

<b>Report to:</b>	Cabinet	<b>Date of Meeting:</b>	7 October 2021
<b>Subject:</b>	Pavilion Buildings Southport		
<b>Report of:</b>	Executive Director of Corporate Resources and Customer Services	<b>Wards Affected:</b>	Cambridge; Dukes;
<b>Portfolio:</b>	Cabinet Member - Regulatory, Compliance and Corporate Services		
<b>Is this a Key Decision:</b>	Yes	<b>Included in Forward Plan:</b>	Yes
<b>Exempt Confidential Report:</b>	/ No but the information appearing in Appendix 1 to the report is NOT FOR PUBLICATION by virtue of Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972. The Public Interest Test has been applied and favours the information being treated as exempt		

### Summary:

This Report seeks Cabinet approval to the terms provisionally agreed to dispose of the Council's freehold interest in Pavilion Buildings in Southport, following terms being agreed for a capital receipt as set out in Appendix 1. The plan is to convert the upper floors of the premises into a hotel above the public house currently located on the ground floor.

Pavilion Buildings was included in the Asset Maximisation: Phase 1 Disposals Programme presented to Cabinet on 9 January 2020. This project is wide ranging in scope involving a comprehensive review of all Council's assets to ensure that the Council aligns its asset base to the delivery of its objectives. A review of the Council's asset base is being undertaken in phases, with assets defined as either supporting operational activity, having heritage value, being required to support the growth programme or being available for disposal. Pavilion Buildings was identified as being available for disposal to generate a capital receipt to support the Growth and Strategic Investment Programme and the Council's Framework for Change Programme.

Cabinet at its meeting on 9 January 2020 approved the disposal of Assets in Phase 1 of the Asset Maximisation Programme. Pavilion Buildings was one of the Assets in this Phase. Following the easing of hospitality venue restrictions in June 2021 the Company submitted a revised offer to the Council to acquire the building which forms the basis of this report.

### Recommendations:

- (1) Approve the disposal of the freehold interest in Pavilion Buildings for the figure set out in Appendix 1. The deal is not conditional upon planning consent and will be completed in the 2021/22 financial year. Under the Asset Disposal Policy the capital receipt is above £500,001 which means it requires Cabinet approval;

- (2) Note the operational implications of the sale. Vacant possession will be required for the upper floors prior to completion. Property and Facilities Management are in the process of securing alternative accommodation for NSL private contract staff, which is a condition of the current contract; and
- (3) Authorise the Chief Legal and Democratic Services Officer to prepare the sale contracts and complete the necessary legal documentation to conclude the disposal.

### **Reasons for the Recommendations:**

- (1) The agreed disposal price as set out in Appendix 1 meets best consideration requirements in accordance with Section 123 of the Local Government Act 1972.
- (2) The capital receipt will be used to support other Growth Programme project priorities, and therefore help to meet the funding requirements of the Programme..
- (3) Conversion to a hotel is in keeping with the wider Masterplan aspirations for the southern section of Lord Street, which support the active use of upper floors to support the evening economy and generate increased footfall in the town centre.
- (4) Employment creation: the disposal will secure the Company's future in Southport and the Company estimates that circa 40 additional full and part time jobs will be created.

### **Alternative Options Considered and Rejected:** (including any Risk Implications)

- (1) Do not proceed with sale – the Growth and Strategic Investment Programme would either need to be reduced in scale and ambition, or the timing of project delivery delayed. Alternatively, the Council would need to borrow capital funding from the Public Works Loans Board and this will increase the financial pressure on the revenue budget.
- (2) Retain and refurbish the upper floors for residential use and either selling off the individual apartments on a long leasehold basis or alternatively, retaining the asset and renting out the flats to secure rental income. This option was considered and rejected as part of the asset review in 2019, since the financial return (both the receipt net of capital works costs and revenue income on the required capital investment to convert) to the Council would be less than the capital receipt from freehold disposal of the asset.

### **What will it cost and how will it be financed?**

#### **(A) Revenue Costs**

Upon approval, Solicitors will be appointed to agree sale contracts. The Council will receive reasonable solicitor's costs. There will be a loss of rental income offset to some extent by revenue savings from closure

#### **(B) Capital Costs**

There will be capital costs associated with the relocation of the Parking Contractor from the upper floors to alternative accommodation but a budget estimate of these costs is not available as yet.

**Implications of the Proposals:**

<p><b>Resource Implications (Financial, IT, Staffing and Assets):</b> Disposal of the Pavilion Buildings and a capital receipt for the Council.</p> <p>The Council will save £48,000 per annum of revenue cost covering general maintenance, utility costs, cleaning and refuse, compliance testing and business rates offset against the loss of rental income as detailed in Appendix 1 and there will be a loss of income of £91,350 per annum</p> <p>Property Services are in the process of finalising plans to decant the Parking Services contractor into Cambridge Arcade, Southport</p>									
<p><b>Legal Implications:</b> The Chief Legal and Democratic Services Officer will complete the legal documentation for the disposal.</p> <p>Section 123 of the Local Government Act 1972</p>									
<p><b>Equality Implications:</b> There are no Equality implications.</p>									
<p><b>Climate Emergency Implications:</b></p> <p>The recommendations within this report will</p> <table border="1"> <tr> <td>Have a positive impact</td> <td>No</td> </tr> <tr> <td>Have a neutral impact</td> <td>Yes</td> </tr> <tr> <td>Have a negative impact</td> <td>No</td> </tr> <tr> <td>The Author has undertaken the Climate Emergency training for report authors</td> <td>Yes</td> </tr> </table> <p>The works to convert the upper floors of the building will inevitably create additional carbon emissions for the Council as a result of increased energy use in the new buildings. However, the terms as presented for this disposal are for the building to be sold in its current condition. The impact of any proposals for the upper floors can be dealt with at any planning application stage and minimised by building to high environmental standards.</p>		Have a positive impact	No	Have a neutral impact	Yes	Have a negative impact	No	The Author has undertaken the Climate Emergency training for report authors	Yes
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**Contribution to the Council’s Core Purpose:**

Protect the most vulnerable: Not applicable.
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Facilitate confident and resilient communities: The disposal supports Council service priorities including economic regeneration and the Framework for Change Programme.
Commission, broker and provide core services: Not applicable.
Place – leadership and influencer: Not applicable.
Drivers of change and reform: Not applicable.
Facilitate sustainable economic prosperity: The disposal forms part of a wider strategy that is critical to facilitating the delivery of the wider Growth Programme and individual economic development projects.
Greater income for social investment: Not applicable.
Cleaner Greener: The property works to convert the upper floors of the building will inevitably create additional carbon emissions for the Council as a result of increased energy use in the new buildings, however, the impact can be minimised by building to high environmental standards.

## What consultations have taken place on the proposals and when?

### (A) Internal Consultations

The Executive Director of Corporate Resources and Customer Services (FD.6542/21.) and the Chief Legal and Democratic Officer (LD.4743/21) have been consulted and any comments have been incorporated into the report.

### (B) External Consultations

Engagement with Parking Services and their Contractor to develop plans for the decant of staff from the upper floors.

Following the expiry of the “call-in” period for the Minutes of the Cabinet Meeting

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### Appendices:

The following Appendix is attached to this report:

Appendix 1 Confidential Information

### Background Papers:

There are no background papers available for inspection

## **1. Introduction/Background**

- 1.1 Pavilion Buildings is a four-storey building in Southport town centre, with the ground floor let on an internal repairing and insuring Lease for a term of 20 years from 28 June 2015 for a bar/public house. Details of the rental are set out in Appendix 1. The upper floors form an operational asset, partly occupied by Parking Services and NSL private contract staff with the remainder vacant. The total net internal area measures 1,593 square metres or 17,145 square feet.
- 1.2 Overall, the accommodation is dated and in need of repair. In recent years there have been issues with the roof leaking, leading to water ingress into the public house on the ground floor. The premises need a rewire. The current backlog of maintenance works informed by the latest Asset Management condition survey stands at £480,000.

## **2 Approach from the Tenant, JD Wetherspoons (Wetherspoons)**

- 2.1 The Council was first approached by Wetherspoons in 2018 and received in January 2019 a formal offer to acquire the freehold interest in Pavilion Buildings. High level schematics accompanied the offer, which showed the upper floors of the building being converted into 28 ensuite bedrooms. The tenant would effectively continue to operate the Sir Henry Seagrave public house on the ground floor, with hotel accommodation provided above.
- 2.2 The Council's Asset Disposal Policy allows for sales by private treaty or negotiated disposals where there are practical reasons such as the tenant's status as a special purchaser capable of extracting the development potential of the premises. The Council commissioned a valuation report of its market value in the premises to ensure the offer represents best consideration.

## **3 Planning Policy and Regeneration Context**

- 3.1 Conversion of the upper floors to the Pavilion Buildings to provide hotel accommodation ties in with and supports the wider regeneration aims of £50m the successful Town Deal bid. The Council's Tourism and Regeneration teams recently commissioned a 'Hotel and Visitor Accommodation Study', which identified a need for a greater range of visitor accommodation types, and a need for a significantly increased supply of hotel bed spaces, particularly in Southport.
- 3.2 The use of the upper floors of Pavilion Buildings for hotel bed spaces, and/or to increase the trading area and number of covers would support this end of Lord Street, would help to consolidate a successful business and contribute to wider vitality and viability of the town centre, particularly the leisure and night time economies. Bringing into use the upper floors of premises for complementary and productive uses is a key priority within the Local Plan and is one of the main objectives of the Southport Townscape Heritage Project.
- 3.3 This site sits within one of the target connector streets between Lord Street and the Promenade, and plans are consistent with the Townscape Heritage Project's ambitions (albeit this was not identified as a priority property for grant funding).

This proposal will be consistent with Sefton's Economic Strategy, Visitor Economy Strategy 2020-2025 and Southport Development Framework. The Council's successful application for Town Deal funding predicted that over £400m of private sector investment would be triggered by the Town Deal and Council project. This commitment by the tenant underlines the renewed investor confidence in the town.

- 3.4 As part of the disposal, Officers will include an overage clause in the sale contracts and ask Wetherspoons to provide a commitment to utilise, where possible local firms and supply chain and to support local employment, apprenticeships, and other training opportunities during the construction works phase.

#### **4 Financial Considerations**

- 4.1 The Council commissioned a recent market valuation of its' freehold interest in the property from Matthews and Goodman a firm of Liverpool Chartered Surveyors to include the public house let on Lease plus the upper floors. Details of the valuation figure are contained in Appendix 1.
- 4.2 In 2018 the Council's retained property advisors considered two further options for a direct development approach. This would involve the Council carrying out the refurbishment of the upper floors for residential use and either selling off the individual apartments on a long leasehold basis or alternatively, retaining the asset and renting out the flats to secure additional rental income.
- 4.3 The financial considerations for each option are presented below:
- 4.3.1 Direct development and disposal of flats: net capital receipt of £1.69m. This is inclusive of a developer's profit return of £0.45m from delivering the conversion scheme.
- 4.3.2 Retention of flats: rental income increased from £0.09m to £0.17m per annum (gross figures). The Council would have an upfront capital investment of c.£1.52m to deliver the scheme and secure the uplift in rental income. There would also be additional revenue costs associated with the continued management and maintenance of the asset.
- 4.4 In comparison to these alternative options, the offer set out in Appendix 1 for the Council's freehold title with vacant possession represents best consideration as evidenced by the valuation report and is higher than the estimated capital receipt if the Council was to pursue a direct development option to convert the upper floors to residential.
- 4.5 The freehold disposal of the Pavilion Buildings would result in the Council losing the future rental income received under the terms of the current Lease from its investment portfolio. The Net Present Value calculation for the remaining 14 years of the Lease to 2035, factoring in the agreed percentage rental increases, gives a figure of £1,091,243m The Council's Finance Team have confirmed that £1.091m is the minimum capital sum that the Council would require to recoup the loss of the rental income.

- 4.6 The loss of the rental income from the Other Properties Revenue budget needs to be reconciled as part of the disposal (see Recommendation 3)
- 4.7 Revenue savings will be made to the premises related expenditure. The disposal will save the Council approximately £48,000 per annum of revenue costs covering items such as repairs and general maintenance, utility costs, cleaning and refuse, compliance testing and business rates.(see Recommendation 3)

## 5 **Best Consideration**

- 5.1 The offer to purchase the Council's freehold interest in the premises (see Appendix 1) represents "best consideration" in accordance with Section 123 of the Local Government Act 1972 (as amended)