

CABINET

Visitor Information Centre, The Platform, Morecambe Urgent Business

Report of Chief Officer (Resources)

PURPOSE OF REPORT			
To seek approval to acquire the 999 year lease for the above premises either by way of a pre-auction offer or through the auction process.			
Key Decision	<input checked="" type="checkbox"/>	Non-Key Decision	<input type="checkbox"/>
			Referral from Cabinet Member
Date of notice of forthcoming key decision	25 June 2015		
This report is exempt from publication by virtue of paragraph Schedule 12a of the Local Government Act 1972.			

RECOMMENDATIONS OF CHIEF OFFICER (RESOURCES)

- (1) That Officers be authorised to acquire the unexpired 999 year lease for the VIC Offices at the Platform, Morecambe, either through pre-auction negotiations or through participation in the auction, subject to a maximum valuation ceiling of £300K.

Note- the recommended maximum valuation ceiling was amended to £310,000 when the Chief Executive and Cabinet Members were briefed.

- (2) That the Capital Support Reserve be used to finance any acquisition, with any additional incidental costs being met from existing revenue budgets.
- (3) That (1) and (2) above be subject to consultation being undertaken with a view to waiving call in, in accordance with Overview and Scrutiny Procedure Rule 17, to enable the decision to be implemented immediately.

1.0 Introduction

- 1.1 An opportunity has arisen to acquire the unexpired 999 year lease for the Visitor Information Centre adjoining the Platform in Morecambe. The current

owners plan to dispose of their interest in the premises at an auction to be held in London on 09 July with the guide price set at £275,000.

- 1.2 In order to take part in the auction, the Council must register by Tuesday 07 July and make available a deposit of 10% of the guide price. Any participation would be undertaken on line or by phone.
- 1.3 The City Council currently leases the premises from the current owner on a 25 year lease which expires on the 30 November 2022. The current rent is £24,800 p.a. but is subject to a rent review on the 1st December 2017 so there is the possibility that this figure may increase as a result.

2.0 Proposal Details

- 2.1 Even in these times of austerity, and whatever the Council's long term plans for the Platform's current operations or the asset itself, a compelling business case exists for the council to acquire the unexpired term of the 999 year lease for this premises. As the Council already holds the freehold for the premises, upon purchase the 999 year lease would effectively disappear and revert back to the Council's unfettered freehold tenure.
- 2.2 In simple terms, the estimated cost to the Council of this current lease up to its termination date in roughly 7 years' time is approximately £175K plus the cost of all dilapidations required which would be agreed at the end of the lease term. By purchasing the unexpired term of the 999 year lease the council would both reduce this outgoing revenue stream and gain a saleable asset. Furthermore, as the Council also owns the freehold on the adjoining Platform, there would no doubt be some additional marriage value in securing both premises under Council ownership.
- 2.3 There would also be operational benefits for the Council in terms of the Visitor Information Centre being the obvious front door/shop front to the Platform, and so acquiring the unfettered freehold would allow greater control and flexibility over the future use of the building.
- 2.4 The council has identified a maximum budget of £300K to acquire the premises although Officers would aim to pay less than this financial ceiling. Early stage market research has revealed that yields in this area are in the region of 8-9% which is fairly consistent with that of the 9.02% being advertised by the auctioneer in order to justify the premises guide price of £275K.
- 2.5 Until the Council has determined its affordable priorities going forward and achieved a financially sustainable budget (i.e. one that is balanced in the medium to longer term), there is inevitably doubt over the future operations of both the Platform and the Visitor Information Centre in their current form. There is little doubt, however, that the acquisition of the Visitor Information Centre at or below the proposed maximum financial ceiling would represent good value for money.
- 2.6 Whether or not the existing uses continue, or the premises are disposed of jointly or used to contribute towards regeneration in the area, the reduced outgoing revenue stream and increased marriage value make this a compelling if somewhat opportunistic investment.

3.0 Options and Options Analysis (including risk assessment)

	Option 1	Option 2: Authorise Officers either to:	
	Do Nothing	Purchase through pre-auction offer	Or purchase at auction (ceiling of £300K)
Advantages	No additional capital implications. The Capital Support Reserve would remain available for other purposes.	Revenue savings. Acquisition of a saleable asset. Enhanced marriage value in bringing the Platform and VIC together under the same freehold.	Revenue savings. Acquisition of a saleable asset. Enhanced marriage value in bringing the Platform and VIC together under the same freehold.
Disadvantages	The council would miss an opportunity to benefit from gaining the unfettered freehold and the potential marriage value of the Platform and VIC.	There would be an up-front capital cost – using up the available balance of the Capital Support Reserve.	There would be an up-front capital cost – using up the available balance of the Capital Support Reserve.
Risks	Potential future uncertainties of a new landlord.	May be rejected. There could be potential for the Council to acquire for less at the auction.	May be outbid. There could be potential for the council to acquire for less by making a pre-auction offer.

4.0 Officer Preferred Option (and comments)

4.1 Option 2 is the preferred option. Depending on circumstances and information available leading up to the auction, a pre-auction offer may be made or alternatively, Officers may simply participate in the auction. Either way, there are opportunities and risks. If Officers seek to secure the acquisition ahead of the auction, currently there is no basis on which to offer more than the guide price. Also, if the property is acquired through one route, there is no way of knowing whether a better price could have been achieved through the other route. (The only circumstance in which this would be known is if a pre-auction offer is turned down, but then the Council goes on to be successful at auction, at a lower price). Such risks must be accepted.

4.2 A maximum ceiling of £300K is proposed, as this gives some leeway in the event that bidding exceeds the guide price of £275K. Whilst Officers have

attached an indicative valuation of £240K to acquiring the lease, on top of this there would be some marriage value gained, given that the Council owns the freehold of the adjoining Platform venue. This has a potential value of £50K, but this is only an indication and clearly the value of property will be affected by the economy generally and how Morecambe is perceived by potential investors. Also, the acquisition would enable annual net savings to be gained. Drawing on all these factors, £300K seems a reasonable ceiling but there is no single 'right' amount and so another ceiling could be considered – but any increase would need to be financed.

5.0 Conclusion

- 5.1 Acquisition of this premises for a price below the Council's identified financial ceiling is considered good value for money no matter what the future holds for the premises.

RELATIONSHIP TO POLICY FRAMEWORK

Whilst generally the Council seeks to reduce its property holdings as part of its property rationalisation, this proposal would simplify the property interests in the Platform/VIC Offices and give greater flexibility, in support of the Council's future priorities.

CONCLUSION OF IMPACT ASSESSMENT

(including Health & Safety, Equality & Diversity, Human Rights, Community Safety, HR, Sustainability and Rural Proofing)

There are no direct implications arising.

LEGAL IMPLICATIONS

There are no other specific legal implications arising at this time. Legal Services would be involved as appropriate in the acquisition process.

FINANCIAL IMPLICATIONS

A very simple summary of the financial appraisal is provided below, up to the end of the current lease period. Given the relatively short period, the amounts involved and the proposed method of financing, discounted cash flow appraisal has not been used. Instead, cash figures have been used. Final figures will depend on any actual purchase price.

It is proposed to use the available balance on the Capital Support Reserve of £299K to finance any acquisition, although the maximum ceiling has been fixed at a rounded £300K (revenue budgets would be used to finance any minor difference and other purchase costs).

Clearly this would mean that the Capital Support Reserve would not be available for any other purpose (such as for covering off any shortfalls in other receipts). These risks are considered manageable however. For example it is known that opportunities to generate additional capital receipts will come through in the next couple of months. Whatever the actual position, the financing of the capital programme will be kept under review, as part of normal monitoring arrangements.

In short, the proposal would enable the Council to make revenue savings approaching £20K each year, to help offset the cost of the initial investment. After 7 years, in simple terms around/approaching half of the investment cost would be paid back – but the Council would have increased the market value of its asset base by say £290K to £325K as an indication, and allowing for the potential marriage value with the Council's other property holdings at the Platform.

Financial Year	Annual rent of £24,800, subject to review 1st December 2017. Assumes a 5% rent increase	Passing Rent	Valuation Estimate £240,000		Auction Estimate £275,000	
			Revenue Cost of Capital - 40 Years	Savings	Revenue Cost of Capital - 40 Years	Savings
2015/16		£24,800	£6,000	–£18,800	£6,875	–£17,925
2016/17		£25,100	£6,000	–£19,100	£6,875	–£18,225
2017/18		£26,000	£6,000	–£20,000	£6,875	–£19,125
2018/19		£26,000	£6,000	–£20,000	£6,875	–£19,125
2019/20		£26,000	£6,000	–£20,000	£6,875	–£19,125
2020/21		£26,000	£6,000	–£20,000	£6,875	–£19,125
2021/22	Lease ends 01/12/2022	£17,333	£6,000	–£11,333	£6,875	–£10,458
Building insurance recharge based on last years figures		£458 x 7 yrs	£3,206	£0	£3,206	£0
Total cost/(-) saving until end of lease		£174,439	£45,206	–£129,233	£51,331	–£123,108
Pay Back Percentage at end of Lease Period				-54%	-45%	

Notes:

R&M costs of £14,000 have been identified as part of the latest condition survey. These will be met from the R&M budget. The potential marriage value of merging ownership of the Platform and VIC buildings is estimated to be £50,000. This additional value has not been factored into the above calculations, which purely set out the direct cash savings. The capital support reserve currently has an unallocated balance of £299,000 which could be used to purchase the building.

OTHER RESOURCE IMPLICATIONS

Human Resources/ICT/Open Spaces

Property:

As reported.

SECTION 151 OFFICER'S COMMENTS

The s151 Officer has contributed to this report, which is in her name (as Chief Officer (Resources)).

DEPUTY MONITORING OFFICER'S COMMENTS

The Deputy Monitoring Officer has been consulted and has no further comments to add.

BACKGROUND PAPERS

None.

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