

Extraordinary Joint Executive (Cabinet) Committee

Forest Heath & St Edmundsbury councils

West Suffolk
working together

Title of Report:	Investing in our Commercial Asset Portfolio	
Report No:	EXEMPTION REMOVED Addendum to CAB/JT/19/006	
Report to and dates:	Extraordinary Joint Executive (Cabinet) Committee	5 February 2019
	SEBC Council	19 February 2019
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Purpose of report:	This addendum to Report No: CAB/JT/19/006 provides further information relating to the due diligence work which has been undertaken since the Cabinet report was issued.	
Recommendations:	<p>The recommendations remain the same as set out in Report No: CAB/JT/19/006, in which the Cabinet is <u>RECOMMENDED</u> to submit an urgent proposal to Council which:</p> <p>(1) endorses the proposal to purchase the property at Vicon House, Western Way, Bury St Edmunds for a sum of £3,266,000 (Three Million Two Hundred and Sixty Six Thousand Pounds) excluding VAT, fees and Stamp Duty Land Tax, to be funded from the Investing in the Growth Agenda fund; and;</p> <p>(2) establishes a capital budget of £3,503,480 to be made available to facilitate the purchase, including fees and Stamp Duty</p>	

	<p>Land Tax, to be funded from the Investing in our Growth Agenda Fund; and</p> <p>(3) notes that should the purchase be made, the Council's Section 151 Officer will make the necessary changes to the Council's prudential indicators as a result of Recommendation (1).</p>
Documents attached:	None

1. Introduction

1.1 This addendum to Report No: CAB/JT/19/006 has been produced to provide further information relating to the due diligence work undertaken since the full Cabinet report was issued.

1.2 In addition, further information on the treatment of capital and revenue sums and has been detailed below. The financial numbers have not changed, this is just a re-presentation of those numbers in a format which should be clearer to interpret.

2. Financial implications

2.1 *Capital and revenue*

2.1.1 The following table sets out the total financial ask of Members (Capital and Revenue) as set out in the Recommendations.

Description	Amount	Funded from
Purchase Price (excl VAT)	£3,266,000	Capital Borrowing (Investing in Growth Fund)
Finder's fee of 2% of purchase price payable to Bream Real Estate	£65,320	Capital Borrowing (Investing in Growth Fund)
Purchase Costs (SDLT and purchaser's costs at 1% of Capital Value)	£172,160	Capital Borrowing (Investing in Growth Fund)
Total Capital ask	£3,503,480	
Management costs	£36,000 per annum	Revenue (Strategic Priorities & MTFS reserve)
Total Revenue ask	£36,000 per annum	

2.1.3 The sums above exclude any VAT payable. Any VAT will be claimed back by the Council so the position will be effectively cost neutral.

2.1.4 The full cost of prudential borrowing for the £3,503,480 capital ask is £151,500 per annum. Actual borrowing would only take place when the Council's treasury management activities identify such a need.

2.2 *Tenant covenants*

2.2.1 We have carried out Dun & Bradstreet searches and reviewed the quality of their covenants. With the exception of Servest Group Ltd, which is discussed further in 2.2.3 below, the Council's internal auditor has no significant concerns regarding the financial standing of tenants.

2.2.2 The following table provides a summary of the search results for each tenant.

Unit	Tenant	Rent p. a.	Comments
1	Eastern Retailing LTD	£27,000	Low/moderate risk, stable 12 month outlook, high likelihood of continued operations, failure unlikely, no significant short term concerns
2&3	Servest Group Ltd	£201,200	Moderate business risk, stability concerns in next 12 months, increased likelihood of business failure, no significant short term concerns, no concerns regarding going concern in company auditors report.
4	Carfax Cards Ltd	£45,000	Low/moderate risk, stable covenant, high likelihood of continued operations, no significant short term concerns, significant reduction in retained earnings
5	Green Duck Ltd	£68,000	Low/moderate risk, stable 12 month outlook, £19,000 reduction in profit & loss reserves in 2017.
6	Mr C Willet	£3,000	Private individual – no financial information available. Minimal risk on overall rental returns.
7	Practical Land Remediation	£6,000	Low risk, stable 12 month outlook, Strong likelihood of continued operations, no significant concerns

2.2.3 As detailed in 2.2.2 above, most tenants appear to offer reasonable financial strength with low to moderate risk of business failure. A property of this age and condition is likely to attract tenants with this level of covenant strength who are looking for affordable rents. We have carried out internet searches for any adverse current financial news relating to tenants but have found nothing to cause concern.

2.2.4 Servest Group Ltd is a facilities management company which is based in Bury St Edmunds and employs approximately 300 people in the town. Servest employs approximately 23,000 in the UK and is listed 13th on the list of top 100 companies in Norfolk and Suffolk. The company is currently in the process for consolidating their local operations within Viccon House.

2.2.4 The table in 2.2.2 above shows an “increased likelihood of business failure” for Servest. This assessment is based on accounts for the year ending 30 September 2017 and therefore might not account for the fact that Servest merged with French company, Atalian Group, in 2018 to form Atalian Servest. Together the companies employ approximately 125,000 in 33 countries and generate a turnover of 3bn euros. This merger bolsters the tenant’s financial covenant significantly. Their current £500,000 investment in the refurbishment of their offices in Viccon House is evidence of Servest’s commitment to their operations in Bury St Edmunds.

2.2.5 Green Duck are closely linked to Servest, who form one of their major clients.

3. The Property

3.1 Property condition

3.1.1 The Council’s Building Services Team have inspected the site internally and externally and advise that a full structural survey will not be necessary.

3.1.2 Although parts of the property date back to the 1960s, with other sections being extended in the 1980s, the internal office accommodation is in good

condition, having been substantially refurbished. The industrial space is in reasonable condition while the retail space in unit 1 has been recently refurbished to improve the energy efficiency.

- 3.1.3 The properties have been well maintained. Although some of the buildings on site will potentially be nearing the end of their economic life, they are expected survive in present condition for at least the next 10 years at which point the Council could consider redevelopment options

3.2 ***Valuation and offer***

- 3.2.1 To support the offer, a RICS Red Book valuation was prepared by external chartered surveyors, Wilks, Head & Eve. Their opinion of market value supports the Council's offer price. Wilks, Head & Eve are also commissioned to undertake the Council's Fixed Asset Valuations for 2018/19.
- 3.2.2 A fixed purchase price has been agreed with the intermediaries, Bream Real Estate, although heads of terms have not been agreed with the vendor at this stage. The vendor is still considering their options and may bring the property to the open market if they are not satisfied with the Council's offer, but they appear to be under some pressure to realise a capital receipt this financial year and therefore it may be desirable for them to accept.
- 3.2.3 Given that negotiations between Citygate and Bream are still ongoing, Cabinet is asked to consider the proposal as set out, in terms of principle of purchase, offer figure and purchase costs. This is in acknowledgement that the structure of the deal may change depending on the outcome of the Citygate/Bream discussions.

4. **Legal considerations**

- 4.1.1 Legal Services have reviewed the Land Registry title documents and have not identified any significantly onerous covenants or restrictions on the site. Assuming the Council's offer is successful, then the normal full due diligence appropriate for a property acquisition of this nature will be undertaken.