



REPORT OF:	HEAD OF PROPERTY
AUTHOR:	Steve McLeod
TELEPHONE:	01737 276571
E-MAIL:	steve.mcleod@reigate-banstead.gov.uk
TO:	EXECUTIVE
DATE:	21 JUNE 2018
EXECUTIVE MEMBER:	COUNCILLOR MRS N. BRAMHALL

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

SUBJECT:	ACQUISITION OF PROPERTY INVESTMENTS IN REDHILL
-----------------	---

RECOMMENDATION:

- (i) That the Head of Property, in consultation with the Head of Finance and the Executive Members for Property and Regeneration and Finance, be authorised to:
- a) Acquire, for investment purposes, the Freehold and Long Leasehold properties referred to in this report,
 - b) Agree any variations to the heads of terms and to the acquisition price further to external valuation advice and due diligence investigations.

Reason for Recommendation:

To obtain Executive authority to acquire, subject to the usual due diligence, three property investments in Redhill which will produce additional income to support the Council's 5 Year Plan objective to become financially self-sufficient.

EXECUTIVE SUMMARY

This report seeks authority to acquire the freehold interest and two long leasehold interests in three industrial units in Redhill. The investments present an opportunity for the Council to increase its strategic land holdings in Redhill town centre. Full details of the Council's bid, the financial implications and the property addresses are set out in the report in Part 2 of the agenda.

The properties are situated in a recognised mixed use area in the town. These freehold and long leasehold ownerships would give the Council greater control of a strategic land holding in Redhill with a view to potential future developments/capital improvements on the 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 that its residents currently enjoy and to ensure Corporate Plan objectives are met, it is essential that alternative sources of income are found to meet this shortfall. These acquisitions would provide the Council with an

additional revenue stream and an acceptable return on capital invested.

Executive has authority to determine the recommendation.

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. These acquisitions would provide an immediate financial benefit with a possible future social and environmental regeneration opportunity.
3. Whilst there is no statutory requirement to achieve best consideration on an acquisition, the Council's adopted Asset Management Plan requires that any new acquisitions add to the value of the Council's existing asset portfolio and in turn to the Council's income. These aspects are addressed in this report and in the confidential report in Part 2 of the agenda.

BACKGROUND

4. The Council's corporate plan identifies property investment and development as one of its key objectives. As Central Government funding has reduced for Local Authorities this has resulted in a budget shortfall. In order to meet this shortfall, the Council has embarked on a programme of acquiring additional income-generating commercial investment 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. It is likely that the Council will be an unsuccessful bidder on some occasions, or that due diligence following agreement of terms may lead to a conclusion that a property is not a suitable investment.
6. Each investment opportunity is assessed on its own merits. Viable opportunities will be recommended to Executive individually.
7. The acquisitions recommended in this report would provide a satisfactory income stream and potential longer term asset management opportunities..

ISSUES

8. The Council has limited knowledge of other potential competing prospective purchasers for these interests. If the Council is unsuccessful in acquiring these interests, then the longer term strategic opportunities and benefits of the site will be more difficult to bring forward in the future.
9. Heads of terms have been agreed, subject to Executive approval, and as part of the due diligence process an independent valuation will be obtained and other necessary due diligence carried out.
10. The properties are situated in a recognised mixed use area within the town and acquisition of these interests could provide future development opportunities.

11. However the acquisition will not affect the current occupational tenants of the buildings, which would provide the Council with a significant income stream for the duration of the existing leases.
12. These investment opportunities will be subject to the usual due diligence process. The recommendations provide for a delegation to be put in place that will allow for variations to the agreed terms, including the purchase price, following the valuation of the properties and other due diligence.
13. The financial implications for the Council are partly addressed in this report with the detailed financial and tenancy information set out in the confidential Part 2 report.

OPTIONS

14. Acquire the Freehold and Long Leasehold Interests

This is the recommended option. Subject to a successful due diligence process, the Council will acquire income producing investments that also provide a strategic interest in Redhill, which could realise additional regeneration benefits in the future.

15. Do not acquire these interests and investigate alternative property acquisitions

This option is not recommended. The income produced by these investments offers an acceptable return on capital plus future potential. Whilst there are always opportunities being brought to the market, the lot size, location and future potential of this opportunity makes these acquisitions an attractive proposition. The Council also will continue to look for further investment and development opportunities to meet the Corporate Plan objectives.

16. Do Nothing

This option is not recommended for the reasons set out in the report.

LEGAL IMPLICATIONS

17. 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.
18. 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.
19. 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.
20. Legal and valuation advice will be sought as necessary throughout the process.
21. 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

22. The purchase price and acquisition costs comprising stamp duty land tax, introducing agents fees, valuation advice, surveys and legal fees are set out in the Part 2 report.

23. This acquisition will provide the Council with an income stream that represents an acceptable yield (return on capital), that is better than could be achieved through cash investments.
24. The occupational tenants have repairing obligations under the terms of the occupational leases. The extent of these obligations and any additional liabilities that are the liability of the landlord will be assessed as part of the due diligence process.
25. This investment is a strategic acquisition and not without risk. Currently the properties are let. However, it should be recognised that rental income can be interrupted due to tenant default or void periods between lettings. Furthermore, there is always a risk of rental values falling due to fluctuations in the market.

CONSULTATION

26. The Leader, Deputy Leader and Portfolio Holders for Property and Regeneration and Finance have been consulted about this acquisition.

POLICY FRAMEWORK

27. The acquisition meets the objectives of the Council's Asset Management Plan and Corporate Plan objectives 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.