

Joint Report of Treasurer and Head of Legal Services

2 Kings Court, Worcester – Sale of Freehold Reversion

Purpose of report

1. To consider disposing of the Authority's freehold interest in the former Headquarters building at 2 Kings Court, Worcester.
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Recommendations

It is RECOMMENDED that:

- (i) the Authority accepts the current offer for the purchase of the freehold reversion to 2 Kings Court***
- (ii) Head of Legal Services be authorised to proceed with the sale on the terms proposed, subject to contract***

Background

2. At the meeting of the Policy and Resources Committee on 28th March 2018, Members:
 - (i) approved the lease of 2 Kings Court to Worcestershire Health & Care NHS Trust; and
 - (ii) authorised officers to market the property with a view to the potential sale of the freehold reversion in due course, as advised.

At that stage, further advice was necessary regarding valuation and the amount of any potential capital receipt from a sale of the freehold reversion, before judging whether it would be more beneficial for the Authority to:

 - (a) retain the freehold and have the benefit of the rental income from the NHS; or
 - (b) sell the property for a capital receipt, hence the second part of the resolution above.
3. The Authority has since received written advice on valuation from Place Partnership Ltd and officers have had informal discussions with other agents regarding the possible marketing of the site.
4. We have also now received an offer from a prospective purchaser interested in acquiring 2 Kings Court as an investment property.

5. Two issues need to be considered:
 - (a) whether to retain the rental income from the property or generate a capital receipt from the sale of the freehold; and
 - (b) if the decision is to sell, whether to accept the current offer.

Rental Income v Capital Receipt

6. Regardless of whether the Authority has an ongoing rental income or a one-off capital receipt, either can be used to fund part of the Authority's future capital borrowing costs.
7. The current lease to the NHS is for a period of 15 years, until November 2033 with a tenant's break clause in September 2026. There is always a risk that at the end of the lease, whether that is in 2026 or 2033 the Authority may or may not be able to find a new tenant willing to pay the same rent as at present, the property could be vacant for a while with no rental income being received and/or we might have to grant a new tenant a rent free period. Any assessment of the future rental income therefore needs to factor in these risks.
8. Whilst the Authority has a broad statutory power to make investments, which could include investing in property so long as it does so in accordance with the Prudential Code, it is not part of our core business to act as a long term landlord. Retaining ownership of the property would involve on-going costs of management and there is always a residual risk for any repairs or improvements not covered by the tenant's repairing obligations.
9. Based on a discounted cash flow, assuming the level of capital receipt currently being offered and even allowing for a best case scenario (where we achieve full occupancy and a new tenant at the end of the lease), the Treasurer has calculated that the proposed capital receipt would release more capital spending power for the Authority than if we retain the rental income – see Appendix 1.

[Note – the appendices are confidential and provided for Members of the Committee only]

Current Offer

10. If the authority decides to sell its interest in 2 Kings Court, it has a responsibility to achieve the best price reasonably obtainable. One means to ensure that is to advertise the property on the open market but there is no obligation to do so, provided Members have received professional advice that the price is as good as they could reasonably expect to achieve. Indeed, there are circumstances where an 'off-market' sale can be beneficial.
11. Details of the current offer need to remain commercially confidential (in case the sale does not proceed) but are set out in the Appendix 1 **[for Members only]**. There is no guarantee the same offer would be maintained if we were to go to the open market.

12. The formal valuation advice the Authority has received is attached at Appendix 2 **[confidential – Members only]**. Based on this advice, officers believe the current offer represents good value and should be accepted.

Summary

13. Based on professional advice, officers believe the current offer for the property represents as good a price as can reasonably be expected to be achieved and that it is the Authority's interest to accept this rather than go to open market.
14. The proposed capital receipt would be more beneficial to the Authority, in terms of the capital spending power it would release, than retaining the rental income.
15. If the Authority chose to continue as a long term landlord of the property it would incur the costs of managing the property and run the risk of any future rent void periods.

Corporate Considerations

Resource Implications (identify any financial, legal, property or human resources issues)	It will be financially beneficial to the Authority to generate a capital receipt rather than have an on-going rental income.
Strategic Policy Links (identify how proposals link in with current priorities and policy framework and if they do not, identify any potential implications).	The property is no longer required for the Authority's strategic or operational purposes.
Risk Management / Health & Safety (identify any risks, the proposed control measures and risk evaluation scores).	There is a residual financial risk to the Authority if it retains the property, arising from changes of tenancy and possible future rent voids and any maintenance obligations not covered by the tenant's repairing obligations.
Consultation (identify any public or other consultation that has been carried out on this matter)	None
Equalities (has an Equalities Impact Assessment been completed? If not, why not?)	Not applicable

Supporting Information

Appendix 1 – Financial appraisal [Exempt Information – Confidential]

Appendix 2 – Valuation advice [Exempt Information – Confidential]

Background papers – None public

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