

Joint Single Member Cabinet Decision

**Executive  
Forward Plan  
Reference**

**E 3087**

**RULE 16 Property acquisition**

<b>Decision makers</b>	Councillor Charles Gerrish, Cabinet Member: Finance & Efficiency; Councillor Tim Warren, Cabinet Member: Leader of the Council.
<b>The Issue</b>	Acquisition of income generating investments to incorporate within the Commercial Estate to move to full approval from provisional.
<b>Decision Date</b>	11 <sup>th</sup> September 2018
<b>The decision</b>	<p>The Cabinet Members approve:</p> <p>1.1 The acquisition of two investment properties which are in accordance with external legal advice but noting that the purchase of one of the properties does not meet with MHCLG guidelines as it is outside of the Bath and North East Somerset boundary; and</p> <p>1.2 Capital expenditure on the acquisition of the properties and any necessary adjustments to the 2018/2019 capital budget to reflect this approval.</p>
<b>Rationale for decision</b>	<p>The rationale for the decision is largely on a value for money basis, having considered the risks to the Council of not taking it.</p> <p>The decision is being made in accordance with Rule 16 of the Council's constitution. It would generally be an ordinary single member decision but to enable the transactions to complete successfully it is necessary to use the Council's urgency procedure.</p> <p>The urgency arises as a result of the owner of one of the properties requiring completion by a specified date from the agreed heads of terms in September 2018 or risk placing the investment back on the market. The acquisitions are subject to appropriate due diligence for transactions of this nature.</p>
<b>Financial and budget implications</b>	<p>The Report refers.</p> <ul style="list-style-type: none"><li>• A budget of £47.5m was provisionally approved by Council in February 2018 for property acquisitions which lead to further revenue regeneration. Release of this funding is subject to a business case.</li><li>• Total costs of the proposed acquisitions are £12,170,000. This includes an estimated budget in respect of professional fees (as due diligence is on-going) and contingency.</li><li>• The report requested the full approval of the capital spend on the acquisition of two properties.</li><li>• The 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</li></ul>

	<p>Commercial Estate as part of the 2017-18 to 2019-20 budget period.</p> <ul style="list-style-type: none"> <li>• The acquisition costs will be funded by service supported borrowing, costs of which have been factored in against future rental income projections.</li> </ul>
<p><b>Issues considered (these are covered in more detail in the report)</b></p>	<p>The Report refers.</p> <ul style="list-style-type: none"> <li>• The Council has been given an opportunity to purchase two properties both of which are freehold acquisitions.</li> <li>• Investment 'Property One' is an industrial unit with office, production and warehouse accommodation which extends to approximately 41,400 sq ft (3,846.16 sq m).</li> <li>• The property, which lies just on the border with B&amp;NES, is newly constructed.</li> <li>• The Council will acquire the property with an occupational lease in place for a term of 15 years. The initial rent of £370,000 per annum will generate an income, after payment of the Council's debts costs of £144,050 per annum, after the first year. There is a rent free granted, but this will be 'topped up' by the Vendor. There will be 2% fixed annual increases built into the lease.</li> <li>• A purchase price of £5,750,000 has been agreed.</li> <li>• The property has a very high office to industrial use accommodation (a ratio around 50:50). It is capable of being split into component parts.</li> <li>• In accordance with the Commercial Estate Investment Strategy 2018/19 the Council is looking to diversify its portfolio.</li> <li>• The proximity to the B&amp;NES border means that the ability to manage the asset, in-house, is facilitated.</li> <li>• Investment 'Property Two' is located within the Council's geographical area.</li> <li>• The property comprises a purpose built food-store and six retail units. It was constructed in the 1980s and provides approximately 36,383 sq ft (3,379.98 sq m) of accommodation.</li> <li>• The initial rent of £415,761 per annum will generate a current income, after payment of the Council's debts costs of £190,923 per annum, after the first year.</li> <li>• Approximately 83% of the total income is secured to the food-store, the remainder is a mix of national (6%) and local covenants (10%). The weighted average unexpired lease term is 6.39 years to expiry and 6.13 years to a break option (on the food-store). A purchase price of £5,700,000 has been agreed.</li> <li>• External acquisition agents have been engaged to assist with the purchases and also independent Valuers to support the business cases.</li> <li>• The acquisitions are to be funded through long term borrowing.</li> </ul>

<b>Consultation undertaken</b>	<p>The comments of the Monitoring Officer (Head of Legal and Democratic Services) and Chief Financial Officer were obtained. The Chief Executive (on behalf of the Corporate Director responsible for Economy and Growth) and Director of Economy and Growth have also been consulted).</p> <p>The Monitoring Officer has confirmed that Rule 16 could apply. The Chair of the Resources Policy Development and Scrutiny panel has been consulted about the urgency of the decision and has confirmed that the matter is regarded as urgent.</p>
<b>How consultation was carried out</b>	<p>Consultation has included oral and written communication (including observations and commentary) which have been considered and included within the Report.</p>
<b>Other options considered</b>	<p>None.</p>
<b>Declaration of interest by Cabinet Member(s) for decision, including any dispensation granted:</b>	<p>None</p>
<b>Any conflict of interest declared by anyone who is consulted by a Member taking the decision:</b>	<p>None</p>

<b>Signatures of Decision Makers</b>	<p>Charles Gerrish</p> <p>Tim Warren</p>
<b>Date of Signature</b>	<p>September 2018</p>