policy EMP4 – Safeguarding employment land and premises.
24. Limb 1. C) of policy EMP4 details that the loss of employment land and premises will only be permitted if: 'The proposal would provide a public benefit which would outweigh the loss of the employment floorspace'.
25. Paragraph 7 of the Starter Homes guidance details that: 'Starter Homes exception sites are expected to be on land that has been in commercial or industrial use, and which has not currently been identified for residential development. Suitable sites are likely to be under-used or no longer viable for commercial or industrial purposes, but

with remediation and infrastructure costs that are not too great so as to render Starter Homes financially unviable.'

LEGAL IMPLICATIONS

26. The Council has general powers of competence under Section 1 of the Localism Act 2011 to undertake any activity which an individual with full capacity may undertake. This includes improving service provision and quality of life in identified regeneration areas by developing the Council's own land.
27. The Council must show that commercial activity would benefit its area and the residents, and that the profit generated by such an activity is only ancillary to the general benefit to the residents. However, if profit is the main driver, a special purpose company must be created for that purpose.
28. The primary objective of the scheme is to provide housing options that will not be achieved by market forces and deliver regeneration of a site. Since the profit the Council would generate is ancillary to this aim, the Council does have the legal capacity to undertake the scheme in its own right and not through a company.
29. The procurement of consultants and contractors required to perform the contract will comply with the Council's Contract Procedure Rules and any applicable EU legislation.

FINANCIAL IMPLICATIONS

30. The capital and revenue implications of the proposals have been set out above and in more detail in the exempt report in Part 2 of the agenda.

EQUALITIES IMPLICATIONS

31. There are no equalities implications arising from this proposal.

RISK MANAGEMENT CONSIDERATIONS

32. The main risks for the Council in undertaking development are in terms of construction cost changes and market fluctuations.
33. However, in this case, these risks are considered to be small, as the construction programme is short. The Watercolour development at Merstham in 2008/09 delivered shared equity units which proved popular and to date around 38% have been resold since then.
34. Furthermore the projections for the housing market remain strong although there remains some uncertainty around the impact of Brexit to cost inflation and property values.

CONSULTATION

35. Portfolio Holders for Housing, Property and Acquisitions and Development Management have been consulted regarding these proposals and the April 2017 Housing Initiatives paper has been considered by Executive Members.

Background Papers:

1. Local Plan: Core Strategy
http://www.reigate-banstead.gov.uk/downloads/download/22/adopted_core_strategy_july_2014
2. 5 year plan 2015-2020
http://www.reigate-banstead.gov.uk/info/20205/plans_and_policies/280/our_5_year_plan
3. Preston Planning Framework
http://www.reigate-banstead.gov.uk/downloads/file/130/planning_framework
4. Starter homes planning practice guidance
<https://www.gov.uk/guidance/starter-homes>

Agenda Item 5

Executive
26 April 2018

Agenda Item: 5
Development of 16-46 Cromwell Road, Redhill



Reigate & Banstead
BOROUGH COUNCIL
Banstead | Horley | Redhill | Reigate

REPORT OF:	Head of Property
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TO:	EXECUTIVE
DATE:	26 April 2018
EXECUTIVE MEMBERS:	COUNCILLOR MRS N.J. BRAMHALL / COUNCILLOR MRS R. RENTON

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

SUBJECT:	DEVELOPMENT OF 16-46 CROMWELL ROAD, REDHILL
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RECOMMENDATIONS:

That:

- (i) the Head of Property be authorised in consultation with the
 - Head of Finance
 - Executive Member for Property and Acquisition; and
 - Executive Member for Finance

to proceed with a re-development of 16 – 46 Cromwell Road, Redhill that achieves a profit less than would be considered commercially viable to enable a financial contribution for off-site affordable housing (as detailed in the Exempt part of the agenda) to be made;
- (ii) the Head of Property, in consultation with the Executive Member for Property and Acquisitions be authorised to market and sell long leasehold interests of the residential flats at 16-46 Cromwell Road, Redhill, of which 50% will be sold on a shared equity basis with the Council retaining a 25% equity share.
- (iii) these proposals be noted as replacing those agreed by the Executive in April 2017.

REASONS FOR RECOMMENDATIONS:

Since initial proposals were presented to the Executive for the Cromwell Road scheme in April 2017, the indicative profit from the scheme has reduced. In commercial terms if an off-site affordable housing contribution were provided this would not allow the Council to achieve the developer profit of 15% (as previously outlined).

The Council's purpose of redeveloping this site is only in part to help the Council to meet its 5 Year Plan aspirations to be financially self sufficient with the primary objective being to support the Cromwell Road site development as a priority site for providing homes that

help address the local housing affordability challenge, hence it is proposed that on this scheme the Council take a reduced developer profit to enable a financial contribution to off-site affordable housing to be made.

In addition, to further deliver on the Executive's commitment to seek to deliver housing that meets the needs of local people (also agreed in April 2017), it is now proposed that a number of shared equity homes are provided on the Council's Cromwell Road development site.

EXECUTIVE SUMMARY:

Cromwell Road is an important regeneration opportunity in Redhill and the Council owned site is identified as being in need of investment/redevelopment. The Executive agreed in April 2017 that a redevelopment of the site be undertaken comprising demolition of the existing building and redevelopment to create a modern ground floor retail unit and 32 flats above. The residential flats are proposed to be a mix of 1 and 2 bedrooms.

Initial proposals presented to the Executive for the Cromwell Road scheme in April 2017 recognised that the financial viability of the scheme meant that on-site affordable housing provision was not appropriate, and estimated (based on a developer's profit of 15%) that a financial contribution would be made instead.

Scheme design has now been progressed and is informed by technical consultant input and site surveys, resulting in increased construction costs. This means that if the Council were to take a developer's profit of 15%, the scheme would not allow for any off-site affordable housing contribution.

In April 2017, the Executive agreed that the ability of the Council's property activities to deliver housing products that benefit local people should be considered on a case by case basis.

The Cromwell Road site has been identified as a priority site for providing homes that help address the local housing affordability challenge. It is therefore proposed that on this scheme the Council take a reduced developer profit to enable a contribution to off-site affordable housing to be made.

To further deliver on the objective of using this Council owned site to provide homes for local people, it is proposed to sell half of the flats on a shared equity basis, with the Council selling a 75% share at market value and retaining a 25% equity charge. The remaining flats would be sold on the open market and the retail unit would be retained as a commercial asset and let to a retailer.

The proposed shared equity product provides the opportunity to assist local households (who may currently be renting, or staying with friends and family) to take their first step onto the housing ladder.

The Executive has authority to determine the recommendations.

STATUTORY POWERS

1. The Council has no statutory obligation to undertake this work but has general powers of competence under section 1 of the Localism Act 2011 to do anything that individuals with full capacity generally may do, subject to the provisions of the Act.

BACKGROUND

2. Cromwell Road is an important regeneration opportunity in Redhill and the Council owned site is identified as being in need of investment/redevelopment. The Executive agreed in April 2017 that a redevelopment of the site be undertaken comprising demolition of the existing building and redevelopment to create a modern ground floor retail unit and 32 flats above. The residential flats are proposed to be a mix of 1 and 2 bedrooms.
3. In April 2017, the Executive agreed that the ability of the Council's property activities to deliver housing products that benefit local people should be considered on a case by case basis.
4. The Cromwell Road site has been identified as a priority site for providing homes that help address the local housing affordability challenge, it is therefore proposed that on this scheme the Council take a reduced developer profit to enable a contribution to off-site affordable housing to be made.
5. To further deliver on the objective of using this Council owned site to provide homes for local people, it is proposed to sell half of the flats on a shared equity basis, with the Council selling a 75% share at market value and retaining a 25% equity charge. The remaining flats would be sold on the open market and the retail unit would be retained as a commercial asset and let to a retailer.
6. The proposed shared equity product provides the opportunity to assist local households (who may currently be renting, or staying with friends and family) to take their first step onto the housing ladder. The property prices that can be achieved through the shared equity product mean that these units will be accessible to younger individuals, couples and families on low to middle incomes. It should be noted that this housing initiative is separate from the work being undertaken by the housing team and through our planning policies to deliver social and affordable rented homes via registered providers such as Raven housing Trust.
7. A planning permission will imminently be submitted for redevelopment of the Cromwell Road site for 32 x 1 and 2 bedroom flats with retail at the ground floor level.

KEY INFORMATION

Shared Equity Proposals

8. It is proposed that 50% of the residential units (ie 8 one bedroom flats and 8 two bedroom flats) be sold as shared equity units at 75% of market value, with the equity stake to be recouped either via staircasing or on sale of the unit by the first owner.

9. The schemes will be cost neutral to the Council initially (i.e. development costs will be fully recouped from initial sales receipts). Table 1 in the Part 2 section of the agenda, provides more information.
10. The shared equity model proposed (which will enable the Council to provide some homes on these sites that are more accessible to local people, especially younger/working families) is as follows:
 - i. The units are sold at 75% of market rates
 - ii. The 25% equity stake is recouped by the Council at the point the property is sold by the first owner or through stair casing (if the owner wishes to purchase all or part of the remaining equity share at any point).
 - iii. This Council's equity share would be held as a second charge on the property, with a restriction on legal title at the point of sale meaning Council approval must be obtained to any onward sale. The risk to the Council with these mechanisms in place is considered to be low.
 - iv. Local connection criteria will be used to ensure that the new homes benefit people who live or work locally.
 - v. A covenant would be used to ensure that units were not rented out privately.
 - vi. Units will be marketed as shared equity for an agreed time, however if there is no demand these will revert to market sale units. Similarly, in the event that development costs increase, the Council has the ability to alter the proportion of shared equity units to ensure that the initial scheme remains cost neutral.

Recouping the equity stake – assumptions

11. Whilst – according to the Office for National Statistics – the average person stays in their home for 11 years, we expect the units at Cromwell Road to trade on more quickly.
12. This is based on the type of units (young individuals or couples occupying smaller units can be expected to move to larger units to accommodate growing families) and also our experiences at the Watercolour development.
13. Table 2 in the Part 2 section of the agenda includes a worked example of how the Council and property owner will benefit from the shared equity model.

Affordable Housing Contribution

14. Cromwell Road site has been identified as a priority site for providing homes that help address the local housing affordability challenge, it is therefore proposed that on this scheme the Council take a reduced developer profit to enable a contribution to off-site affordable housing to be made.
15. If the Council were to take a commercial approach and seek a developer's profit of 15%, the scheme would not allow for any affordable housing contribution and this would be addressed via the usual planning channels that any commercial developer would be subject to.

OPTIONS

16. The financial implications of the options below are set out in Table 3 within the exempt report in Part 2 of the agenda.

Option 1

17. Proceed with the sale of 50% of the units on a shared Equity basis and accept a lower profit level to enable an affordable housing contribution to be made as set out above. **This is the recommended option**, which will result in the opportunity to assist local households (who may currently be renting, or staying with friends and family) to take their first step onto the housing ladder and allow additional affordable housing to be provided elsewhere in the borough via the proposed financial contribution

Option 2

18. Take a purely commercial approach to the developer achieving a greater profit and selling all residential units on a full market value basis. **This is not the recommended option** as the Council is in the position that to use its property activities not only to generate profit but also to contribute to wider social and environmental objectives, including regeneration and meeting the housing needs of local people. This is an area where the commercial market is not currently delivering.

POLICY FRAMEWORK

19. The relevant Policy Framework comprises the adopted Five Year Plan and Core Strategy. The Five Year Plan vision outlines how (amongst other things) we will become an increasingly commercial organisation, but also that we will respond to the needs and demands of our residents.
20. In the Core Strategy, Redhill is an identified regeneration area and much progress had been made to progress improvements in the adjacent Marketfield Way area and the Sainsbury's site. The redevelopment of the Cromwell Road site will deliver a significant improvement to a landmark area of Redhill and will further progress the regeneration strategy for Redhill. In addition, these 32 market and shared equity homes will contribute to the delivery of the Core Strategy target of 460 new homes a year.

LEGAL IMPLICATIONS

21. The Council has general powers of competence under Section 1 of the Localism Act 2011 to undertake any activity which an individual with full capacity may undertake. This includes improving service provision and quality of life in identified regeneration areas by developing the Council's own land.
22. The Council must show that commercial activity would benefit its area and the residents, and that the profit generated by such an activity is only ancillary to the general benefit to the residents. However, if profit is the main driver, a special purpose company must be created for that purpose.
23. In this case, the primary objective of the scheme is to achieve regeneration of a site within the RTCAAP that will not be achieved by market forces. This will generate

direct economic and social benefits to the Borough by providing additional housing and creating local jobs through re-occupation of the shop units.

24. Therefore, since the profit the Council would generate is ancillary to this aim, the Council does have the legal capacity to undertake the scheme in its own right and not through a company.

FINANCIAL IMPLICATIONS

25. The capital and revenue implications of the proposals have been set out above and in more detail in the exempt report in Part 2 of the agenda.

EQUALITIES IMPLICATIONS

26. There are no equalities implications arising from this proposal.

RISK MANAGEMENT CONSIDERATIONS

27. The main risks for the Council in undertaking development are in terms of construction cost changes and market fluctuations.
28. However, in this case, these risks are considered to be small, as the construction programme is short and the intention would be to pre-let the commercial element prior to the construction.
29. Furthermore the housing market is still strong and demand for retail premises continues to be steady.

CONSULTATION

30. Portfolio Holders for Property and Acquisitions and Finance have been consulted regarding these proposals.

Background Papers:

1. Local Plan: Core Strategy
http://www.reigate-banstead.gov.uk/downloads/download/22/adopted_core_strategy_july_2014
2. Redhill Town Centre Area Action Plan
http://www.reigate-banstead.gov.uk/downloads/download/109/redhill_town_centre_area_action_plan
3. 5 year plan 2015-2020
http://www.reigate-banstead.gov.uk/info/20205/plans_and_policies/280/our_5_year_plan

Agenda Item 6

EXECUTIVE
26 April 2018

Agenda Item: 6
Acquisition of Freehold in Redhill



REPORT OF:	Head of Property
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TO:	EXECUTIVE
DATE:	26 April 2018
EXECUTIVE MEMBER:	COUNCILLOR MRS N. BRAMHALL

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

SUBJECT:	ACQUISITION OF FREEHOLD IN REDHILL
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RECOMMENDATION:

- (i) **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 referred to in this report for investment purposes and subject to satisfactory due diligence reports being received and the details set out in the confidential report at Part II of this agenda.**
- (ii) **To note that there may be a requirement to set aside a sinking fund for budget setting purposes in accordance with the details set out in the exempt Part 2 section of this agenda.**

Reason for Recommendation:

To seek Executive authority to proceed with the usual in-depth due diligence and, if satisfied, to make arrangements for the required finance to be available to secure this freehold opportunity with the existing tenant in situ which will 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 a retail and office building in Redhill. The investment presents an off-market opportunity that the owner is willing to transact directly with the Council, subject to agreeing terms, due to the Council's covenant strength. 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 and retail pitch in the town. The freehold ownership would give the Council greater control of Redhill Town Centre with regards to potential future developments/capital improvements on site.

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 the recommendations.

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 to 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 has embarked on an Asset Management Plan of acquiring income-generating investment commercial properties. The income derived from this portfolio will provide a long term revenue stream for the authority which will be used to support service delivery across the borough.
5. Each opportunity is assessed on their own merits. Viable opportunities will be recommended to Executive individually and subject to the Council being successful in the market. The property opportunity in Redhill provides a satisfactory income stream for 5 to 10 years to an excellent covenant.
6. It is likely that the Council will be an unsuccessful bidder on a number of occasions, or due diligence may lead to a conclusion that the property is not a suitable investment. The Council, both Members and officers need to be aware of this possible outcome.

ISSUES

7. The Council has limited knowledge of potential competing prospective purchasers, although it is understood if the Council does not acquire the investment it will be brought forward for sale on the open market. It is likely the investment would attract interest on the basis of the income that the site currently produces and longer term potential redevelopment opportunities. If the Council miss this opportunity, the owner may choose to release it to the open market thereby exposing the Council to greater competition and potentially a higher asking price.
8. Heads of terms have been agreed subject to Executive approval.
9. The property occupies a recognised office and retail 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. The occupational tenants, however they will continue to pay their rent directly to the Council, providing the Council with a significant income stream, for a minimum of 5 years and potentially up to 10 years.

10. The investment opportunity will be subject to the usual due diligence process. The recommendation provides for a delegation to be put in place that will consider the findings from the surveys commissioned and investigation of legal title to inform the delegation process in relation to any unusual problems which would prevent a recommendation to proceed with the acquisition. The costs associated with this due diligence are set out in the exempt Part 2 section of this agenda.
11. 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

12. Complete the purchase of the Freehold Interest

Subject to the due diligence set out in paragraph 10, this is the recommended option. The Council will acquire an income producing investment of strategic interest in Redhill. In addition, being in control of the building could realise additional redevelopment and regeneration benefits in the future.

13. Investigate alternative property acquisitions in lieu of the one proposed

The investment property market continues to attract significant interest from investors. This investment offers an attractive yield, income and covenant strength 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. The Council will continue to look for further investment and development opportunities to meet the Corporate Plan objective. This option is not recommended.

14. Do Nothing

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

LEGAL IMPLICATIONS

15. 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.
16. 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.
17. 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.
18. Legal and valuation advice will be sought as necessary throughout the process.
19. 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

20. Any VAT payable on the purchase will be fully recoverable.
21. This acquisition will provide the Council with a substantial income, that represents an acceptable yield (return on capital), much greater than could be achieved through other cash investments.
22. The acquisition meets the Council's medium term financial strategy and provides a long-term investment income.
23. 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.
24. The occupational tenant has maintaining and insuring obligations under the terms of the occupational lease..
25. This investment is a strategic acquisition not without risk. Currently the property is let to an excellent covenant. However, it should be recognised that rental income can decrease.

URGENCY AND CONSULTATION

26. 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. The report was not ready for dispatch to the usual timescale because Heads of Terms (Subject to Board Approval) were only agreed on the 19th April.

POLICY FRAMEWORK

27. 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.

Agenda Item 7

EXECUTIVE
26th April 2018

Agenda Item: 7
Property Acquisition of Freehold in Reigate



REPORT OF:	Head of Property
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TO:	EXECUTIVE
DATE:	26 th April 2018
EXECUTIVE MEMBER:	COUNCILLOR MRS N. BRAMHALL

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

SUBJECT:	PROPERTY ACQUISITION OF FREEHOLD IN REIGATE
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RECOMMENDATION:

- (i) To authorise the Head of Property in consultation with the Head of Finance and the Executive Members for Property and Acquisitions and Finance to approve the purchase and funding for the acquisition of the Freehold interest of the property referred to in this report which is subject to a number of occupational interests, and subject to a satisfactory due diligence reports being received; and
- (ii) To note that there may be a requirement for maintenance work to be accounted at the end of the lease in the event that the Council is successful in this purchase.

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 industrial building in Reigate. The Council has been successful in agreeing terms to acquire the building. Initially, the seller thought the most appropriate method of sale was by way of auction, however it failed to achieve the final reserve price. 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 part of a recognised industrial estate 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 the recommendations above.

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 to 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 has embarked on an Asset Management Plan of acquiring income-generating investment commercial properties. The income derived from this portfolio will provide a long term revenue stream for the authority which will be used to support service delivery across the borough.

ISSUES

5. The property failed to meet its reserve price at auction and subject to Executive approval, terms have now been agreed in principle to acquire the freehold interest.
6. The property forms part of a recognised industrial estate within the town. Acquiring this freehold interest could provide development opportunities of the building and estate in the future, however the acquisition will not affect the current occupational tenants of the building as they will continue to pay their rent directly to the Council, providing the Council with a significant income stream.
7. The investment opportunity will be subject to the usual due diligence process, provided that the findings from the surveys commissioned and investigation of legal title do not identify any unusual problems. 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 exempt 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 an income producing investment and strategic interest in Reigate. In addition being in control of the building could realise additional redevelopment benefits in the future. The property and the surrounding estate have been identified in the Council's draft Development Management Plan.

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. 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.
13. There is no legal duty to consult the public on any commercial terms of the acquisition. These are matters for the authority. The Executive is entitled to determine them at its discretion, notwithstanding any previous decisions it has made, having considered the contents of this report.
14. 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.
15. Legal and valuation advice will be sought as necessary throughout the process.
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. 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 occupational tenant has maintaining and insuring obligations under the terms of the occupational lease, but maintenance of the roof is the responsibility of the Landlord, this responsibility and the condition of the roof have been taken into account in the valuation.
22. This investment is a strategic acquisition not without risk. Currently the property is let to an acceptable covenant. However, it should be recognised that rental income can decrease, but in this case it is thought the rent is likely to be higher, when the tenant renews the lease or the unit is re let.

URGENCY AND CONSULTATION

23. The recommendations for the Executive's determination would, ordinarily, be open for Members to Call-In for scrutiny. However, in order for the Council to meet the vendor's deadline and to secure the acquisition it is considered any delay to the decisions could result in the Council missing the vendor's timetable and possibly losing the acquisition which is considered not to be in the best interests of the authority.
24. The Executive is therefore asked to note that the Mayor has approved, under the above urgency grounds, that the Call-In procedure (as provided for under the Overview and Scrutiny Procedure Rule 5.15) be disapplied.

POLICY FRAMEWORK

25. 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.

Agenda Item 11

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of the Local Government Act 1972.

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