

Joint Single Member Cabinet Decision

**Executive
Forward Plan
Reference**

E 3134

RULE 15: Property acquisition

Decision makers	Councillor Tim Warren, Cabinet Member: Leader of the Council; Councillor Charles Gerrish, Cabinet Member: Finance & Efficiency.
The Issue	Proposed acquisition of an income generating investment.
Decision Date	18 th February 2019
The decision	<p>The Cabinet Members agree:</p> <p>1.1 The acquisition of an investment property which is in line with MHCLG guidelines as it is within the Bath and North East Somerset boundary; and</p> <p>1.2 Capital expenditure on the acquisition of the property and any necessary adjustments to the 2018/2019 capital budget to reflect this approval.</p>
Rationale for decision	<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 15 of the Council's constitution. It would generally to be an ordinary single member decision but to enable the transaction to complete successfully it is necessary to use the Council's urgency procedure.</p> <p>The urgency arises as a result of the terms of sale requiring that the Council exchanges contracts and completes the transaction within a specified timescale. The acquisition will be subject to appropriate due diligence for a transaction of this nature.</p>
Financial and budget implications	<p>The Report refers.</p> <ul style="list-style-type: none">• Total costs of the proposed acquisition are £18.93m including fees.• A budget of £47.5m was provisionally approved by Council in February 2018 for property acquisitions and is currently forecast at £43.7m for 2018/19 in the Council budget setting papers.• This report requests the full approval of the capital spend on the acquisition of this property.• 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 Commercial Estate as part of the 2017-18 to 2019-20 budget period.• 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

	<p>purchase and on this basis the level of annual rent of £980,624 offers good value for money as it delivers net income after borrowing costs on an annual basis of £279,439 which is a 1.48% yield on the initial investment, as well as providing the economic benefits as set out in the report.</p>
<p>Issues considered (these are covered in more detail in the report)</p>	<p>The Report refers.</p> <ul style="list-style-type: none"> • The Council has been given an opportunity to purchase the freehold interest of an investment in an ‘off market’ transaction. • The decision is being taken under the special Urgency provisions of the Council’s constitution (Rule 15). The urgency arises as a result of the terms of sale requiring that the Council exchanges contracts and completes the transaction within a specified timescale. • The opportunity is located within the Local Authority area boundaries. • The investment opportunity is let to three tenants. The leases vary in length and covenant strength. The first lease event is an expiry in March 2023, followed by other possible lease events, in 2031 and 2043. The rent is £980,624 per annum and after payment of the Council’s debt costs (based on the expected annuity loan rate, and the assumed acquisition date of 1st March 2019), a net income of £279,439 per annum, after the first year, will be receivable. • A purchase price of £17,850,000 has been agreed in principle. In addition the Council’s acquisition costs total £1,080,000. • At the time of reporting Creditsafe Ratings for the tenants considered the investment to be secured by strong covenants. • An external acquisition agent has been engaged to assist with the purchase and an independent Valuer to support the business case. • The valuation report confirms the purchase price represents market value. The report states that the agreed purchase price and resulting yield profile produced falls within the higher range of what they deem acceptable to investors and may not be replicated in the market. However, they are of the opinion that it represents the market value of the Property. • The acquisition is to be funded principally through long term borrowing.
<p>Consultation undertaken</p>	<p>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 Corporate Director responsible for Economy and Growth Resources have been consulted. The Chair of the Resources Policy Development and Scrutiny Panel has been informed.</p>
<p>How consultation was carried out</p>	<p>Consultation has included ‘Face to face’ meetings, telephone conversations and written communication (including observations and commentary) which have been considered and included within the Report.</p>

	The Chair of the Resources PDS panel has also been informed about the urgency of the decision.
Other options considered	None.
Declaration of interest by Cabinet Member(s) for decision, including any dispensation granted:	None
Any conflict of interest declared by anyone who is consulted by a Member taking the decision:	None

Signatures of Decision Makers	
Date of Signature	