



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

<b>KEY DECISION REQUIRED:</b>	YES
<b>WARD (S) AFFECTED:</b>	REDHILL

<b>SUBJECT:</b>	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 19<sup>th</sup> 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.