



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.