



Report to Cabinet

Date: 15 December 2020

Title: Potential submission of a bid for the acquisition of the Friars Square Shopping Centre, Aylesbury for regeneration purposes.

Relevant councillors: Councillor John Chilver, and Councillor Steve Bowles

Responsible Officer: John Reed, Director of Property & Assets

Author and/or contact officer: John Reed

Ward(s) affected: Aylesbury and Surrounding Areas

Recommendations:

- (i) Authority is delegated to the Director of Property and Assets in consultation with the Cabinet Member for Property and Assets and the Service Director for Corporate Finance (s151 Officer), to formally submit a bid for the acquisition of Friars Square in accordance with the draft heads of terms set out in the confidential annex considered at Part 2 of this agenda;**
- (ii) Authority is delegated to the Director of Property and Assets in consultation with the Cabinet Member for Property and assets, and the Service Director for Corporate Finance (s151 Officer), to enter into a lock out agreement with the vendor; and**
- (iii) Authority is given to the Director of Property and Assets in consultation with the Cabinet Member of Property and assets, and the Service Director for Corporate Finance (s151 Officer), to commission the further required due diligence on the acquisition and to finalise the offer and the heads of terms, the arrangements for financing and to exchange contracts and complete on the acquisition for the long leasehold interest in the Centre.**

1. Content of the report

- 1.1 The council has the opportunity to bid for and potentially acquire the long leasehold interest of Friars Square Shopping Centre. The freehold is already owned by the Council though it's Joint Venture with Aylesbury Vale Estates. The council has sought independent property advice to undertake pre offer due diligence to help inform the bid offer and the draft heads of terms. The financial information relating to the acquisition is set out in the confidential annex considered at Part 2 of this agenda. A successful bid would be financed by a Public Works Board Loan, paid back over a period of 40 years.
- 1.2 The Centre would be acquired as a going concern. However, in the longer term, the acquisition would enable the council to bring forward a significant regeneration scheme which would deliver benefits for the whole town. The context for the regeneration is the Aylesbury Garden Town plan which sets out an ambitious Vision for the town centre. The plan identifies a number of priority areas for regeneration including an area known as the station quarter. The council already owns a substantial number of assets in and around the area and the next step is to develop a masterplan. The masterplan would be easier to develop and deliver if the council acquired the Centre.
- 1.3 There are a number of risks associated with the acquisition, which are identified in the confidential annex considered at Part 2 of this agenda. They include the uncertainty of the retail market post Covid but if the Council became the owner of the Centre it would proactively manage the asset to minimise this risk. Overall, the risks need to be weighed up alongside the longer-term potential of the asset, the wider benefits the acquisition could deliver for the town and the significant investment that would be needed to deliver these.

2. Other options considered

i. Do not bid

- 2.1 If the council decides not to bid, the Centre is likely to be sold either to any existing alternative interest or if it goes to market, the independent advice suggests that there would almost certainly be good interest and a sale would happen. The intentions of a different owner would be unknown to the council and master planning the area and delivering the plan, would almost certainly take longer and be more complex.

ii. Joint venture at/post acquisition

- 2.2 This is unlikely to be possible at acquisition point but may be a possibility after sale depending on the aspirations and objectives of the new owner.

iii. Seek to work closely with the new owner to influence their plans

- 2.3 Any new owner will most likely need to work with the council to deliver their plans due to the strategic location of the Centre and its juxtaposition to Council owned assets. However, the extent of this engagement will be an unknown factor at least until the relationship is established.

3. Legal and financial implications

- 3.1 Should the council be minded to submit a bid which is successful, the council has previously approved a £100m prudential borrowing fund which it can draw down from for acquisitions where a business case has been made and approved. The borrowing costs of a Public Works

Loan Board (PWLB) loan would be based on paying the interest only the first year, with the repayment of principal, or Minimum Revenue Provision (MRP) also payable from Year 2 onwards over 40 years. Although the Government rules about what acquisitions PWLB loans can be used for by councils have recently changed, acquisitions for the purpose of regeneration are permitted.

- 3.2 There would be one-off costs associated with the process of acquisition and an on-going additional resource would be needed to client manage the Centre. In the longer term, significant capital investment will be needed if the asset is to be part of the Council's regeneration plans, but this investment would be subject to a separate business case and approval.
- 3.3 (Legal implications) Pursuant to Section 120 of the Local Government Act 1972 the Council has the power to acquire any land for the purpose of carrying out its functions or for the benefit, improvement or development of the area. In agreeing to the acquisition, the Council must satisfy itself that a fair market price is paid for long leasehold interest. The Council's powers to acquire property are set out below and the best consideration test requirements are set in section 123 of the Local Government Act. This will be achieved through the due diligence process.
- 3.4 Section 12 of the Local Government Act 2003 provides a power to the Council to invest a) for any purpose relevant to its functions, or b) for the purposes of the prudent management of its financial affairs. This includes investment in property if it relates, to the wellbeing of the area (including the regeneration of a town centre).
- 3.5 Section 1 of the Local Government Act 2003 provides a power to borrow a) for any purpose relevant to its functions, or b) for the purposes of the prudent management of its financial affairs.
- 3.6 The Council also has a general power of competence under Section 1 of the Localism Act 2011 to do anything that individuals generally may do; including the power to undertake activity that will support the social, economic or environmental wellbeing of its administrative area.
- 3.7 Cash flow associated with this acquisition is set in the confidential annex considered as Part 2 of this agenda.

4. Corporate implications

- a) Property – This is a commercial property transaction.
- b) HR – If acquired, this will be a significant new addition to the council's property portfolio and whilst it is proposed to get support for management of the Centre through Consultancy, an additional post will be required within Property & Assets to act as client manager. There are no TUPE implications.
- c) Climate change – There are not perceived to be any issues with regard to Climate change from an acquisition point of view.
- d) Sustainability – There are not considered to be any issues with regard to sustainability not covered by this report.
- e) Equality (does this decision require an equality impact assessment) - No
- f) Data (does this decision require a data protection impact assessment) - No

g) Value for money – This is a commercial property transaction. The acquisition is not without risks in the current environment relating to changes in the property market due to Brexit and Covid. In the short/medium term, there are likely to be reductions in the net operating income as a result of the market uncertainty. However, the rental income is expected to exceed the cost of borrowing. The acquisition will be supported by an independent valuation of the purchase at the point of acquisition.

5. Consultation with local councillors & community boards

5.1 Due to the commercial sensitivity of this proposal, consultation has not taken place with local councillors or community boards.

6. Next steps and review

6.1 If submitting a bid in line with the terms set out in the confidential annex which forms Part 2, is agreed, this would happen immediately. The bid will be subject to Board approvals of the current owners. If accepted, the due diligence will be completed and will cover areas such as the building condition, the property management contracts in place and the lease and rent schedules. A report will come back to Cabinet if there are material changes to the offer or as a result of due diligence or if there are other material considerations not adequately covered off in this report or the report considered at Part 2 of this agenda.

7. Background papers

These are referenced in Part 2 of the report.

8. Your questions and views (for key decisions)

If you have any questions about the matters contained in this report please get in touch with the author of this report. If you have any views that you would like the cabinet member to consider, please inform the democratic services team. This can be done by telephone 01296 764814 or email john.reed@buckinghamshire.gov.uk