



City of Westminster

Cabinet Member Report

Decision Maker:	Cllr Paul Swaddle Cabinet Member for Finance and Smart City
Date:	15 March 2022
Classification:	For General Release save for Confidential Appendix under Schedule 12A Part 1 Local Government Act 1972 (as amended)
Title:	Strategic Acquisition of 215 Vauxhall Bridge Road
Wards Affected:	Warwick
Key Decision:	Yes
Financial Summary:	The total cost of purchase is anticipated to be £16.5m of which, a breakdown of which is detailed in the Appendix.
Report of:	Gerald Almeroth Executive Director of Finance and Resources

1. Executive Summary

- 1.1 The Council's Investment Framework, most recently agreed at Full Council on 2 March 2022, sets out the strategy for the acquisition of land and property assets for investment that has some strategic importance, including where they may be adjacent to existing holdings/regeneration areas.
- 1.2 This report proposes the purchase of the property at 215 Vauxhall Bridge Road (the property) which is adjacent to the Council's existing holding at the Queen Mother Sport Centre (QMSC). The agreed purchase price is detailed in the Appendix. The gross cost including fees and taxes is estimated to be £16.5m.
- 1.3 The acquisition fulfils the Council's strategic aims to concentrate on furtherment of existing property ownerships and assets adjacent to or adjoining the Council's existing portfolio. The purchase will be an important acquisition in allowing potential future redevelopment and / or expansion of the QMSC site and forms part of a wider ownership in the immediate vicinity. Our ownership will negate the possibility of protracted ransom negotiations in the future with a third party owner.

2. Recommendations

The Cabinet Member for Finance and Smart City approve:

- 2.1 That the Appendices to the Report be exempt from disclosure by virtue of the Local Government Act 1972 Schedule 12A, Part 1, paragraph 3 (as amended), in that it contains information relating to the financial or business affairs of any particular person (including the authority holding).
- 2.2 A gross spend of up to £16.5m for the acquisition of the freehold known as 215 Vauxhall Bridge Road.
- 2.3 That authority be delegated to the Executive Director of Finance and Resources to conclude negotiations in the best interest of the Council including the negotiation of all contractual matters and approving final sale terms. Including the arrangement and entering into all necessary legal documentation (subject to legal due diligence) in association with the purchase.

3. Reasons for Decision

- 3.1 The property is a strategic acquisition. In terms of the investment hold value, the property provides a net initial yield of 3.5%. The Council intends to refurbish and redevelop the QMSC in the future and this would enable greater value to be derived from this.
- 3.2 An inspection of the plans shows that incorporating this property into the wider site of the QMSC would not only enable better access for potential works, it would also significantly improve main road frontage on Vauxhall Bridge Road making development potential greater.
- 3.2 The recommendation to purchase the property also negates the potential for any ransom situation should the property be bought by another party.

4. Background

- 4.1 Parkinson's UK are the existing owner occupiers of 215 Vauxhall Bridge Road details, photographs and the location of which can be seen in the appendix.
- 4.2 The Council have an existing interest at the adjacent QMSC.
- 4.3 WCC and Parkinson's have been in discussions for some time about the potential acquisition of the property, with WCC's adjacent ownership of and any future development of QMSC deeming WCC to potentially be a "Special Purchaser". The Council appointed representatives Hanover Green to act as agent, as is standard practice.
- 4.4 A "Special Purchaser" is defined by the Royal Institution of Chartered Surveyors (RICS) as "a particular buyer for whom a particular asset has a special value because of advantages arising from its ownership that would not be available to other buyers in a market."
- 4.5 In the summer of 2021, Parkinson's UK instructed their agent (Tuckerman Commercial Ltd (Tuckerman)) on the disposal of their freehold interest at The Property, with their short-medium term ambition being to vacate the site.

4.7 After a period of marketing, bids were called for and after consultation with WCC's Property Investment Panel, officers entered the bidding process, eventually resulting in successful agreement of the terms set out in the appendix.

5.0 The Property

5.1 The property is located on Vauxhall Bridge Road opposite its junction with Francis Street and close to its junction with Upper Tachbrook Street. Victoria Mainline and Underground Station (Victoria, District and Circle lines) is within close proximity.

5.2 The property comprises a modern mid-terraced building with office use over basement, ground and 1st to 4th floors.

5.3 The property is not listed, nor does it lie within a conservation area. It does lie within Westminster's CAZ and the area does have an Article 4 Direction requiring full planning consent to convert offices to residential.

6.0 Tenancy

6.1 The Vendor has agreed to take a lease back on The Property, the terms of which are set out in the appendix.

7.0 Due Diligence

7.1 In line with Westminster's Property Procedures the following actions have and will occur before the transaction is completed;

- Inspection – the Property has been inspected by the Westminster's property team as well as independent surveyors.
- Documentation review – WCC and their advisors have reviewed all documentation associated with the property.
- Independent solicitors have also reviewed and reported on all associated legal matters. These reviews have provided summaries on the risks associated with the acquisition and ownership.

7.2 An independent RICS Red Book valuation has been undertaken by Cushman & Wakefield which supports the agreed price is in line with Market Value and is therefore justifiable.

7.3 An independent building survey has been carried out which shows the property is in reasonable condition given its age.

7.4 The Property has been presented as an opportunity to the Property Investment Panel, who have been fully supportive of the acquisition.

8.0 The Agreed transaction

- 8.1 Terms have been agreed to acquire the interest from Parkinson's UK (detailed terms set out in the Appendix). On completion of the transaction, Parkinson's UK will take a lease over the Property, the terms of which are detailed in the Appendix.
- 8.2 The transaction will be subject to a three-year overage clause which will enable the vendor to claim a share of any net profit should The Council sell their interest in The Property during this period. This is a standard clause for a sale of this nature by a registered charity.

9. Financial Implications

- 9.1 Although local authorities can make their own decisions on capital investment, under Part 1 of the Local Government Act 2003 they are required to make these decisions taking into account CIPFA's Prudential Code. Under section 51 of the Prudential Code local authorities are not allowed to make an investment decision that will increase the required capital financing, and therefore potentially new borrowing, unless it is primarily related to the functions of the authority and where any financial returns are incidental to this purpose.
- 9.2 The primary purpose of this transaction is strategic: to facilitate the regeneration of the Queen Mother Sports Centre (already part of the capital programme) both through reducing the potential costs of this project and creating greater value delivery. Through this acquisition, the council is forecast to avoid paying rights of light compensation (estimated at £2.250m), ransom mitigation (£0.500m) and additional fees from delays (£0.250m). These values are estimated so are subjective but have been verified by external advisors. The financial yield from this acquisition is estimated at 3.5% (£0.580m per annum on total costs of £16.456m including costs) but this is incidental to the primary purpose of the transaction.
- 9.3 The budget for the £16.456m costs is derived from the £120m Property Investment Acquisitions capital scheme.
- 9.4 An independent valuation has been completed on this Property, which puts the purchase price in line with market value.
- 9.5 There is no further investment currently required to the building based on the survey results.
- 9.6 The notional financing costs, assuming this purchase is funded by borrowing, are as follows:
- Annual repayment costs for borrowing will be £0.660m which include capital (MRP) and interest repayments (based on a rate of 2.6% over 40 years). These financing costs are £0.080m higher than the expected rental income of £0.580m
 - The financing costs identified above are earmarked elements in the revenue budget in future years (totalling £3.0m) as part of the affordability completed for the capital programme, for which £120m is included for Property Investment Acquisitions. Therefore these costs are not an additional pressure to the Council.
 - The rental income of £0.580m will be applied to the Capital Programme in line with commercial income assumptions as approved at full Council.

- 9.7 There are financial risks around the acquisition which include:
- The lease to Parkinson's is on a short term basis, so there is potential that this site could be vacant for some time before any development requirements, and this would have revenue implications (including repairs and maintenance, security, energy, NNDR). However, the site is a mid-range office space offer, and given the location it is considered that there will be opportunities for further short term rental.
 - There are currently expected to be no further revenue costs while Parkinson's leases the building (guaranteed for at least 18 months), as they are taking on a fully repairing and insuring lease
 - While the QMSC scheme is in the Capital Programme, currently no detailed business plan exists for this development, so this acquisition will be speculative as to how much it may benefit the future potential development.
 - Furthermore, development of a further property within the QMSC scheme has not been included in the Capital Programme. Currently the scheme is included in the Capital Programme after 2027/28 at £77.506m.

10 Legal Implications

- 10.1 Under section 120 of the Local Government Act 1972 Local Authorities can for the purpose of carrying (a) any of their functions under this or any other enactment, or (b) the benefit, improvement or development of their area acquire by agreement any land, whether situated inside or outside their area, even if that property is not immediately required for that purpose and, until it is required for the purpose for which it was acquired, any property acquired may be used for any of the Council's functions.
- 10.2 The report confirms that the Property being acquired is for the purpose of future strategic benefit in line with Council priorities and objectives.
- 10.3 The acquisition of the Property will be subject to satisfactory legal due diligence. Legal due diligence will be required on the acquisition, to include a review of title and ownership, searches of land and seller in order to ascertain relevant liabilities and encumbrances connected with the Property. The results of the legal enquiries, and any associated risks, will be reported to Council officers and will be considered prior to any decision to enter into contracts.

11. Ward Member Consultation

- 11.1 A Briefing note explaining the reasons to acquire the property will be circulated to Ward Councillors.

If you have any queries about this report or wish to inspect any of the background papers, please contact:

Philip Owen, powen@westminster.gov.uk

For completion by the **Cabinet Member for Finance and Smart City**

Declaration of Interest

I have no interest to declare in respect of this report

Signed: _____ Date: 14 March 2022

NAME: **Councillor Paul Swaddle**

State nature of interest if any

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(N.B: If you have an interest you should seek advice as to whether it is appropriate to make a decision in relation to this matter)

For the reasons set out above, I agree the recommendations in the report entitled **Strategic Acquisition of 215 Vauxhall Bridge Road** and reject any alternative options which are referred to but not recommended.

Signed

Councillor

Date

If you have any additional comment which you would want actioned in connection with your decision you should discuss this with the report author and then set out your comment below before the report and this pro-forma is returned to the Secretariat for processing.

Additional comment:
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If you do not wish to approve the recommendations, or wish to make an alternative decision, it is important that you consult the report author, the Director of Law, the City Treasurer and, if there are resources implications, the Director of People Services (or their representatives) so that (1) you can be made aware of any further relevant considerations that you should take into account before making the decision and (2) your reasons for the decision can be properly identified and recorded, as required by law.

Note to Cabinet Member: Your decision will now be published and copied to the Members of the relevant Policy & Scrutiny Committee. If the decision falls within the criteria for call-in, it

will not be implemented until five working days have elapsed from publication to allow the Policy and Scrutiny Committee to decide whether it wishes to call the matter in.