

CABINET
29 SEPTEMBER 2016**ACQUISITION OF WILDWOOD OFFICE, WORCESTER**

Relevant Cabinet Member

Mr A C Roberts

Relevant Officer

Interim Director of Commercial and Change

Local Member

Mrs P Agar

Recommendation

- 1. The Cabinet Member with Responsibility for Transformation and Commissioning recommends that Cabinet:**
 - (a) agrees in principle to seek to acquire the freehold of Wildwood Office, Worcester;**
 - (b) approves the maximum financial limit as set out in the exempt finance report at Appendix 1, within which negotiations over the purchase price for the freehold interest will be conducted;**
 - (c) recommends that Council approves the addition to the Capital Programme set out in the exempt finance report at Appendix 1 and that the capital cash limits are updated accordingly in due course to reflect the actual cost of acquisition; and**
 - (d) delegates to the Interim Director of Commercial and Change in consultation with the Cabinet Member with Responsibility for Transformation and Commissioning, and in consultation with the Chief Finance Officer, the authority to negotiate the final contract and the subsequent purchase within the limits set by this report.**

Background

- 2. In March 2016 Cabinet approved a report which detailed the new Property Asset Strategy promoting ways to exploit opportunities to provide the best value from our assets and reduce costs to the taxpayer. Acting on this strategy and the Council's drive towards self-sufficiency, discussions have been opened with the owners of Wildwood office on the Council's interest in negotiating a purchase of the freehold interest.**

3. In September 2004 the Council took a 30 year lease of the newly completed Wildwood office complex which consists of approximately 5990sqm (64,500sqft) of office space on the ground and first floor with 155 parking spaces. The decision was made to provide a single site solution near to County Hall to reduce the number of costly city centre sites and the travelling time and staff costs incurred travelling to and from County Hall. The extra office space also helped relieve the increasing pressure experienced at the time for additional staff accommodation at County Hall.

4. Last year the freeholder of Wildwood, The Trustees of the Merchant Place Property Syndicate 35, offered the Council the opportunity to purchase the freehold. 'Sales details' were prepared for the Council but the Council's advisors report that the property has not been widely advertised on the open market. The property is offered for sale as an investment opportunity seeking offers based on an acquisition price of £10,700,000 for the freehold. In addition to the purchase price, acquisition would incur Stamp Duty Land Tax at 4% plus professional and other associated fees, raising the total cost to approximately £11,290,000 based on this asking price. Although there is flexibility on the purchase price to be negotiated there needs to be a commitment from the Council that it is seriously interested before these negotiations can be developed to a conclusion.

5. The Council holds a lease on this property with a further 18 years to run. The lease does not contain a break clause so the Council is locked into this arrangement for the full period. The current rent is £678,845 per annum, with upwards only rent reviews every 5 years based on comparable market values. The next rent review is due in November 2019. In addition to this the Council has to meet all other premises-related outgoings.

6. The lease contains a restrictive alienation clause that requires specific landlord approval to any arrangement involving sub-letting parts of the building and is subject to strict conditions and will only permit two sub-leases. The landlord's consent is also required for arrangements where employees from other organisations join county staff in collaborative working initiatives based in this property. Getting Landlord's approval requires the Council to meet the landlord's fees and is time consuming. The Council's Directorate of Adult Services and Children, Families & Community teams occupy space on the ground and first floors and there is a Multi-Agency Shared Hub operating from the building. The Council has also sub-let the west wing of the ground floor to NHS Worcestershire for their Patient Flow Centre.

7. The lease also requires the Council to fully maintain the property to a specified standard and the Council has created and maintained a reserve from its corporate maintenance budget enabling it to meet these commitments.

Financial and Non-Financial Benefits

8. A detailed financial appraisal of this proposal is contained in the exempt finance report at Appendix 1. The first method compares both the long-term position of either continuing to rent for the period of the lease or acquiring the freehold of the property and then disposing of the freehold at year 19 which would be the end of the notional lease term (i.e. today's cost of the property over the same time period in both scenarios). Secondly it demonstrates the practical impact on the Council's budget year on year over a 25 year loan period if the Council were to borrow to purchase the freehold of the property. The financial appraisal is based on a recent independent valuation reflecting the RICS valuation standards (Red Book), noting that this valuation is below the owner's valuation set out in paragraph 4. The appraisal demonstrates in both methods of assessment that to purchase the freehold at this value presents the preferred option in the long-term as it provides a saving as opposed to the cost of leasing. It also shows that the loan payments each year can be managed within the current budget allocated for the annual rental payment, so requiring no further pressure to increase the existing budget.

9. The cost benefits are based on the Council retaining ownership for at least the period of the unexpired lease term. However, the initial asking price is higher than the valuation provided by the Council's professional advisors set out in the exempt finance report at Appendix 1 and at the asking price the impact on actual cash flow through the Council's accounts would exceed existing budget provision beyond the length of the unexpired lease term. It is not, therefore, considered to be financially feasible or value for money to acquire the property at the asking price but it is justified at the value within the financial appraisal.

10. There are also operational and management benefits associated with ownership rather than continuing to lease this property and if acquired at the right price this would provide significant advantages. Ownership of the property would remove the restrictions on the number of sub-lettings and the Council will have the freedom to arrange any number of sub-leases and flexible joint services based in the building. This would remove the need, time and costs of obtaining landlord's consent and improve the Council's ability to increase flexibility of use and potential income from this property.

11. Ownership would remove the existing maintenance commitment under the lease which dictates when certain maintenance has to be carried out and so would enable a more flexible maintenance regime to be adopted. It would also eliminate any final claim from the landlord for dilapidations at the end of the lease term.

12. The way the public sector works now is significantly different to when the lease was originally signed and will continue to change over years to come. The Wildwood building demonstrates some great examples of where different public sector organisations work closely together for the benefit of residents. Our property portfolio needs to reflect such a resident centric, "whole system" approach to delivering

outcomes by being flexible. Dependent on price, this potential sale provides such an opportunity.

Legal, Financial and HR Implications

13. Authority to enter into property transactions is requested to be delegated to the Interim Director of Commercial and Change in consultation with the Cabinet Member with Responsibility for Transformation and Commissioning, and in consultation with the Chief Finance Officer on the basis that this proposal will only be effected where there is no detrimental impact on the Council's revenue budget cash limits as the loan payments to finance the purchase will be funded from the existing budget for rent payments which will no longer be required.

14. The scale and strategic nature of this proposal is a key decision hence Cabinet approval is being sought to both the principle of acquisition and to the financial limits within which negotiations can be conducted. A decision by Cabinet to seek to acquire the freehold of the property will require full Council to subsequently agree to amend the Capital Programme to make financial provision to enable such a decision to be enacted.

15. It should be noted that the valuation of the property may be affected should the transaction be achieved given that the existing leasehold would be extinguished following the purchase. This is fully considered within the exempt finance report at Appendix 1.

16. All financial implications are covered in detail in the exempt finance report at Appendix 1 and there are no HR implications.

Privacy and Public Health Impact Assessments

17. There are no privacy or public health implications associated with this matter.

Equality and Diversity Implications

18. There are no equality and diversity implications associated with this decision.

Supporting Information

- Appendix 1 – Exempt Finance report for Cabinet members only. (This Appendix is NOT FOR PUBLICATION as supporting information as it discloses information in relation to the financial or business affairs of any particular person (including the local authority holding that information) and the public interest is better met by its non-disclosure as it contains commercially confidential information relating to the financial aspect of this proposal).

Contact Points

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Background Papers

In the opinion of the proper officer (in this case the Interim Director of Commercial and Change) the following are the additional background papers relating to the subject matter of this report:

Agenda and background papers for the meeting of the Cabinet held on 3 March 2016