Bath & North East Somerset Council		
DECISION MAKERS:	**Councillor Tim Warren, Cabinet Member: Leader of the Council** **Councillor Charles Gerrish, Cabinet Member: Finance and Efficiency**	
DECISION DATE:	**On or after 22nd July 2017**	EXECUTIVE FORWARD PLAN REFERENCE: E 2990
TITLE:	Acquisition of an income generating office investment to incorporate within the Commercial Estate	
WARD:	N/a	
AN OPEN REPORT CONTAINING EXEMPT APPENDICES		
List of attachments to this report: Appendix One – Business Case (Exempt by virtue of Paragraph 3 of Schedule 12A of the Local Government Act 1972 Appendix Two – Valuation Report (Exempt by virtue of Paragraph 3 of Schedule 12A of the Local Government Act 1972		

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 £9.565m 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, single member approvals have been obtained for £18.718m (£9.598m in March and £9.12m in April for the purchase of two properties). In addition it is proposed to re-phase £3.14m unspent provisional approval from 2016/17 to 2017/18 leaving a total of £13.5m currently available.

3.4 This report requests the full approval of the capital spend on the acquisition of this property.

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. The business case assumes long term borrowing for the entire purchase and on this basis the level of annual rent of £552,800 offers good value for money as it delivers net income after borrowing costs on an annual basis of £198,000 which is a 2.1% yield on the initial investment, as well as providing the economic benefits as set out in paragraph 4.4 of this report.

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. The investment 'Property' comprises two semi-detached buildings that are linked internally. The Property is let to a single occupier. The passing rent is £552,800 per annum which will generate a current income, after payment of the Council's debts costs (based on the expected annuity loan rate), of £198,504 per annum, after the first year. (At year 1 the repayment charges are less and the return, net of debt charges will be £332,663). In practice, it may be possible to fund part of the acquisition from other commercial estate capital receipts and on this basis £2.5m of the funding will initially be taken as short term borrowing. This increases the annual returns in the short term by around £93,000.

5.2 There are separate occupational leases (a current lease and a reversionary lease) relating to the two individual buildings. The expiry for both reversionary leases is 29th September 2026, therefore there is approximately 9.28 years remaining. There is a rent free period which comes into effect from 30th September 2017 for approximately eleven months until 17th August 2018. The vendor will 'top up' this rent free period so that the cash-flow to the Council is effectively continuous.

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 considered to be of strong covenant strength.

5.5 The Property, comprising two buildings, was constructed around 2000 and provides approximately 30,554 sq ft (2,838.56 sq m) of Grade 'A' specification office accommodation on ground and first floor. It is capable of being let either as a whole or by way of two individual buildings and on a floor by floor basis. Car parking is provided for both buildings.

5.6 Due diligence is being undertaken by the Council's legal adviser and a report on title is being prepared. The information provided via the Vendor's agent and solicitor indicates that the Property is held freehold. Building 'A' is subject to an occupational lease dated 8th November 2001 for a term expiring 29th September 2017. There is a reversionary lease for this building commencing on the 30th September 2017 dated 23rd November 2011, which is for a term of nine years. The rent review dates are 24th June 2020 and 24th June 2025. The rent is £202,300 per annum.

5.7 The occupational agreements are similar for Building ‘B’. The current lease is dated 25th July 2001, and expires on 29th September 2017. A reversionary lease commences from 30th September 2017 and is for a term of nine years. The passing rent is £350,500 per annum. A similar rent free period is granted which will be ‘topped’ up by the Vendor.

5.8 The combined rent for the Property is £552,800 per annum.

5.9 Both leases are on full repairing and insuring terms. There is a park service charge which is payable by the Landlord but passed to the tenant by way of further rent.

5.10 An external acquisition agent has been engaged to assist with the purchase and an independent Valuer to support the business case.

5.11 The investment sale has been competitively marketed and a number of parties have been interested, submitted bids and a second round ‘best and final offers’ sought. Following advice received from the Council’s purchasing agent an offer to acquire the property was prepared and terms (conditional) have been agreed in principle. The business case is set out in Appendix One.

5.12 The valuation report in Appendix Two confirms the purchase price to represent market value although it is stated that they view the purchase price agreed falls at the ‘highest end of a tolerable range.’

5.13 Location and site plans are included in the valuation report in Appendix Two.

5.14 The offer is subject to Cabinet Member approval to the items contained in the ‘Recommendation’ section above.

5.15 The acquisition is to be funded principally through long term borrowing.

5.16 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. Documents to support the rationale are contained in the 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 15). The Chief Executive, Monitoring Officer (Head of Legal and Democratic Services), Section 151 Officer, Chief Financial Officer and the Strategic Director for Resources have been consulted. The Chair of the Resources Policy Development and Scrutiny Panel has been informed.

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.

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