



GUILDFORD BOROUGH

MANAGING DIRECTOR: Sue Sturgeon
HEAD OF SERVICE: Chris Mansfield
DATE: 14 November 2013
SUBJECT: Authorisation to spend further funds than are currently approved for investment property acquisition.
KEY DECISION: Yes
EXEMPT INFORMATION: Yes

MANAGING DIRECTOR DELEGATED APPROVAL UNDER *PARA 24 (URGENT MATTERS)*

1. PURPOSE OF DECISION AND BACKGROUND

- 1.1 We had a £10.827 million capital provision in the 2013-14 approved capital programme for the purchase of commercial investment property at Liongate, Ladymead, Guildford. We made an initial bid, under the Urgent Matters delegation in the constitution, to the managing director on 17 October 2013 to increase the approved budget to £12.643 million. She approved the necessary capital supplementary estimate.
- 1.2 We were unsuccessful with our initial bid and we have now agreed heads of terms for the purchase. The agreed purchase price is £13 million, net of standard purchasers costs of 5.8 per cent, therefore requiring a total sum of £13.754 million. A further capital supplementary estimate of £1.111 million is required in order to proceed with the purchase (making the total capital supplementary from the originally approved budget £2.927).
- 1.2 In the first year, the Council will receive rental income of £1.3 million. We will then receive an annual rental of £980,000 following an agreed lease re-gear. A purchase at this level will show an initial yield of 9.45 per cent for the first year, falling to a net yield of 7.13 per cent after the lease re-gear. Based on a worse case scenario assuming that:
- the tenant operates their break clause at year five of the re-gear lease
 - the council has to incur refurbishment costs and
 - there is a letting void,
- the investment would show an internal rate of return of 8.7 per cent.
- This investment opportunity exceeds our approved investment criteria, it significantly exceeds the minimum initial yield of four per cent and the overall scoring of 220 far exceeds the threshold score of 174.
- 1.3 The action taken by the Managing Director will be to report to the next available meeting of the Executive.

2. REASON FOR URGENCY

- 2.1 In order to secure the purchase we have had to agree to a tight timescale to exchange contracts within 15 working days with completion 5 working days thereafter. By delaying until after the next Council meeting we would lose the opportunity to acquire this investment.

3. CONSULTATION

- 3.1 We have consulted with Councillor Nigel Manning who supports this approach.

4. LEGAL IMPLICATIONS

- 4.1 Under paragraph 24 page 64 of the constitution, the Managing Director, in consultation with the Leader, can act in the best interests of the Council where there is not sufficient time to report to the Council, Executive, committee or sub-committee.

The decision to purchase the property would result in the need for a capital supplementary estimate of £2.927 million.

Under B.8.2(d) page 227 of the constitution, in cases of urgency and with the agreement of the chairman of the relevant scrutiny committee that the matter is urgent, the Leader/Executive is authorized to approve capital supplementary estimates in excess of £100,000 or 5% of the approved budget for the scheme up to a maximum of £250,000 where it is not practical to convene a quorate meeting of the Council.

4. RECOMMENDATIONS

- 4.1 That the Managing Director authorises a capital supplementary estimate of £1.111 million, in addition to that approved on 17 October 2013
- 4.2 That the Managing Director authorise the Head of Economic Development to progress the acquisition at £13.0 million (net of VAT and acquisition costs), and to appoint the relevant professional advisors in order to facilitate the purchase within the agreed timescale.

5. REASONS FOR RECOMMENDATIONS

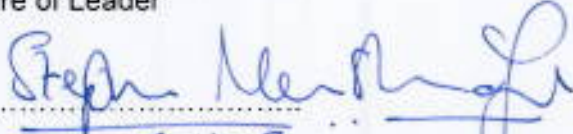
- 5.1 The reason for the decision is to enhance the level of investment return of the Councils current reserves and to provide a secure rental return on the capital investment.

Originator:

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In accordance with B.8.2(d) of the constitution, I authorise a capital supplementary estimate of £1.111 million.

Signature of Leader


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Dated 15-11-13

In accordance with the delegated authority referred to above, I hereby approve the above-mentioned proposal, subject to the agreement of the relevant Lead Councillor.

Signature of Managing Director


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Dated 15/11/13

I hereby support the above-mentioned proposal.

Signature of Head of Economic Development


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Dated 15th November 2013

Signature of Lead Councillor: 

Dated 15/11/13