

**Agenda Item No:** 6  
**Report To:** Overview & Scrutiny Committee  
**Date:** 24<sup>th</sup> March 2015  
**Report Title:** **International House Update**  
**Report Author:** Stewart Smith  
Senior Commercial Development Manager  
**Portfolio Holder:** Councillor Neil Shorter  
Portfolio Holder for Resource Management and Control



<b>Summary:</b>	This report seeks to update the Overview & Scrutiny Committee on the position following the acquisition of International House, particularly with regard to asset and building management, current voids and budget forecast.
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**Key Decision:** No

**Affected Wards:** Victoria (Ashford)

**Recommendation:** **That the Overview and Scrutiny Committee notes the update report.**

**Financial Implications:** None

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## Report Title: International House Update

### Purpose of the Report

1. To update the Overview & Scrutiny Committee on the position following the acquisition of International House, particularly with regard to asset and building management, current voids and budget forecast.

### Issue to be Decided

2. N/A

### Background

3. At the Overview & Scrutiny Committee of 27<sup>th</sup> January 2015 some Members expressed concern regarding the risks for the Council in relation to the acquisition of International House, and requested that a report be submitted back to the Committee to address these concerns.

### Asset Management

4. Since completing on the purchase of International House in April 2014 the Council has undertaken work to maximise the (already good) return that this asset provides. This has included:
  - Securing vacant possession and carrying out the refurbishment of the first floor. These works will be completed by the end of this month (March) and will result in the creation of 5300 square foot of office space which will achieve circa £84,800 per annum in additional rent. At the time of writing negotiations are at an advanced stage in relation to the letting of 1800 square foot of this new space.
  - A reconfiguration of the office accommodation on the second and third floors which has resulted in the creation of an additional 730 square foot of office space. This will generate an additional rental income of £11,000 per annum. Negotiations have been completed in relation to all 730 square feet and leases issued.
  - Entering in to negotiations with high street coffee shop chains with a view to establishing a cafe on the ground floor of the building thereby generating additional rental income. Negotiations are currently ongoing.
  - Addressing the building management strategy to see where savings can be made in relation to the Service Charge expenditure. This has resulted in provisional savings which reduce the budgeted itemised heads of expenditure by £25,000 for the next financial period 15/16. Some of this saving may be lost to additional costs incurred as a result of improvements made to the existing service (higher grade CCTV

installation) but this will have the effect of increasing the value in the asset. Service Charge expenditure will continue to be examined annually to identify where savings can be made.

## **Building Management**

5. A Business Case is currently being put together exploring the idea that the management of the building is brought in-house.

## **Current Voids**

6. Save for the available space on the first floor, referred to above, there is currently only one void in the whole of the office block (Suite 1, Third Floor - totalling 474 square feet). This available space is being actively marketed with local agents.

## **Budget Forecast**

7. There has been the requirement to manage a number of voids in the opening financial period, partly as a result of the works being carried out on the first floor. The impact of this has to a large part been mitigated by pro-active treasury management. The outturn for the coming financial period 15/16 is in line with the forecast (Feb 14) of £870,000.

## **Recommendation**

**That the Overview and Scrutiny Committee notes the update report.**

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Appendix 2

International House - Due Diligence - Questions from Councillors

Councillor		Question	Answer
Councillor Bartlett	1	What is the view by agents on the risk that the building will not be occupied as tenants vacate (we will need to see the letting schedule including lease terms) such that income falls below the cost to the Council (i.e. interest on the loan). A financial model would be of use.	Market evidence from the appointed valuer at the time of purchase , demonstrated there is a strong market for good quality office space , to reasonably modern standards. This has been further evidenced more recently, whereby the Council undertook a soft market testing exercise for the new office block on Dover Place, which concluded there is significant interest and potential pre lets are already expressing interest in the space.
Councillor Bartlett	2	What is the Council's view of alternative use should the income from office letting dry up?	This was included within the Cabinet Report of February 2014 as attached, which considered the risk assessment of purchase. At the time discussion had taken place with a local architect as to whether the building could be converted in to residential and it was confirmed this was possible.
Councillor Bartlett	3	What public liability insurance has the Council taken out to protect itself should there be a claim arising from its ownership?	International House is covered under the Councils Public Liability policy, this was recently reviewed and retendered by our brokers AON who advised that the Limits of indemnity were increased to £30m per claim. The limits of the Councils policy have been increased in line with this advice from AON.
Councillor Bartlett	4	Did the Council consider using a Special Purpose Vehicle (SPV) to ring fence the risk of liabilities arising from the building falling on the Council?	Yes, however, the property was purchased as an investment asset and as such income was included with the Council's MTFP without payment of any tax. The Council concluded there were no additional advantages including International House within an SPV. As the sole owner of the SPV, the Council would have had to manage the reputational risk of any such liability in any event. However, the risk assessment did not suggest any unusual or uninsurable risks. The insurability of the building is In line with the Council's policy and was appropriately insured see question 3
Councillor Bartlett	5	What tax planning was taken to ensure the Council does not trigger VAT, corporation tax or Capital Gains Tax arising from its ownership?	Corporation tax would only arise if the building were put into a company, as the Council does not pay corporation tax. Capital Gains Tax is a personal tax and doesn't apply to the Council and wouldn't apply to a SPV either, although it is recognised that capital gains may generate corporation tax able profits (subject to capital allowances).
Councillor Bartlett	7	Is land title clean?	Yes if by clean you mean that the title enables the building and land to be used for its existing use without onerous covenants or charges.
Councillor Bartlett	8	What is the EA view of the site regarding risk of flooding?	The eastern section of the International House car park adjacent to the River Stour is situated in the Environment Agency's designated Flood Zone 2 . This means that it has between a 1 in 100 and 1 in 1,000 annual probability of flooding. The building itself is on higher ground just above the flood plain.
Councillor Bartlett	9	What access rights from Station Access Road are available? (I recall the Council entering into an agreement with the landowners regarding access from the Station Access Road and wonder if the former owners of International House have needed to do the same).	Yes, an easement is in place for the benefit of the land on which International House sits in respect of Station Approach, in similar terms to that of the easement that the Council has.
Councillor Davison	10	Are the building survey and due diligence reports available to Councillors?	Yes available at request
Councillor Davison	11	Which Councillors were consulted on the purchase?	The acquisition report went to Cabinet with the Council's recommendations agreed by full Council in February 2014, Councillors Clarkson and Shorter together with the CEX then "signed off" the final due diligence report before exchange of contracts in accordance with the Council's decision.

Councillor Davison	12	Who made the decision to purchase?	Cabinet, Meeting February 2014, the Cabinet Minute number is 305/02/14 ( 13 <sup>th</sup> February 2014) which in turn was approved by Council on 20 <sup>th</sup> February 2014 – Minute number 328(b)(ii)/02/14.
Councillor Davison	13	What is the gross floor space and how much is let?	Total 79,280 sqft less non lettable space 2,280 which gives lettable space of 77,000 sqft. All is let save the first floor of 5,720 which is currently being refurbished, following the relocation of the community groups who had rent free leases. Prelets for the majority of the 1st Floor are in place.
Councillor Davison	14	What is the ABC business plan for the building?	Council agreed to purchase International House for investment purposes to strengthen its resilience against future central government funding cuts. Net income is budgeted £728k and £754k for next year before financing. This significantly improved the Council's financial position and as such was reported within the Cabinet Preliminary draft Budget Report 8.12 .14 appendix E. Further efficiency drivers are in place for next year to reduce operational costs.
Councillor Davison	16	What was the source of the purchase funding?	The Council modelled the acquisition based upon borrowing from the PWLB on a 25 year fixed interest loan (4.25%). The Council has not yet taken out this funding and has borrowed it from internal cash balances (costing between 0.5% and 1% in lost investment returns) due to relatively cheap short term funding costs. Since the acquisition there has been a reduction in long term rates which now are just below 3%. The Councils treasury management advisor, Arlingclose, have been monitoring this and do not advise that the council takes long term borrowing to finance the purchase at this stage.
Councillor Davison	17	What type of insurance has been taken out and its cost?	The Councils Public Liability cover is discussed in the response to question 3, as this is priced on the councils entire risk portfolio it is not possible to separate a cost for International House. The Councils building insurance covers damage to the property to rebuild cost (£15.5m) and covers the loss of rent (£1.2m) per year. For International House this costs £11,312.05 (including IPT) The Councils Employers Liability policy would cover any staff employed to manage the building (currently this is outsourced). The Council has Terrorism cover which means the Policy is valid in the event of an act of Terror affecting the property. Best advice was sought from the Councils broker at renewal and we have put in place cover at the levels recommended by AON.
Councillor Davison	18	If any outside funding is involved. What type and at what cost?	Funded wholly by the Council.

**Agenda Item No:** 8  
**Report To:** Cabinet  
**Date:** 13<sup>th</sup> February 2014



**Report Title:** **Commercial Quarter**

**Portfolio Holders:** Councillor Neil Shorter

Portfolio Holder for Resource Management and Control.

**Report Author:** Paul Mckenner  
Strategic Housing and Property Manager

John Bunnett  
Chief Executive

**Summary:**

The Council has an ambitious programme to deliver a number of key projects before May 2015 and has established the Ashford Strategic Delivery Board to oversee the **Big 6 Projects**. One of these major projects for the Borough is to support the redevelopment and to re-invigorate the Commercial Quarter. The Public Sector has been involved in securing a number of sites within the Commercial Quarter such as International House and the former Crouch's garage site (including Dover Place) to facilitate a comprehensive redevelopment of this area that will form part of a mixed use redevelopment to include retail, leisure, commercial floor space, residential accommodation and high quality public realm space.

As a growing borough, the Council wants to attract sustained economic growth and the commercial quarter is key to Ashford's prospects overall. The commercial quarter has always been seen as the 'driver' for that growth and an essential part of overall plans for the town and the regeneration of the town centre. The new office quarter – complemented by more conventional business parks with good motorway access – is essential to the balanced growth of the town and for taking full advantage of HS1. With economic growth will come housing demand and of course we are planning for that too. The Council now has an ideal opportunity to deliver this by the purchase of International House and the former Crouch's Garage site in this financial year and the potential to redevelop a 50,000 sq ft of office on part of Dover Place car park.

Homes and Community Agency (HCA) has allocated a significant amount of their own monies to deliver considerable public realm works around the Commercial Quarter, these works are subject to the necessary approvals being in place and will further enhance the visual appearance of the area and will endorse the linkages in to the town centre.

The scale of the Commercial Quarter is significant, providing

enormous scope to have available in Ashford strategically located, serviced development land capable of attracting and retaining a wide range of high value employment uses. At the same time, these strategic asset acquisitions will provide an invaluable revenue stream to replace in part the loss of Central Government funding.

This report recommends the Council making the acquisition in order to strengthen the Commercial offer and help support the long term financial stability in line with the agreed Corporate Plan "Focus 2013-15". It is proposed, subject to the satisfactory conclusion of the due diligence process, that Members agree to fund the acquisition through Prudential borrowing.

**Key Decision:** Yes

**Affected Wards:** All

**Recommendations:** **The Cabinet be asked to recommend to Council:-**

- 1. to purchase International House and the former Crouch's Garage site as outlined within the exempt appendix 1 subject to detailed due diligence being carried out to the satisfaction of the Leader, Portfolio Holder for Resource Management and Control and the Chief Executive.**
- 2. to finance the cost of purchase and repairs from Prudential Borrowing.**
- 3. to commence design proposals for an office block on Dover Place once the acquisition of the former Crouch's garage site has been completed.**
- 4. to fund the cost of those designs of £120,000 from revenue reserves.**
- 5. to note the significant public realm works to be undertaken around the Commercial Quarter.**
- 6. to give authority to the Head of Legal and Democratic Services, in consultation with the Strategic Housing and Property Manager, to execute and complete all necessary documentation to give effect to the above recommendations.**

**Policy Overview:** There is an overwhelming need to enhance the commercial offer to sustain the economic agenda and to ensure such offer is high quality to provide long term sustainability for employment uses. There is also an ever increasing pressure on the public sector to strategically manage and operate their property assets and to think commercially about property decisions. At the same time there is continuing pressure to provide better local services and raise standards, whilst operating under financial constraints. Many authorities are now acting to strengthen their funding base and reduce reliance on Government

Grant by building asset portfolios that provide a commercial return.

The Council has powers to acquire and dispose of properties under the Local Government Act 1972. There are a number of Government policies aimed at achieving efficiencies, transforming public services, giving communities more power (Localism Act 2011), improving infrastructure and addressing climate change, this proposal would compliment these objectives.

**Financial Implications:**

The purchase of these acquisitions has been considered as a viable proposition in order to enable the Council to secure an income stream and increase our financial resilience over time rather than be reliant on continually decreasing Central Government Funding. The funding of these proposed purchases are to be financed from Prudential Borrowing.

**Risk Assessment**

This will form part both of Council's overall Corporate Risk Assessment and the risks which are contained within the report.

**Exemption Clauses:**

**Exempt Appendix 1 and 3 A Not For Publication by virtue of Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972.**

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**Appendices**

Exempt Appendix 1 – Business Case/Proposed Purchase  
Appendix 2 Location plan of the assets to be acquired and photographs.  
Exempt Appendix 3 Cash Flow Forecast for International House



**Report Title: Commercial Quarter**

**Purpose of the Report**

1. To seek Cabinet approval to purchase International House and the former Crouch's Garage site as outlined within the exempt appendix 1.
2. To approve the use of Prudential Borrowing to fund the purchase of these assets.
3. To demonstrate to members both the value of strategic capital investment and the impact such investments have on placing less reliance on government grants and more importantly enhancing the commercial offer of the Borough

**Issues to be decided**

4. To purchase both International House and the former Crouch's garage as investment properties and to approve the release of revenue reserves to fund the design proposals for an office block redevelopment on Dover Place.

**PROPOSED PURCHASE OF INTERNATIONAL HOUSE AND FORMER CROUCH'S GARAGE SITE.**

**Background**

5. The Public Sector has been involved in securing a number of sites within the Commercial Quarter such as International House and the former Crouch's Garage site (including Dover Place car park, workshop, former grain store, single storey building, old corn store and yard) to facilitate a comprehensive redevelopment of this area that will form part of a mixed use redevelopment to include retail, leisure, commercial floor space, residential accommodation and high quality public realm.
6. As a growing borough, the Council wants to attract and grow our commercial offer to further the economic growth and prosperity of the town and the borough. The Council now has the perfect opportunity to deliver this by purchasing International House and the former Crouch's garage site in this financial year with the potential to develop 50,000 sq ft of office space on part of the current Dover Place car park.
7. The development and commercial opportunity represented by the Commercial Quarter will represent the single largest opportunity ever undertaken by the Council to help grow the local economy by attracting significant investment and job opportunities.
8. During the last eight months or so, the Council has been exploring the possibility of purchasing the HCA freehold interests in the Commercial Quarter, which includes the former Crouch's Garage, Dover Place (comprising a public car park and several older buildings with existing occupiers) and a multi let office space of approximately 80,000 sq ft fronting Station approach and known as International House together with the associated car park.

9. With the full support of the Leader, Portfolio Holder for Resource Management and Control and the Chief Executive, gave an undertaking to purchase the HCA freehold interests in the Commercial Quarter subject to the usual pre contract due diligence and full endorsement by the Council.
10. The Council is working towards completion of the purchase of both sites by 1<sup>st</sup> April 2014.
11. Once the Council has purchased the freehold interest in Dover Place Car, this would provide the Council with the ideal opportunity to develop the site. Initial discussions have taken place with a leading architectural practice and have developed a design proposal that could deliver a 50,000 sq ft office complex built out at around £150 sq ft, equating to £7.5m of capital costs.
12. The Leader of the Council supported by senior officers is keen to see the development progress to further assist the reshaping and to improve the prominence of the Commercial Quarter both locally and nationally. This site is ideally placed to take advantage of the economic benefits of its location to both the International and Domestic railway stations and to support the continuing growth of Ashford
13. It is proposed to progress the initial designs to planning stage and during this time the Council would look to market the site to commercial operators and or consider alternative ways of funding the office development.
14. Members are asked to release £120,000 to fund the costs associated to take the design proposals through to planning approval stage.
15. HCA is committed to deliver a considerable package of public realm works to redesign and construct new shared surface area within the Commercial Quarter. The site is located adjacent to Ashford International High Speed Rail Station, and links International House to Station Road via Dover Place.
16. HCA have appointed designers and will be working closely with both the Planning Authority and the Council's property team to develop a scheme which significantly improves the visual appearance of this area. The programme is envisaged to start after the proposed completion date and there will be a need to enter in to a legal agreement with both Kent County Council and the Borough Council to enable this.
17. The proposed purchase by the Council is not connected or conditional upon HCA progressing a possible transaction with Royal Mail in respect of the Post Office Sorting Operation, which occupies the site immediately to the north of HCA's existing ownership. Similarly, we understand that HCA will progress a sale of its freehold interest in the former Rimmel site on the open market within the next 5 months and that this process is entirely unconnected with the proposed sale and purchase.





### **DUE DILIGENCE:**

18. The Council and the HCA jointly commissioned the appointment of an independent valuer to assess the open market value of the properties on the basis that both parties accepted and agreed to complete the sale at the independently assessed valuation. (The Council also understood that HCA will need to realise the Net Book Value of its assets at the agreed valuation date).
19. **Due diligence**  

The usual legal conveyancing process is taking place including consideration of the legal title to the properties, details of the occupancy arrangements that are in place with the tenants of the various buildings, and detailed enquiries made of the HCA's solicitors regarding the properties. This due diligence will be completed in readiness for exchange of contracts prior to 31<sup>st</sup> March 2014.
20. The Council commissioned detailed surveys of all of the buildings to be acquired to determine the current condition, any repairs immediately necessary and long term maintenance costs. The reports are very detailed, lengthy and comprehensive and are available to Members on request.
21. These include the following:-
  - I. Building Survey Report
  - II. Mechanical and Electrical Report
  - III. Curtain Wall and Cladding Report
  - IV. Structural Survey Report
  - V. Further reports such as Asbestos Survey Reports are being produced by the HCA as part of the standard enquires to purchase.
22. The Council is nearing its completion of the due diligence and we are awaiting the outcome of the Structural Survey report for International House. It is pleasing to report the findings of the reports received thus far, indicate the fabric of the building is sound, with no major issues of concern. There have been a number of remedial issues which the HCA have agreed to carry out before purchase is carried out.

23. International House which was constructed in the early 1970's is generally in a very sound condition considering its age and use. Ongoing refurbishment work has been undertaken since its construction, most recently since HCA acquired the building to the common parts and the entrance. In addition to 8<sup>th</sup>, 9<sup>th</sup> and 10<sup>th</sup> floors.
24. Elements of the building are, in some cases, coming naturally to the end of their economic life. External glazing, roof covering and car park are three elements requiring investment to extend the life of the building, these will be managed by adopting a just in time approach which enables the Council to review the timing of the repairs to be carried out and to carry out the repairs when required to do so.
25. There is no planned maintenance programme in place at this time and it is therefore proposed to address this by setting aside £500,000 of borrowing to carry out necessary repairs to address the elements above and to have funds to carry out planned maintenance work in due course.
26. Reports for the former Crouch's Garage site have identified that significant investment is required and will be subject to a further report, once the long term options for the buildings have been considered.

#### **INTERNATION HOUSE LOCATION:**

27. International House is situated on the northern side of the access road to Ashford International Station on the southern periphery of Ashford town centre. The northern entrance into the railway station and the entrances to two of the station car parks are situated opposite International House. The building is bounded by the Dover Place car park to the west, the car park to the Civic Centre and Stour Centre to the east and industrial/warehouse buildings to the north. Photographs are contained within appendix 2.

#### **DESCRIPTION:**

28. International House is a purpose built office building which provides office accommodation on the 1<sup>st</sup> – 11<sup>th</sup> floors. The building is approximately 40 years old. It is of reinforced concrete framed construction forming two wings, the main, Block A, facing the station and the smaller, Block B, facing Dover Place. The floors within the building are all of solid concrete construction. The elevations to the main, 12 storey, and part of the building have small areas of brick cladding. The main front and rear elevations are clad principally with steel faced panels which incorporate single glazed aluminium framed windows.
29. The eastern and western flank elevations to the 5 storey rear wing have similar claddings. The northern and southern elevations to the rear wing are brick clad.
30. Both the main 12 storey part of the building and the 5 storey rear wing has mono-pitched roofs. The roof to the rear wing is finished with asphalt which has been overlaid with concrete slabs.
31. On the ground floor of the building there is an entrance/reception area which has a glazed frontage. The floor is principally tile clad. There is a suspended ceiling. Access to the upper floors of the building can be obtained either via one of three 12 person passenger lifts or the staircase which is situated at the rear of the core area.
32. At each floor level in the core area there is a landing/lift lobby and male and female W.C. On some of the floors there are also tea making rooms. The accommodation on the 1<sup>st</sup>, 2<sup>nd</sup>, 3<sup>rd</sup> & 4<sup>th</sup> floors is L-shaped. Within floors 5-11 the accommodation is rectangular in shape.

33. The specification of the office accommodation varies from floor to floor. Within Block A (the 12 storey part of the building) the 2<sup>nd</sup>, 3<sup>rd</sup>, 4<sup>th</sup> & 6<sup>th</sup>-11<sup>th</sup> floors have been refurbished. The fit out includes suspended ceilings which incorporate recessed Category 2/LG7 lighting, perimeter panel hot water radiators and perimeter trunking.
34. Within Block B (the rear 5 storey wing) the accommodation on the 1<sup>st</sup> & 2<sup>nd</sup> floors has been upgraded to include suspended ceilings although the original perimeter fin pipe heating system is in situ.
35. Within the 3<sup>rd</sup> and 4<sup>th</sup> floors of Block B and on the 5<sup>th</sup> floor of the building the accommodation has not been subject to any significant refurbishment. The specification includes solid ceilings with ceiling mounted fluorescent lights and perimeter fin pipe heating.
36. A limited refurbishment has been carried out to part of the 1<sup>st</sup> floor within Block A.
37. On the 3<sup>rd</sup>, 4<sup>th</sup> & 8<sup>th</sup> floors of the building the accommodation has been divided by partitions to form a number of suites which are capable of being let as separate units.
38. Within the void above the core to the 11<sup>th</sup> floor there is a former caretaker's flat and a plant room.
39. The building is situated on a basically L-shaped site which has an area of approximately 1.845 acres (0.746 hectares). Within the site there is a barrier controlled access, of which there are approximately 220 marked parking spaces.

#### **ACCOMMODATION & FLOOR AREAS:**

Total internal floors areas for Block A are 62,218 sq. ft. (5780.01 m<sup>2</sup>) and for Block B are 17,072 sq ft. (1,585.98m<sup>2</sup>) which provides an overall total of 79,280 sq ft (7,365.99 m<sup>2</sup>)

#### **LEASES & TENANCIES:**

40. We have been provided with a schedule of leases and income. We have now concluded due diligence of the leases and tenancies and are now satisfied as to their terms.
41. The leases and tenancies vary across the buildings in their length, rent levels and whether the rent is inclusive or exclusive of service charges. There are a few historic leases that are on terms that would not be best practice if granted in today's market, but these are not detrimental to the Landlord's position.
42. There are no units currently unoccupied and there is a wide range of tenants in terms of nature of their business and their strength of covenant.
43. Proactive management of the tenancies will commence after purchase to establish a long term strategy for the building.
44. The independent valuer has assessed the valuation of International House and the former Crouch's Garage site having regard to the leases as at October 2013. The valuation opinion is contained within Exempt appendix 1.
45. The former Crouch's Garage leases are predominately short term tenancies all at peppercorn rent, which includes the Youth Theatre building, Old Corn store (empty) Gateway furniture store and a former garage forecourt.

46. The valuation advice received shows there is a difference of £150,000 to the HCA Net Book Value of International House from that of the independent valuation. Former Crouch's Garage site is at the same value. Although there is a difference between the two valuations, there have been a number of changes in the position regarding tenancies since the valuation was carried out. Furthermore, the Council recognises a small premium payment is worth paying to act as a catalyst for improving both the economic prosperity of Ashford and as well as assisting in delivering additional revenue income.
47. The Council has been provided with budget estimates for managing and maintaining International House, this currently shows an operating budget cost in the region of £450,000. Of which, just less than 50% is recovered through service charge arrangements leaving a balance of £237,000 to be met by the Council as the freeholder of the building. This is as a result of the rent levels for those tenants that pay an inclusive rent being incorrectly set; as a result there are some service charge costs that are not directly recoverable. This will be addressed by the Council as the Landlord when these units become available for re-letting.
48. The Council proposes to continue with the current management arrangements with the existing management company GVA Grimley for the immediate future and would look to review the day to day operation once the management arrangements are fully understood. Marketing of the facility will also be left unchanged at this time and will be reviewed.
49. The overall financial position of the proposal to purchase the freehold interests of the HCA assets is contained within the Exempt Appendix 1.

## Financial

50. The purchase of this property has been included in the draft budget with assumptions made on the income generated and saving in rental payments for the car park. This has been included in the risk register for the draft budget.
51. A cash flow forecast has been completed for the project allowing for purchase costs (including Stamp Duty) with an allowance for refurbishment, operating costs that have been provided by the agent and rental income based on the current tenancy agreements. This is contained within exempt **appendix 3**.
52. The gross yield excluding service charge costs amounts to 15.03%, net of financing and other charges amounts to 3.21%.
53. The Council's Property acquisition strategy requires that financial modelling is completed using the 25 year PWLB rate giving a benchmark for the investment at a long term borrowing rate and mitigating against refinancing risk. The modelling is based on fixed borrowing costs of 4.25%. however there is an opportunity to fund this using short term borrowing which will reduce these costs but will however create a re-financing risk (as interest rates could increase in the future). This will impact upon the surplus generated for the general fund. Borrowing will be managed by the Deputy Chief Executive to optimise the return and manage the refinancing risk.
54. The Financial model has allowed for a 5% level of bad debts and voids which is felt to be a prudent assumption.

55. The Council will not have completed the due diligence process when this report is issued, but work undertaken to date strongly suggests the investment is sound and that the proposed purchase makes good sense. Subject to due diligence completion to the satisfaction of both the Leader, Portfolio Holder and the Chief Executive it is proposed to complete purchase on or before the 31<sup>st</sup> March 2014.

## Risks Assessment

56. In January the Cabinet adopted a property acquisition policy that outlined the risk assessment criteria that would be applied when making an acquisition. These risks are as follows:-
57. **Acquisition risk** – negotiations for the purchase of this property are at an advanced stage with the valuation agreed and therefore the risks in this area are considered to be minimal.
58. **Due to the nature of the property market** – the property is not being actively marketed by the owners and negotiations are at an advanced stage so there is a low risk of the property market changing and affecting this property.
59. **Cost risk** – Due to the advanced stage to discussions this is a low risk of incurring abortive costs; however some costs have already been incurred and would be lost should the purchase not continue.
60. **Lack of suitable sites**- Not applicable for this purchase as the asset has been identified.
61. **Property market risk**- This investment is not looking to speculate on an increasing asset value and the cash flows of the assets will be used to reduce the debt linked to this purchase and therefore a reduction in the property value should not cause a significant risk.
62. **Void risk**- the financial modelling has assumed a 5% level of voids and bad debts however a protracted period of voids is a risk to this investment. The Council is going to continue the existing management arrangement which has experience in the management and marketing of the property.
63. It is suggested that the provision for voids and bad debts is put aside in a reserve to cover for a fall in income levels.
64. **The primary risk** in this area is the eventuality that tenants exercise break clauses within their leases and suitable alternative tenants cannot be found. The length of existing tenancies is staggered and there is a reasonable duration remaining on existing tenancies which mitigates this risk. Given the towns focus on growth and the reasonable prospect for recovery this is not seen to be a short term risk.
65. Long term voids will have an impact on the overall revenue budget with no income to offset the costs of owning a property. To mitigate this eventually the Council may need to consider whether the property could be sold or redeveloped.
66. **Refinancing risk**- the Council exposure to increasing debt will need to be considered as part of its Treasury Management function and will be reviewed annually. Therefore when assessing investment opportunities we will use the PWLB 25 year interest rate.
67. This acquisition represents the second property purchase under the property acquisition policy. Whilst these properties have incurred some debt the Council is comfortable with the



level of general fund debt on its balance sheet with debt forecast to be circa £11m and general fund assets forecast to be £65m.

## **Conclusion**

68. As one of the big six projects it is an exciting time to attract and grow our businesses, the Council seeks to create a Commercial Quarter that will provide a significant increase in jobs. The mixed use development will create a showcase for Ashford with its own special atmosphere and quality of life, sympathetic and fully integrated with its existing concept.
69. The Quarter will be a highly connected part of Ashford, linked by High Speed One and international rail services together with cycle ways, improved public realm and access into the Town Centre. The Commercial Quarter will provide a key base for business, creating jobs and sparking economic growth.
70. With the expansion of the Designer Outlet, nearby College Campus and Elwick Road, the Commercial Quarter plays an important part of Ashford's growth and sustainability as well as providing an invaluable income stream to the Council.

## **Portfolio Holder's Views**

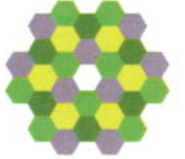
71. The opportunity to gain control of this key site should be grasped with both hands. Not only does the revenue stream from International House make the finances deliver a net gain to the Council and assist our revenue budget position in these challenging times, the ability to directly influence the future development of a strategically important site is an exciting opportunity.
72. I am satisfied that the appropriate level of due diligence is being undertaken. I am equally satisfied that the negotiations undertaken prior to this proposal coming before Cabinet have been robust and have delivered a "good deal" for the residents of Ashford.
73. I fully support this proposal and recommend its agreement by Cabinet and then to full Council.

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# Land Registry Illustrative plan

Title number **K299048**  
Ordnance Survey map reference **TR0142SW**  
Scale **1:1250** enlarged from 1:2500  
Administrative area **Kent: Ashford**



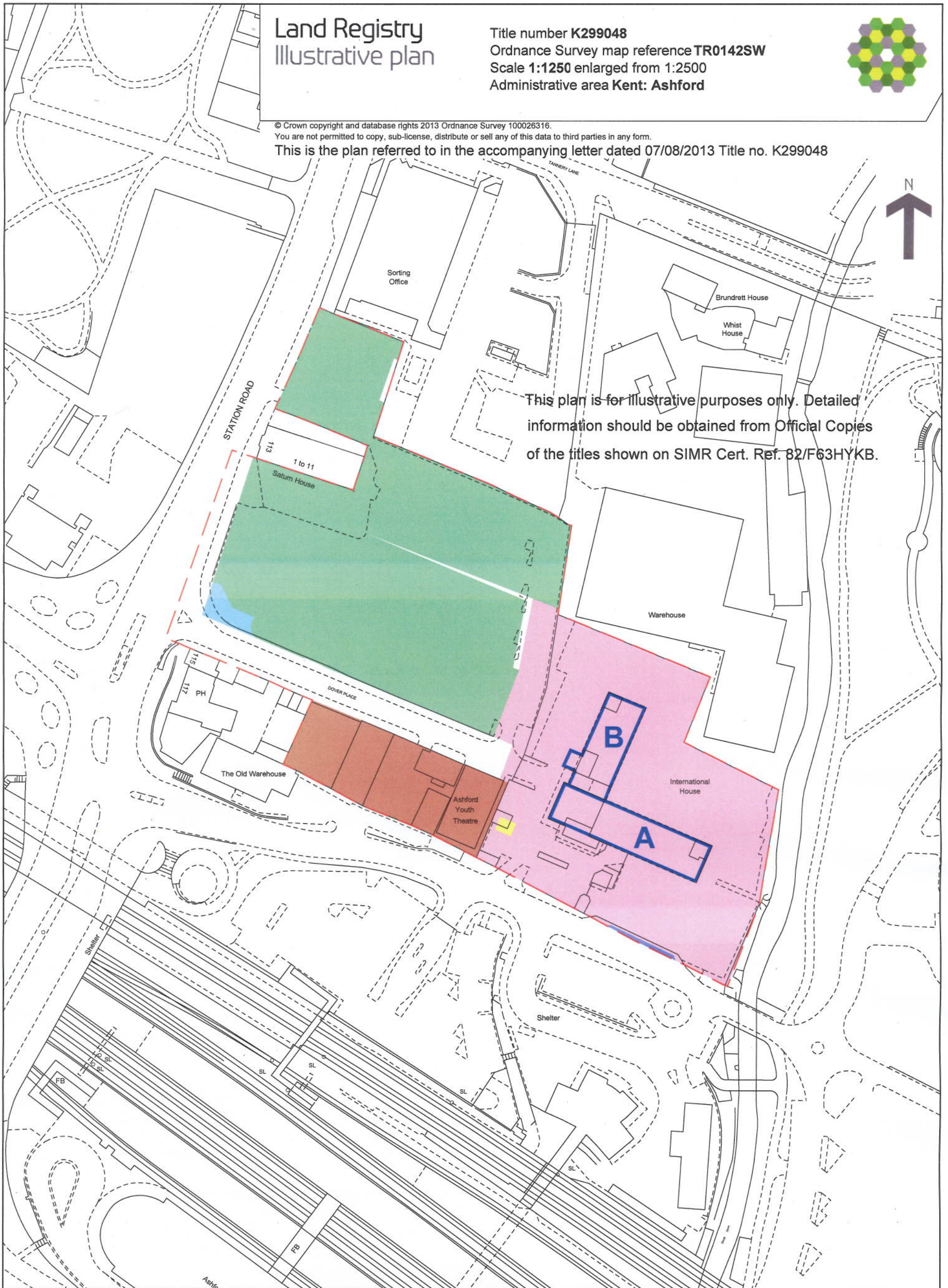
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This is the plan referred to in the accompanying letter dated 07/08/2013 Title no. K299048



This plan is for illustrative purposes only. Detailed information should be obtained from Official Copies of the titles shown on SIMR Cert. Ref. 82/F63HYKB.



This plan shows the general position, not the exact line, of the boundaries. It may be subject to distortions in scale. Measurements scaled from this plan may not match measurements between the same points on the ground. See Land Registry Public Guide 19 - Title Plans and Boundaries.