

8. ACQUISITION OF ORCHARDS SHOPPING CENTRE HEAD LEASE

REPORT OF: HEAD OF CORPORATE RESOURCES
Contact Officer: Peter Stuart
Email: peter.stuart@midsussex.gov.uk Tel: 01444 477315
Wards Affected: All
Key Decision: No
Report to: Council 14 December 2016

Purpose of Report

1. This report provides background information to the successful purchase of The Orchards Shopping Centre, Haywards Heath head lease and its financial implications for the current year (2016/17).

Recommendations

2. **Council is recommended to:**
 - (i) **Note the outcome of the purchase process;**
 - (ii) **agree the temporary suspension of the Local Authority Counterparty Limit presented to the Audit Committee, and the other amendments contained within the Treasury Management report ,**
 - (iii) **note the financial effects of the purchase**
-

Background

3. At its meeting of 17th October 2016, Cabinet agreed to bid to purchase the Orchards Shopping Centre head lease, and thereby unite the freehold and headlease. Bids were made that evening and our advisor was successful in agreeing a purchase over the following 48 hours.
4. Due diligence then followed over the following two weeks. Contracts were exchanged on 21st November and the purchase completed on 24th November.
5. The due diligence involved inspection of every title and lease, a full building survey, environmental survey and concrete testing, service charge budget audit and pro-rata calculations, and liaison with a social landlord to take on the residential tenancies. This process revealed two issues, a double counting of the market income together with a need to repair some of the flat roofs within the Centre which are a landlord's expense.
6. The result of these findings was that the price was reduced by negotiation from £23.5m to £23.2m.
7. As agreed by Council, the purchase of the Centre was financed by borrowing, both internal (from balances held by the authority) and external (from the money market). The Audit Committee oversaw the financing proposals and will be receiving a report at its next meeting in January 2017 on the actual financing assembled. In summary though, we can say that the objectives to balance the borrowing between 1 and 5 years and to preserve flexibility in order to possibly repay the loans were met.

8. Part of the consideration given by the Audit Committee to the loan arrangements was concerned with the timing of the loans. All the loans were drawn down in advance of completion, which gave rise to a surplus of funds for a few days. The Committee agreed that *'the counterparty limits with other local authorities (in appendix 4) will be temporarily suspended from 14th November 2016 until the completion of the agreed property purchase of up to £25m'*.
9. The Audit Committee is an advisory committee of the Council rather than an executive committee and Council is therefore asked to confirm that this temporary suspension by the Audit Committee was appropriate in the circumstances, and approve the recommendation in (2) above.

The Financial Effects

10. The exempt report received by Council on 2nd November 2016 set out the financial implications of the purchase but not the effect on the Council's finances as a whole.
11. In accordance with normal practice, the in year effects of this acquisition will be considered by the Cabinet as part of normal budget monitoring.
12. The longer term impacts should properly be subject to scrutiny as part of the Service and Financial Planning process for 2017/18.

Policy Context

13. The acquisition of the shopping centre furthers the Council's ambition to be financially independent of central government.

Other Options Considered

14. None.

Financial Implications

15. These are summarised within the report.

Risk Management Implications

16. It is not considered that this report presents any new risks.

Equality and Customer Service Implications

17. None.

Other Material Implications

18. It is not considered that this report has any other material implications to be considered.

Background Papers

None