

<b>Bath &amp; North East Somerset Council</b>		
DECISION MAKERS:	<b>Councillor Tim Warren, Cabinet Member: Leader of the Council</b> <b>Councillor Charles Gerrish, Cabinet Member: Finance and Efficiency</b>	
DECISION DATE:	<b>5<sup>th</sup> April 2017 (Rule 16)</b>	EXECUTIVE FORWARD PLAN REFERENCE:
		E 2964
TITLE:	Acquisition of an income generating office investment to incorporate within the Commercial Estate	
WARD:	N/a	
<b>AN OPEN REPORT CONTAINING EXEMPT APPENDICES</b>		
<p><b>List of attachments to this report:</b></p> <p>Appendix One – Business Case (Exempt by virtue of Paragraph 3 of Schedule 12A of the Local Government Act 1972)</p> <p>Appendix Two – Desktop Valuation Report (Exempt by virtue of Paragraph 3 of Schedule 12A of the Local Government Act 1972)</p>		

## **1 THE ISSUE**

- 1.1 This report sets out the terms of the proposed acquisition of an income generating office investment property.

## **2 RECOMMENDATION**

The Cabinet Members are asked to approve:

- 2.1 The acquisition of an office investment property.
- 2.2 Capital expenditure on the acquisition of the property and any necessary adjustments to the 2017/2018 capital budget to reflect this approval.

## **3 RESOURCE IMPLICATIONS (FINANCE, PROPERTY, PEOPLE)**

- 3.1 A budget of £53.6m was provisionally approved by Council in February 2017 for property acquisitions. Release of this funding is subject to individual business case for each investment opportunity. Total costs of the proposed acquisition are £9.12m including fees.
- 3.2 The Council's capital programme includes a provisionally approved budget of £29.1 million in 2017/18 and a further £24.5 million in 2018/19 for property acquisitions which lead to future revenue generation.

- 3.3 Of the £29.1m provisional approval for 2017/18, there are two single member decisions in process for £9.598m for the purchase of another property and £6.8m for Bath Quays South development (2017/18 spend of a £14.4m approval). This leaves a balance of £12.695m. In addition it is proposed to re-phase £3.1m unspent provisional approval from 2016/17 to 2017/18 leaving a total of £15.83m available to cover this request.
- 3.4 This report requests the full approval of the capital spend on the acquisition of this property and the necessary adjustments to the 2017/18 capital budget to reflect this approval.
- 3.5 This proposal links to the already approved Medium Term Service Resource Plan which places a requirement to generate an additional £1.475 million (net) of income from the Commercial Estate as part of the 2017-18 to 2019-20 budget period.
- 3.6 The acquisition costs will be funded by service supported borrowing, costs of which have been factored in against future rental income projections.

#### **4 STATUTORY CONSIDERATIONS AND BASIS FOR PROPOSAL**

4.1 In terms of the Corporate Strategy this acquisition has direct relevance in the following areas:

- A Strong economy & growth – The Council is able to exercise active management over its property holdings and seek to ensure a varied portfolio mix and diversification of risk.
- An efficient business – this acquisition contributes significantly towards achieving the Council’s strategic review targets as well as the Directorate Plan income generation aspirations.

4.2 In line with the Council’s Financial Plan the income will be earmarked to protect frontline services, including the provision of adult social care; children and environmental services pursuant to the Council’s general power of competence under s.1 Localism Act 2011.

4.3 The acquisition of the property is in pursuance of the benefits (and in particular those of an economic nature) that it will confer upon the Council and its area, in accordance with s120 of the Local Government Act 1972. The acquisition aligns itself with the emerging strategy for the future management of the Council property portfolio.

4.4 The economic benefits conferred to the Council and its area specifically include:

- 4.4.1 Diversification and mitigation of risk to the portfolio, in terms of location, sector and type;
- 4.4.2. Council resourcing - the acquisition will provide resources required to assist in the delivery of the Council frontline services, which benefits the Council and its area directly; and

4.4.2. Opportunity – There are limitations in terms of demand and supply from being geographically constrained. By seeking opportunities within an appropriate drive time distance and within the LEP and other neighbouring areas, outside B&NES, provides exposure to a larger number of significant assets which provides scale.

## **5 THE REPORT**

- 5.1 The Council has been given an opportunity to purchase the freehold interest of an office investment which generates revenue income from a single occupational lease with a passing rent of £623,815 per annum and generating an initial net income after debts costs of £269,632 per annum.
- 5.2 The lease contains a “Tenant’s only” break option in 2022, with an agreed rent free period (equivalent to rent of £437,097) if the break is not activated by the tenant. The Council will seek to negotiate a stepped rent with the tenant at this point which could spread the impact over the remaining 5 years of the lease. The estimated revised net income after debt costs would be in the region of £182,000 per annum for the period 2022 to 2027 after allowing for the rent free period.
- 5.3 In accordance with the emerging acquisition strategy this opportunity is located outside of the Council’s geographical area.
- 5.4 The tenant is Highways England Company Limited and is deemed of undoubted, excellent covenant strength.
- 5.5 The Property, which is detached, was constructed in 2007. It comprises approximately 30,430 sq ft (2,827 sq m) of Grade ‘A’ specification office accommodation on ground and two upper floors. It has car parking for 122 cars, providing a car parking ratio of 1:249 sq ft.
- 5.6 The Property is held freehold. It is subject to a new occupational lease for a term of 10 years expiring 30<sup>th</sup> June 2027 with a five yearly rent review. There is a tenant only break option as at 30<sup>th</sup> June 2022. If the break is not exercised the tenant is entitled to an additional rent free period of nine months and two weeks. The Lease commenced 21<sup>st</sup> December 2016 although the rent commencement date is 4<sup>th</sup> January 2018. The Vendor is ‘topping up’ the rent so that the investment purchase is effectively income producing from completion of the transaction.
- 5.7 An external acquisition agent (Jones Lang La Salle) has been engaged to assist with the purchase and an independent Valuer (Knight Frank LLP) to support the business case.
- 5.8 An offer to acquire the property was prepared in accordance with the advice received from the advising agents, as set in Appendix One.
- 5.9 Location and site plans are included in the appendix to this report.

5.10 The offer is subject to Cabinet Member approval to the items contained in paragraph 2.

5.11 The acquisition is to be funded through long term borrowing.

5.12 A more detailed analysis of the acquisition and a supporting business case is provided within the appendix attached to this report.

## **6 RATIONALE**

6.1 The rationale for these decisions is largely on a value for money basis, having considered the risks to the Council of not taking them.

6.2 The rationale for the recommendation is supported by documents in the accompanying Appendix.

## **7 OTHER OPTIONS CONSIDERED**

7.1 None

## **8 CONSULTATION**

8.1 The decision is being taken under the special Urgency provisions of the Council's constitution (Rule 16). The Chair of the Resources Policy Development and Scrutiny Panel has agreed that special urgency provisions apply. The comments of the Chief Executive, Monitoring Officer (Head of Legal and Democratic Services) and Chief Financial Officer were also obtained. The Strategic Director for Resources has been consulted.

## **9 RISK MANAGEMENT**

9.1 A risk assessment related to the issue and recommendations has been undertaken, in compliance with the Council's decision making risk management guidance.

<b>Contact person</b>	<i>Richard Long 01225 477075/477363</i>
<b>Background papers</b>	None
<b>Please contact the report author if you need to access this report in an alternative format</b>	