

BIRMINGHAM CITY COUNCIL

CABINET MEMBER AND CHIEF OFFICER

MONDAY, 23 DECEMBER 2019 AT 00:00 HOURS
IN CABINET MEMBERS OFFICE, COUNCIL HOUSE, VICTORIA
SQUARE, BIRMINGHAM, B1 1BB

A G E N D A

- | | |
|-----------------------|---|
| <u>3 - 24</u> | <p>1 <u>PURCHASE OF HEADLEASE OF CAR PARK SITE AT MACKADOWN LANE, BIRMINGHAM</u></p> <p>Report of Interim Director; Inclusive Growth - Ian MacLeod
Interim Chief Finance Officer - Rebecca Hellard
Interim City Solicitor - Suzanne Dodd</p> |
| <u>25 - 38</u> | <p>2 <u>SUMMER HILL HOUSE, SUMMER HILL TERRACE, CITY CENTRE, BIRMINGHAM B1 3RA - REVISED SALE TERMS</u></p> <p>Report of Interim Director, Inclusive Growth</p> |

P R I V A T E A G E N D A

Birmingham City Council

Report to Leader and Cabinet Member Finance and Resources

20th December 2019



Subject: Purchase of head lease of car parking site at Mackadown Lane, Birmingham

Report of: Interim Director; Inclusive Growth – Ian MacLeod
Interim Chief Finance Officer – Rebecca Hellard
Interim City Solicitor – Suzanne Dodd

Relevant O & S Chairs: Councillor Sir Albert Bore – Resources
Councillor Tahir Ali – Economy & Skills

Report author: Warren Bird, Strategic Investment Property Manager
0121 303 3489 / warren.bird@birmingham.gov.uk

Are specific wards affected?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Garretts Green		
Is this a key decision?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
If relevant, add Forward Plan Reference:		
Is the decision eligible for call-in?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Does the report contain confidential or exempt information?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Exempt information 12A of the Local Government Act 1972 (as amended) 3. Information relating to the financial or business affairs of any particular person (including the council) Exempt Appendix 6 contains sensitive commercial information on the purchase price, valuation and property lease rents.		

1 Executive Summary

- 1.1 In July 2019, Cabinet approved the Property Investment Strategy which sets out the intention to release underperforming assets from the commercial portfolio and to reinvest the receipts in acquiring better quality assets to support and grow the income stream.
- 1.2 The Constitution agreed by City Council on 11 September 2019 includes a delegation for the Members detailed in this report to approve acquisitions to, and disposals from, the Investment Property Portfolio up to a limit of £25m in any one transaction (Part E3, 3.2 (xi) and reported as per part B6.5 of the Constitution.
- 1.3 The Property Investment Strategy requires investment property purchases and sales to be approved by the Leader of the Council and the Cabinet Member for Finance and Resources, on the recommendation of the Director; Inclusive Growth, Chief Financial Officer and City Solicitor. Initial submissions are to be made to the officer Property Investment Board for assessment.
- 1.4 This report seeks the authorisation to complete the purchase of the head-lease interest of the site at Mackadown Lane, Birmingham (see Site Plan in Appendix 1). The City Council owns the freehold interest in the site

2 Recommendations:

- 2.1 Approves the Full Business Case for the acquisition as set out in Exempt Private Appendix 6d.
- 2.2 Approves the purchase of the head lease interest in the subject site as an investment acquisition for the amount set out in the attached Exempt Private Appendix 6c.
- 2.3 Approves the release of a temporary bridging loan for the amount set out in Exempt Private Appendix 6c.
- 2.4 Authorises the City Solicitor to negotiate, execute and complete all necessary legal documents to give effect to the acquisition.

3 Background

- 3.1 The Property Strategy 2018-2023 sets out a target to grow income generated from the commercial portfolio by 20% by 2023/24.
- 3.2 The Property Investment Strategy provides for income growth by investment in suitable opportunities, which include the acquisition of new assets.
- 3.3 This transaction is the first investment acquisition proposed since the Investment Strategy was approved and will be followed by further acquisitions as capital receipts from sales accrue and opportunities which meet the strategy are identified.
- 3.4 The purchase will be funded entirely from the sale of underperforming properties together with a bridging loan to cover any shortfall due to the timing of completions. A list of the completed and pending sales and details of the bridging loan are detailed in Exempt Private Appendix 6d.
- 3.5 The subject site is owned freehold by Birmingham City Council and subject to a head lease and five sub-leases. The acquisition of the head lease will mean that this lease falls away and the Council becomes direct landlord for the five sub-leases. This entitles the Council to

receive increased rent for the remainder of the term on each lease. The net difference in income factors in the loss of the head lease income, and Exempt Private Appendix 6c contains all relevant lease and financial information.

- 3.6 The purchase has been identified as a suitable investment and addition to the portfolio both internally by Property Services and its appointed external agent (Avison Young). The purchase will realise an added value equal to the price paid (see Exempt Private Appendix 6a) in the capital value of the site due to the removal of the head lease upon completion.
- 3.7 The potential for growth in the current use class is regarded as high since airport car parking demand is expected to increase in line with Birmingham Airport passenger numbers (40% increase by 2033 using 2018 as the base year). Alternatively, the site could be used to free up City Council holdings at the NEC and airport to facilitate growth there. The property also has potential for future industrial storage development subject to airport zone planning restrictions.
- 3.8 The purchase also has economic and strategic benefits. The City Council has other ownerships in the immediate vicinity which could be utilised to maximise future development value and economic development in this key strategic part of the city including the airport, the NEC and the proposed HS2 Interchange. Additionally, the removal of the head lessee enhances and protects the Council's existing ownership of the site.

4 Options considered and Recommended Proposal

- 4.1 It is recommended to proceed with the acquisition outlined in this report. Alternative options are as follows:
- 4.2 Do nothing - retain receipts already accrued to generate a small return on the sublease. The interest rate is far below the property return.
- 4.3 Seek an alternative property investment. This would result in a delay in the income realised. The current opportunity is recommended as a good investment as set out in this report.
- 4.4 Use the capital receipt for other Council priorities: this would result in income loss and would be contrary to the Property Investment Strategy which approved the reinvestment of investment property proceeds in order to maintain and grow the portfolio's income.

5. Consultation

- 5.1 The newly-formed Property Investment Board comprising officers from Property Services, Finance and Legal recommends the decision to proceed with the purchase of the head lease (4th December 2019).

6. Risk Management

- 6.1 The main risk is that one or more of the companies holding the sub leases experiences financial difficulties and defaults on the rent (the schedule of leases is contained in Exempt Private Appendix 6b). This risk is reduced in that these leases are with three independent companies with good credit ratings (see Appendix 5). Further, if one or other of the companies became insolvent there would be good market demand for a new lease.
- 6.2 The risk of achieving maximum long-term value will be due to unknown planning restrictions, flood plain restrictions, underground pipes and contamination. It should be noted that part of the site falls within the Airport Zone and will have some restrictions on development. There is

no mitigation in place at present as this issue will be explored nearer the anticipated expiry of existing leases, which are between 2027 and 2044. The potential profitability and income return for this site/purchase is not dependent upon the future value of potential redevelopment.

- 6.3 The risk of insufficient disposals to fund the acquisition (see Exempt Private Appendix 6c) not completing may delay the repayment of the bridging loan. The risk is mitigated by the expected completion of multiple transactions more than covering the loan value. Other identified, underperforming assets will be sold to cover any shortfall. In addition, the loan required is of a low value and interest on the loan until paid will be funded from income generated through the investment portfolio in Appendix 5c.

7.1 **Compliance Issues:**

- 7.1.1 The acquisition complies with Government guidance 'Statutory Guidance on Local Government Investments' published in 2018 as well as all current legislation including the Local Government Act 1972 and the Local Government Act. Appendix 4 provides a checklist for compliance with such Guidance.
- 7.1.2 The proposal is consistent with Birmingham City Council Plan 2018-2022 (updated) priorities as the acquisition of new investment properties and disposal of underperforming properties will help the Council meet its aspirations to be a great city to grow up on, live in, work and invest in.
- 7.1.3 It supports the Financial Plan 2019-2023 by generating additional revenue income and helping to achieve a balanced revenue budget.
- 7.1.4 The acquisition is consistent with the aims set out in both the Birmingham Property Strategy 2018-2023 which seeks to grow income and the Property Investment Strategy 2019 which sets out more detailed guidelines for investment decisions. The acquisition follows the guidelines as set out in the Investment Decision Matrix at Appendix 2 which is a scoring methodology introduced by CBRE, who are interim property consultants supporting Property Services with its property strategy. The score of 163 is out of 200 and represents a good fit with the Council's overall property strategy.

7.2 **Legal Implications**

- 7.2.1 Sections 120 - 123 of the Local Government Act 1972 authorises the City Council and its solicitors to hold, appropriate and dispose of land [for the purpose of any of its functions or for the benefit, improvement or development of its area]. As set out in this report the acquisition provides opportunities for future regeneration and growth around the NEC and airport.
- 7.2.2 Section 12 (the Investment Power) of the Local Government Act contains the Council's primary investment powers which can be exercised in the same way as the S1 Power to Borrow. The Council can rely on the S12 Investment Power for the reasons set out in sections 3.5-3.8 of this report and the appointed external agent report at Exempt Private Appendix 6a.
- 7.2.3 Section 1 (Power to Borrow) of the Local Government Act 2003, gives the Council power to borrow for any purpose relevant to its functions or for the prudent management of its financial affairs. In the exercise of the S1 Power to Borrow, S3 of the Local Government Act 2003 requires local authorities to determine and keep under review how much money they can afford to borrow as required by the Local Authorities (Capital Finance and Accounting) (England) (Regulations 2003) and to have regard to the Chartered Institute of Public Finance & Accountancy Prudential Code. The Council can rely on the S1 Power to Borrow for the reasons set out in sections 3.5-3.8 of this report and the appointed external agent report at Exempt Private Appendix 6a.

- 7.2.4 Exempt information 12A of the Local Government Act 1972 (as amended) 3. Information relating to the financial or business affairs of any particular person (including the Council). Exempt Appendices 2-6 are considered to be in the public interest as they contain commercially sensitive information of a financial or business nature, which if disclosed to the public could be prejudicial to a named person, individual or company.
- 7.2.5 The Council's in-house Legal team will complete all legal matters associated with the transaction.

7.3 Financial Implications

- 7.3.1 The acquisition will be funded entirely from the sale of underperforming properties together with a bridging loan to cover any shortfall due to the timing of completions. A list of the completed and pending sales and details of the bridging loan are detailed in Exempt Private Appendix 6d.
- 7.3.2 The annual net increase in rent income as a result of the head lease purchase is set out in Exempt Private Appendix 6c. Further details of the Business Case and financial implications are set out in Exempt Private Appendix 6d.
- 7.3.3 Increased income from this acquisition will be used to support the Council Financial Plan 2019-2023 by helping to achieve a balanced revenue budget.
- 7.3.4 The ongoing income position of the transaction will be monitored through the Council's Property Investment Board by Property Services, through quarterly Treasury Management reporting and as part of the Council's budget monitoring process.
- 7.3.5 The tenants are responsible for maintaining the land and property within their demise. The Council is responsible for insurance for which it will charge the tenants. The only additional responsibilities to the Council will be for ensuring that the tenants pay all the rental income and this will be managed through existing resources. Appendix 5 shows that the credit scores for the three tenants are satisfactory and payment history is good.

7.4 Human Resources Implications

- 7.4.1 Internal resources are used to evaluate and execute the acquisition and external consultants have been used to provide an independent assessment of value.

7.5 Public Sector Equality Duty

- 7.5.1 An Equality Assessment has been carried out in connection with Property Investment Strategy transactions (EQUA313, see Appendix 3). This identifies no adverse impacts on any groups protected under the Equality Act 2010. A transaction-specific Equality Assessment is not required in this case.

8. Appendices

- 8.1 List of Appendices accompanying this Report:

Appendix 1 – Site plan

Appendix 2 – Investment Decision Matrix

Appendix 3 – Equality Assessment

Appendix 4 – Checklist for Compliance with Government Investment Guidance

Appendix 5 – Credit scores and financial health of sub tenants

Exempt Appendix 6 – All exempt and private information excluded from this report.

Appendix 6a – Valuation & Recommendation Report

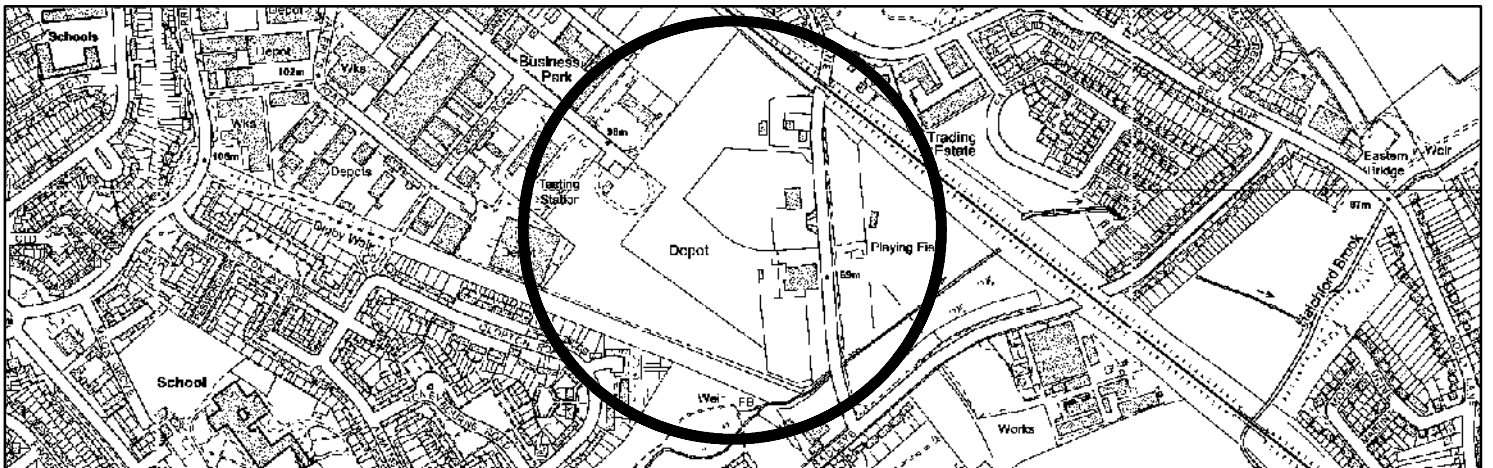
Appendix 6b – Schedule of underleases

Appendix 6c – Financial information

Appendix 6d – Full Business Case

9. Background Documents

- 13 November 2018 Cabinet report, Property Strategy 2018/19 – 2023/24 including First Phase Projects
- 30th July 2019 Cabinet report, Property Investment Strategy
- Statutory Guidance on Local Government Investment (v3) published in 2018 by the Secretary of State for Communities and Local Government



© Crown Copyright and database right 2019. Ordnance Survey 100021326.
You are not permitted to copy, sub-licence, distribute or sell any of this data to third parties in any form.



Birmingham City Council

Waheed Nazir
Director Inclusive Growth
1 Lancaster Circus
PO Box 14439
Birmingham, B2 2JE

Site At
Mackadown Lane
Shard End



Scale (Main Map)

1:3,000

Drawn

M

Date _____

29/11/2019

O.S.Ref SP1586SE

Appendix 7 - Investment Decision Matrix for Mackadown Lane headlease acquisition

Criteria	Criteria description	Comments	Weighted score	Exceptional	Good	Acceptable	Marginal	Poor
				5	4	3	2	1
Portfolio Strategy Context	The extent to which the property meets the strategy and contributes to the achievement of a diversified portfolio.	The property grows income which is a key aim of the Property Strategy. Car parking occupational leases add to the mix of industrial and retail.	12		✓			
Location: Macro	Quality of the area with regard to the property use.	This is a high growth area - near to the airport and very valuable for logistics.	12		✓			
Location: Micro	Quality of the locality within the wider area with regard to property use.	Close to the airport and also surrounded by BCC land which could lead to marriage value. However part of the site has airport planning restrictions.	9			✓		
Tenant Covenant	Ability of the tenants to pay the rent for the duration of the lease - credit rating.	All tenants have good credit ratings.	12		✓			
Building Quality	Quality of the building compared to Grade A.	There are no substantial buildings but the site is hard surfaced and the surface is in good condition.	12		✓			
Lease Term	Length for which income is secured.	Terms of 8 years and 10 years (up to break clauses) provides good security for operational leases.	12		✓			
Lease Structure	Rent reviews, tenant repairing obligations.	The leases are FRI and hence there are no costs for the Landlord. Other terms are standard.	15	✓				
Rental Growth Prospects	Rent review timing and likelihood of an increase/decrease.	There are no remaining reviews on four of the five leases and RPI increases capped at 4% every five years on the most valuable lease.	15	✓				
Occupational Demand	Anticipated demand from alternative occupiers if tenants leave.	The demand for car parking in this area is good and increasing with airport volumes.	12		✓			
Management Intensity	Complexity / costs of managing the property.	Low management intensity as leases are FRI and have no reviews except one RPI review every five years.	10	✓				
Liquidity	Ability to quickly sell the property in return for cash.	We think this will have fair liquidity. The land is not Registered which will increase sale time slightly.	6			✓		
Alternative Use / Underlying Value	The opportunity to explore added value by changing use.	There is good scope for alternative use as industrial and storage land and alternative use values at the time would need investigation.	8		✓			
Tenure	Freehold / leasehold, ground rent considerations.	Freehold with no restrictions.	10	✓				
Asset Management Opportunities	Opportunities to add value.	There is probably little scope to add value initially but this changes when the leases expire as alternative uses may be sought.	2				✓	
Financial Return		There is a good yield on the outlay - around 8.2%.	16		✓			

Weighted score

163

out of maximum 200

Title of proposed EIA	Property Investment Strategy
Reference No	EQUA313
EA is in support of	New Function
Review Frequency	Annually
Date of first review	13/12/2019
Directorate	Inclusive Growth
Division	Investment Property Management
Service Area	Property Services
Responsible Officer(s)	<input type="checkbox"/> Felicia Saunders
Quality Control Officer(s)	<input type="checkbox"/> Eden Ottley
Accountable Officer(s)	<input type="checkbox"/> Eden Ottley
Purpose of proposal	To gain authority to the implementation of the Property Investment Strategy
Data sources	Consultation Results; relevant reports/strategies
Please include any other sources of data	
ASSESS THE POTENTIAL IMPACT AGAINST THE PROTECTED CHARACTERISTICS	
Protected characteristic: Age	Not Applicable
Age details:	
Protected characteristic: Disability	Not Applicable
Disability details:	
Protected characteristic: Gender	Not Applicable
Gender details:	
Protected characteristics: Gender Reassignment	Not Applicable
Gender reassignment details:	
Protected characteristics: Marriage and Civil Partnership	Not Applicable
Marriage and civil partnership details:	
Protected characteristics: Pregnancy and Maternity	Not Applicable
Pregnancy and maternity details:	
Protected characteristics: Race	Not Applicable
Race details:	
Protected characteristics: Religion or Beliefs	Not Applicable
Religion or beliefs details:	
Protected characteristics: Sexual Orientation	Not Applicable
Sexual orientation details:	

Please indicate any actions arising from completing this screening exercise.

Please indicate whether a full impact assessment is recommended

NO

What data has been collected to facilitate the assessment of this policy/proposal?

Consultation analysis

Adverse impact on any people with protected characteristics.

Could the policy/proposal be modified to reduce or eliminate any adverse impact?

How will the effect(s) of this policy/proposal on equality be monitored?

What data is required in the future?

Are there any adverse impacts on any particular group(s)

No

If yes, please explain your reasons for going ahead.

Initial equality impact assessment of your proposal

To gain authority to the Property Investment Strategy including release of funds (acquired through sales of existing property assets and short term temporary) to enable refurbishment of existing stock and/or the purchase of leasehold/freehold interests to achieve maximisation of growth of the City Council's property portfolio.

Consulted People or Groups

Relevant Ward Members, Committee Members, Director of Inclusive Growth, Officers from City Finance, Legal and Governance and Property Services. The respective members are to be consulted on the report and their feedback will be responded to accordingly to ensure any impacts are addressed.

Informed People or Groups

Summary and evidence of findings from your EIA

The strategy provides Property Services with a greater ability to monitor, manage and increase performance of the portfolio (both existing and future) through proactive capital deployment of receipts gained and a commercially sustainable asset management approach. It provides a structure for benchmarking and performance of an asset management approach.

At this stage there have been no equality impacts identified linked to the protected characteristics and

there will be ongoing consultation with people and groups upon execution of a subsequent acquisition and/or disposal.

QUALITY CONTORL SECTION

Submit to the Quality Control Officer for reviewing?	No
Quality Control Officer comments	
Decision by Quality Control Officer	
Submit draft to Accountable Officer?	Yes
Decision by Accountable Officer	Approve
Date approved / rejected by the Accountable Officer	20/06/2019
Reasons for approval or rejection	
Please print and save a PDF copy for your records	Yes

Content Type: Item
Version: 28.0
Created at 14/06/2019 10:22 AM by ☐ Felicia Saunders
Last modified at 20/06/2019 04:03 PM by Workflow on behalf of ☐ Eden Ottley

Close

Appendix 4 - Statutory Guidance on Local Authority Investments: Checklist relating to Investment Property

Checklist taken from CIPFA Prudential Property Guidance 2019, Annex B

Please note that the statutory Guidance focuses on the contents of the Council's Investment Strategy and not on the due diligence for individual transactions. The latter is covered by processes set out in the Property Investment Strategy approved by Cabinet in July 2019, including a decision checklist for proposed acquisitions

Guidance	How the City Council has addressed it
<p>Definitions</p> <p>'Investments' are defined in paragraph 4 to include: "... all of the financial assets of a local authority as well as other non-financial assets that the organisation holds primarily or partially to generate a profit; for example, investment property ...".</p>	<p>BCC has followed this definition</p>
<p>Transparency and democratic accountability</p> <p>At least one investment strategy should be prepared for each financial year (paragraph 15), approved by full council before the start of the relevant year (paragraph 16).</p> <p>Material changes to the strategy should be presented to full council before the changes are implemented (paragraph 17).</p> <p>The strategy should be publicly available on the authority's website (paragraph 18).</p>	<p>The Council has approved a Service and Commercial Investment Strategy as part of the Financial Plan 2019+ (Appendix Q). This will be revised and approved annually as part of the budget approval by full Council. The Strategy covers property investments as well as financial investments. In support of the Strategy, Cabinet in July 2019 approved a detailed Property Investment Strategy with advice from CBRE.</p>
<p>Contribution</p> <p>The contribution that other investments (those not held for treasury management purposes) make towards service delivery objectives and/or the authority's placemaking role should be disclosed, according to types of contribution defined by the authority (paragraph 22).</p>	<p>The Service and Commercial Investment Strategy sets out the main and secondary contributions made by all its financial and property investments. The Investment Property portfolio's main contribution is towards the finances of the authority, but</p>

	<p>economic and community benefits are a secondary objective which will be taken into account in decisionmaking.</p>
<p>Use of indicators</p> <p>Paragraph 23 requires the investment strategy to include quantitative indicators that will allow members and the public to assess the authority's total risk exposure as a result of its other investment decisions, covering how investments are funded and the rate of return received. If the investments are made with borrowed cash, the indicators used should reflect the additional debt servicing costs taken on.</p> <p>The indicators used are at the authority's discretion and will reflect local risk appetite and capital and investment strategies. Indicators used should be consistent from year to year (paragraph 24).</p> <p>Indicators should allow assessment of the risks and opportunities of other investments over their payback period and (where funded from borrowing) the repayment period of the loans taken out (paragraph 25).</p>	<p>The Council's Service and Commercial Investment Strategy includes indicators of:</p> <ul style="list-style-type: none"> • Budgeted commercial property gross income compared with Council net budget (to assess proportionality) • Borrowing against £50m bridging facility • From 2020+ an indicator of commercial property value will be included, compared with outstanding borrowing to fund commercial property, and including an overall investment limit
<p>Security, liquidity and yield</p> <p>Paragraph 28 requires for treasury management investments that a balance of security, liquidity and yield is achieved based on the authority's risk appetite and the contributions made by the activity.</p>	<p>Not directly applicable (treasury management only) – although security, liquidity and yield remain important to the Council's Property Investment Strategy.</p>
<p>Security</p>	<p>This seems to request a comparison of fair value against purchase cost. Most of the Council's property portfolio was purchased many years ago and the purchase price is unknown (and almost certainly less than current value). This can be monitored for</p>

<p>The investment strategy should include the following disclosures:</p> <ul style="list-style-type: none"> • where the fair value of the investment property provides sufficient security against loss, a statement that a fair value assessment has been made in the last 12 months and the underlying asset provides security for the capital investment (paragraph 38) • where fair value is insufficient to provide security against loss, detail of mitigating actions taken or proposed (paragraph 39) • Where a loss is recognised in the fair value of a non-financial investment as part of the year end accounts and audit process, an updated strategy should be presented to full council detailing the impact of the loss on security and any revenue consequences arising (paragraph 40). 	<p>new purchases, although a proper comparison would be more complex than described. The Investment Property Board will regularly monitor market value and investment returns, and will seek to manage the portfolio as a whole on a balanced asset allocation approach, recognising that different properties will have different risks and will respond differently to market conditions. The 2020+ Investment Strategy will explain that new property investments may have an initial loss due to transaction costs and stamp duty (as explained in the CIPFA Guidance).</p>
<p>Assessing risk of loss</p> <p>Paragraph 41 recommends that the investment strategy should set out the approach to assessing risk of loss before entering into and while holding other investments, in particular:</p> <ul style="list-style-type: none"> • how the market that the authority is competing in has been assessed, the nature and level of competition, how the market/customer needs will evolve over time, barriers to entry and exit and any ongoing investment requirements • whether – and, if so, how – a local authority uses external advisors (treasury advisers, property professionals, etc) • how the quality of external advice is monitored and maintained • to what extent, if at all, risk assessment is based on credit agency ratings • where credit ratings are used, how frequently they are monitored and the procedures for action if they 	<p>The Service Investment Strategy 2019+ sets out the Council's investment risk appetite as relatively low, particularly for investments which are being financed by borrowing. It then summarises the ways the Council seeks to manage risk in relation to financial and property investments.</p> <p>In relation to individual property investments, the Property Investment Strategy approved by Cabinet in July 2019 sets out more detailed policies and criteria for assessing and managing risk, including an investment decision guide template to be used for purchases as part of the executive decision report.</p> <p>Property Investment advisers are retained to advise on the portfolio.</p> <p>Credit scores for tenants will be reviewed</p>

<p>change</p> <ul style="list-style-type: none"> • what other sources of information are used to assess and monitor risk. 	<p>as part of acquisitions due diligence, where available.</p>
<p>Liquidity</p> <p>For non-financial investments, the strategy should disclose:</p> <ul style="list-style-type: none"> • the procedures for ensuring that the funds can be accessed when they are needed • the authority's view of the liquidity of the investments that it holds, recognising that assets can take a considerable period to sell in certain market conditions, assessed by class of asset or at a portfolio level if appropriate (paragraph 43). 	<p>The Service and Commercial Investment Strategy says that liquidity risks will be managed by the Investment Property Board and through the £50m limit on new investments. The Property Investment Strategy approved by Cabinet in July 2019 contains more detailed procedures and criteria.</p>
<p>Proportionality</p> <p>If plans feature dependence on profit-generating investment activity to achieve a balanced budget, paragraph 44 requires the strategy to:</p> <ul style="list-style-type: none"> • detail the extent to which funding of service delivery objectives is dependent on achieving the expected net profit • set out contingency plans should the authority fail to achieve the expected net profit. <p>Paragraph 45 requires that the assessment should as a minimum cover the life cycle of the medium-term financial plan, but recommends assessment of longer-term risks and opportunities.</p>	<p>BCC's Strategy includes an indicator of proportionality, namely the proportion of the General Fund Net Budget which is represented by gross service and commercial investment income (identifying investment property income separately). This is currently in the 4% to 5% range which is considered to be a prudent proportion of net revenues.</p> <p>Investment income is monitored and managed as part of normal monthly revenue budget monitoring and management actions.</p>
<p>Borrowing in advance of need</p> <p>Paragraph 46 declares a prohibition on borrowing more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed.</p> <p>If this prohibition is disregarded, and the authority borrows or has borrowed purely to profit from the investment of the extra sums borrowed, the</p>	<p>The Strategy and the Council's budget includes a 'bridging loan' of up to £50m which is there to cover any short term timing differences between approved property sales and approved property purchases. There is no intention to increase the size of the investment property portfolio on a long term basis</p>

<p>investment strategy should explain:</p> <ul style="list-style-type: none"> • why the authority has decided not to have regard to the Investments Guidance or to the Prudential Code • the authority's policies in investing the money borrowed, including management of the risks, eg not achieving the desired profit or borrowing costs increasing 	<p>through the use of borrowing, where the Council's purpose is purely to profit from the investment of the sums borrowed.</p>
<p>Capacity, skills and culture</p> <p>Paragraph 48 requires that the investment strategy should disclose the steps taken to ensure that members and officers involved in investments decision making have appropriate capacity, skills and information to:</p> <ul style="list-style-type: none"> • enable them to make informed decisions as to whether to enter into a specific investment • assess individual assessments in the context of the strategic objectives and risk profile of the authority • enable them to understand how the quantum of these decisions have changed the overall risk exposure. <p>Paragraph 49 requires the strategy to disclose the steps taken to ensure that those negotiating commercial deals are aware of the core principles of the Prudential Framework and of the regulatory regime within which the authority operates.</p> <p>The strategy should comment as appropriate on the corporate governance arrangements that have been put in place to ensure accountability, responsibility and authority for decision making on investment activities within the context of the authority's corporate values.</p>	<p>BCC's Strategy sets out several avenues for training for members and officers, including regular treasury management training from the Council's treasury and investment advisers, training on commercialism, and training to members and officers supporting the Cabinet Committee – Group Company Governance. Specific training on Investment Property is being planned with the Council's property advisers, CBRE.</p> <p>Officer training relating to investment property is planned and monitored through continuing professional development for RICS and CIPFA professionals. Oversight of training for officers and members forms part of the terms of reference of the newly established Property Investment Board. These arrangements will be reported more fully in the next Strategy revision.</p> <p>The brief to the Council's forthcoming Property advisers will make reference to the need to be aware of the Prudential Code and Government Guidance.</p>

Appendix 5 – Credit Scores and financial health of sub-tenants

AirParks Services Limited (Company No: 02652781)

	31-Mar-16	31-Mar-17	31-Mar-18
Turnover	£4,790,000	£5,406,000	£5,669,000
Pre-Tax Profit	£435,000	£452,000	£122,000
Shareholders' Funds	£8,124,000	£8,638,000	£8,741,000

The Company has a Credit Safe rating of 68 which represents low risk.

Bristol Street First Investments Limited (Company No: 00251237)

	28-Feb-17	28-Feb-18	28-Feb-19
Turnover	£905,421,000	£862,914,000	£883,180,000
Pre-Tax Profit	£3,882,000	£6,650,000	£10,730,000
Shareholders' Funds	£45,188,000	£45,212,000	£40,582,000

The Company has a Credit Safe rating of 67 which represents low risk.

Motor Depot Limited (Company No: 04316950)

	31-Aug-16	31-Aug-17	31-Aug-18
Turnover	£112,742,932	£147,981,892	£199,775,087
Pre-Tax Profit	£5,244,387	£6,889,824	£7,989,577
Shareholders Funds	£14,342,475	£10,247,949	£6,627,212

The Company has a Credit Safe rating of 51 which represents low risk.

Birmingham City Council

Report to the Leader of the Council

[December 2019]



Subject: Summer Hill House Summer Hill Terrace City Centre
Birmingham B1 3RA: Revised Sale Terms

Report of: Acting Director, Inclusive Growth

Relevant Cabinet Member: Councillor Ian Ward – Leader of the Council

Relevant O &S Chair(s): Councillor Tahir Ali, Economy and Skills O&S Committee

Report author: Rob King
Business Centre Manager – Property Services
Tel No: 0121 303 3928
Email Address: robert.king@birmingham.gov.uk

Are specific wards affected?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No – All wards affected
If yes, name(s) of ward(s): Soho and Jewellery Quarter		
Is this a key decision?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
If relevant, add Forward Plan Reference:		
Is the decision eligible for call-in?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Does the report contain confidential or exempt information?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
If relevant , provide exempt information paragraph number or reason if confidential: Exempt Appendix 1 - Proposed Sale Terms and Tender Evaluation Exempt information 12A of the Local Government Act 1972 (as amended) 3. Information relating to the financial or business affairs of any particular person (including the Council)		

1 Executive Summary

- 1.1 This report seeks authority for a revision in approved sale terms for the sale of the surplus City Council owned property, Summer Hill House, Summer Hill Terrace, City Centre, Birmingham B1 3RA by the grant of a new 250 year lease at a premium to Claremont Land & New Homes Limited.
- 1.2 The subject property has a site area of 2,912m² approximately and is shown edged black on the attached plan at Appendix 1.

- 1.3 The revised commercially confidential details relating to the proposed terms of the transaction are set out within Exempt Appendix 1.

2 Recommendations

That the Leader:

- 2.1 Approves the unconditional sale of the surplus City Council owned property, Summer Hill House, Summer Hill Terrace City Centre Birmingham B13RA, as shown edged black on the attached plan at Appendix 1 (extending to 2912m²), and authorises the Assistant Director of Property to negotiate and grant a new 250 year lease at a premium to Claremont Land & New Homes Limited, noting that additional commercially sensitive information is detailed in Exempt Appendix 1.
- 2.2 Approves the purchaser paying a 10% deposit on exchange and the balance of the purchase monies on completion.
- 2.3 Notes the Tender Evaluation Report detailed in Exempt Appendix 1.
- 2.4 Authorises the Acting City Solicitor to prepare, negotiate, execute and complete all relevant legal documentation to give effect to the above.

3 Background

- 3.1 The subject property was declared surplus in a report of the Corporate Director Economy to Cabinet entitled "Property Strategy 2018/19-2023/24 (The Property Strategy) including First Phase Projects" in November 2018. The report also approved the subject property being offered for sale.
- 3.2 The property has subsequently been offered for sale to the open unrestricted market by informal tender with a closing date of 4th January 2019, as part of the Birmingham Sites Prospectus (Nov 2018).
- 3.3 Tenders were invited on either an unconditional or conditional (subject to planning only) basis.
- 3.4 By the closing date a total of 13 offers had been received.
- 3.5 The offers received were reported to Cabinet on 5th March 2019 within a report entitled "Property Prospectus – Tenders", with a recommendation to accept the highest unconditional offer. Unfortunately, this offer was withdrawn immediately post Cabinet.
- 3.6 In accordance with the recommendations of the March 2019 Cabinet report, officers invited best and final unconditional offers from the under bidders by a closing date of 29th March 2019.
- 3.7 The outcome of the best and final process and recommendations for sale were approved in a report of the Leader of the Council jointly with the Director Inclusive Growth, entitled "Sale: Summer Hill House, Summer Hill Terrace, City Centre Birmingham B1 3RA" (CMIS Ref 006642/2019 23.05.19).

- 3.8 Claremont Land & New Homes Limited, have subsequently undertaken final due diligence ahead of sale completion. These investigations have revealed potential environmental planning restrictions on any future residential use for the property due to noise levels emanating from an adjoining manufacturing business.
- 3.9 Claremont Land & New Homes Limited have indicated, that given the nature and perceived level of the associated risk on their development proposals for the property, whilst they remain committed to acquire the property, they cannot contract at the sum originally tendered at the Best & Final Stage.
- 3.10 Claremont Land & New Homes Limited, have accordingly submitted a revised unconditional offer, with supporting evidence. This offer has been evaluated and recommended revised terms for the transaction, in accordance with approved extended delegations are set out in Exempt Appendix 1.

4 Options Considered and Recommended Proposal

- 4.1 Option 1: Don't Proceed with the Sale - not to proceed would mean not realising a capital receipt from the sale of a surplus asset
- 4.2 Option 2: Proceed with the Sale under the Revised Terms - the sale of this surplus asset will remove an ongoing management liability to the City Council and will promote opportunity for private investment into the city region economy
- 4.3 The recommended sale terms detailed in the Exempt Appendix 1 represent best consideration and have been validated by the Assistant Director of Property based on an analysis of the offer received.

5 Consultation

- 5.1 The relevant ward members have been consulted and have no objections to the report's recommendations. A record of this consultation is detailed in Appendix 2.

6 Risk Management

- 6.1 Inability to meet the current expectations of the property market: To meet the expectations of the prevailing property market, the City Council has committed to deliver this sale in accordance with the Delivery Milestones set out in the Birmingham Sites Prospectus (Nov 2018). Unfortunately, due to the events outlined in the background of this report, the initial target date of July 2019 was missed. Sale completion is now anticipated by January 2020.

7 Compliance Issues:

7.1 How are the recommended decisions consistent with the City Council's priorities, plans and strategies?

- 7.1.1 The Property Strategy is aligned with the strategic outcomes outlined in the Council Plan 2018-2022 (as updated in 2019) – to create a city of inclusive

growth where every child, citizen and place matters. The Property Strategy will help make Birmingham: a great city to learn, work and invest in; a great city to grow up in; a great city to age well in; a great city to live in; and for residents to gain maximum benefit from hosting the Commonwealth Games.

7.1.2 As the largest local authority in the country with the biggest property portfolio, the City Council has the opportunity to utilise its property and land assets in a strategic way to deliver our priorities.

7.1.3 The Property Strategy takes a medium to long term strategic approach to how the City Council utilises its unique asset base and will ensure a balanced delivery of maximised commercial and social returns. Re-aligning the City Council's property portfolio will provide a catalyst for development and underpin the social fabric of communities across the city.

7.2 Legal Implications

7.2.1 The power to hold, appropriate and dispose of land is contained in Sections 120 - 123 of the Local Government Act 1972.

7.2.2 Section 1 of the Localism Act 2011 contains the Council's general power of competence and Section 111 of the Local Government Act 1972 contains the Council's ancillary financial and expenditure powers in relation to the discharge of its functions including the disposal and acquisition of property

7.2.3 Exempt information 12A of the Local Government Act 1972 (as amended) 3. Information relating to the financial or business affairs of any particular person (including the Council). Exempt Appendix 1 is considered to be in the public interest as it contains commercially sensitive information of a financial or business nature, which if disclosed to the public could be prejudicial to a named person, individual or company.

7.3 Financial Implications

Capital

7.3.1 The property forms part of the Non-Investment Portfolio, and the capital receipt from the sale of this asset will be available to support the City Council's priorities, subject to Capital Board approval and the City Council's governance process.

Revenue

7.3.2 The work to market the property and agree the revised sale terms has been undertaken by existing staff within Inclusive Growth and covered by existing approved revenue budgets.

7.3.3 The purchasers will be responsible for paying the Council's reasonable surveyors and legal fees.

7.3.4 The sale of this asset will remove current void property liabilities totalling £0.119m per annum.

7.4 Human Resources Implications (if required)

7.4.1 Internal professional property, legal and planning resources will be utilised to deliver this sale.

7.5 Public Sector Equality Duty

7.5.1 The proposed sales programme will be undertaken in accordance with the Property Strategy. The Property Strategy is a policy document setting out the strategy principles associated with property assets and at this stage there are no specific implications. An Equality Assessment Ref No. EQUA124 dated 25th September 2018, is attached as Appendix 3. The assessment confirms there is no adverse impact on the characteristics and groups protected under the Equality Act 2010 and a full Equality Assessment is not required for the purpose of this report.

8 Appendices

8.1 Appendix 1 – Site Plan

8.2 Appendix 2 – Ward Member Consultation

8.3 Appendix 3 - Equality Assessment

8.4 Exempt Appendix 1 – Proposed Sale Terms and Tender Evaluation

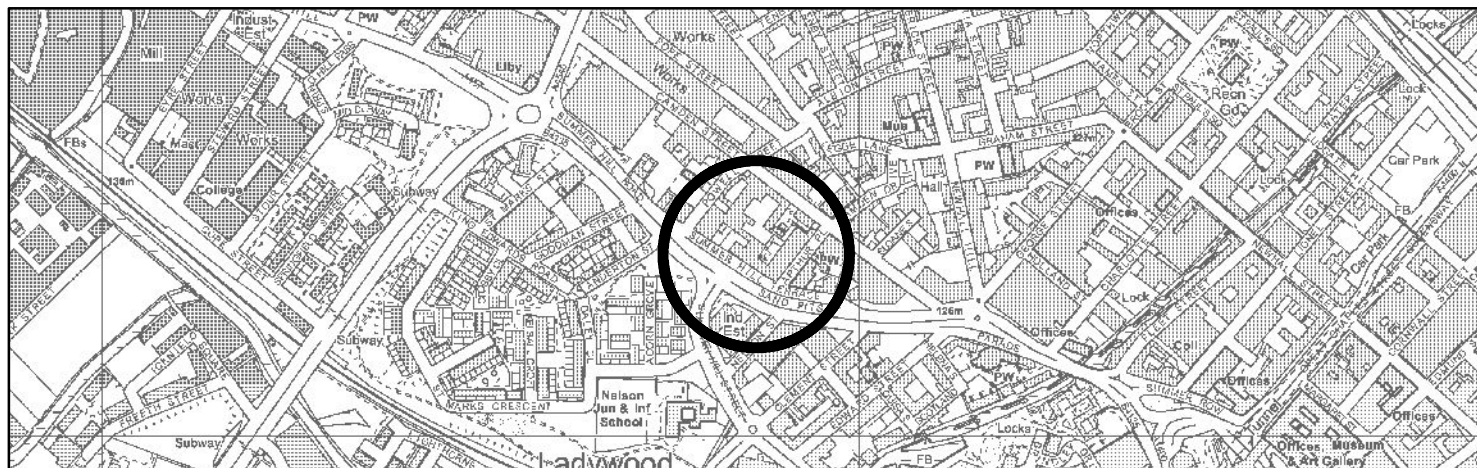
9 Background Documents

9.1 Property Strategy 2018/19-2023/24

9.2 Birmingham Sites Prospectus (Nov 2018)

9.3 Property Prospectus – Tenders report to Cabinet 5th March 2019

9.4 Report of the Leader of the Council jointly with the Director Inclusive, Growth, entitled “Sale: Summer Hill House, Summer Hill Terrace, City Centre Birmingham B1 3RA (CMIS Ref 006642/2019 23.05.19)



© Crown Copyright and database right 2018. Ordnance Survey 100021326.
You are not permitted to copy, sub-licence, distribute or sell any of this data to third parties in any form.



Birmingham
City Council

Kathryn James
Assistant Director Property
10 Woodcock Street
Birmingham
B7 4BG.

18-23 Summer Hill Terrace
Soho & Jewellery Quarter



Scale (Main Map)

Drawn

Date _____

1:1,250

MI

29/11/2019

O.S.Ref. SP0587SE

Appendix 2 - Ward Member Consultation (December 2019)

PROPERTY ADDRESS	WARD	CONSULTATION	COUNCILLOR RESPONSE	RESPONSE
Summer Hill House Summer Hill Terrace City Centre Birmingham B1 3RA	Soho & Jewellery Quarter	Email dated 29/11/2019 requesting comments by 6/12/2019	Cllr Chaman Lal – No response received Cllr Sybil Spence – No response received	

Title of proposed EIA	Property Strategy 2018-2023
Reference No	EQUA124
EA is in support of	New Policy
Review Frequency	Six Months
Date of first review	26/03/2019
Directorate	Economy
Division	Birmingham Property Services
Service Area	Investment Property Management
Responsible Officer(s)	<input type="checkbox"/> Felicia Saunders
Quality Control Officer(s)	<input type="checkbox"/> Eden Ottley
Accountable Officer(s)	<input type="checkbox"/> Eden Ottley
Initial equality impact assessment of your proposal	<p>To ensure the City Council's property assets support the delivery of the inclusive economic growth agenda. Realigning the Council's property assets will maximise commercial returns, ensuring they act as a catalyst for development and regeneration initiatives, and underpin the social fabric of communities across the city.</p> <p>The City's property assets will become a key driver for Birmingham's future transformation returning greater revenue to fund the delivery of services, supporting the creation of 1,000s of new homes and jobs and delivering best in class operational building stock for future generations.</p> <p>Rationalisation of the property portfolio assets will encourage local economic growth and development as well as generate capital receipts and increase revenue.</p> <p>At this stage there is no negative impact on tenants and the citizens of Birmingham. Opportunities will be done on a solus negotiation basis with current occupiers of investment properties on the open market where there is potential for growth.</p>
Protected characteristic: Age	Not Applicable
Age details:	
Protected characteristic: Disability	Not Applicable
Disability details:	
Protected characteristic: Gender	Not Applicable
Gender details:	
Protected characteristics: Gender Reassignment	Not Applicable
Gender reassignment details:	
Protected characteristics: Marriage and Civil Partnership	Not Applicable

Marriage and civil partnership details:

Protected characteristics: Pregnancy and Maternity Not Applicable

Pregnancy and maternity details:

Protected characteristics: Race Not Applicable

Race details:

Protected characteristics: Religion or Beliefs Not Applicable

Religion or beliefs details:

Protected characteristics: Sexual Orientation Not Applicable

Sexual orientation details:

Consulted People or Groups

The Leader of the Council has been consulted and is fully supportive of the report proceeding to an executive decision. Cabinet Members and the Executive Management Team, the Chief Executive, Corporate Directors and the Council Management Team. Officers from Legal Services, City Finance and other relevant officers from the Economy Directorate.

Informed People or Groups

Summary and evidence of findings from your EIA

This is a policy document setting out the strategy principles associated with property assets and at this stage there are no specific implications. However dependent on how Directorates deliver their services going forward, they will need to set out and identify the impact on their service based on implications on the communities they serve. It will be at this stage Directorates will be required to undertake full EA's as necessary.

The property strategy will be the catalyst to reshape how the various portfolios will be managed. There will be full engagement with the respective portfolio and stakeholders when there is a specific mobilisation of any changes.

At this stage there is no need for a Full Assessment.

Submit to the Quality Control Officer for reviewing? Yes

Quality Control Officer comments

Decision by Quality Control Officer Proceed for final approval

Submit draft to Accountable Officer? Yes

Decision by Accountable Officer Approve


Date approved / rejected by the Accountable Officer 25/09/2018


Reasons for approval or rejection

Please print and save a PDF copy for your records Yes

Content Type: Item

Version: 19.0

Created at 25/09/2018 10:10 AM by  Felicia Saunders

Last modified at 25/09/2018 04:05 PM by Workflow on behalf of  Eden Ottley

Close

