

Report to:	Cabinet Council	Date of Meeting:	4 April 2024 18 April 2024
Subject:	Acquisition of Magdalen House, 30 Trinity Road, Bootle		
Report of:	Executive Director of Corporate Resources and Customer Services	Wards Affected:	Derby
Portfolio:	Cabinet Member - Regulatory, Compliance and Corporate Services		
Is this a Key Decision:	Yes	Included in Forward Plan:	Yes
Exempt / Confidential Report:	No, but the information appearing in the Appendix of the report is NOT FOR PUBLICATION by virtue of Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972.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:

To report on the principal terms and conditions agreed for the acquisition of the freehold interest in Magdalen House, Bootle.

Recommendations:

Cabinet is recommended to recommend to Council :

- (1) That approval be granted to acquire the freehold interest in Magdalen House on the basis of the price detailed within Appendix 1 of this report;
- (2) That approval be granted for Corporate Legal Services to complete the necessary legal documentation.
- (3) That approval be granted to seek PWLB funding to meet the capital costs required; and
- (4) to approve a supplementary capital estimate detailed within Appendix 1 of this report for inclusion within the Capital Programme to be funded by borrowing. Repayments will be met from the annual rental saving.

Council is recommended to:

- (1) Approve the acquisition of the freehold interest in Magdalen House on the basis of the price detailed within Appendix 1 of this report.

- (2) Authorise Corporate Legal Service to complete the necessary legal documentation.
- (3) Approve seeking PWLB funding to meet the capital costs required.
- (4) Approve a supplementary capital estimate detailed within Appendix 1 of this report for inclusion within the Capital Programme to be funded by borrowing. Repayments will be met from the annual rental saving.

Reasons for the Recommendation(s):

1. An acquisition would allow the Council to occupy the Property rent free for the Useful Economic Life (UEL) of the Property and remove the requirement to pay dilapidations (based upon continued office uses).
2. The Council would gain control and flexibility to react to its changing occupational needs and requirements, and with regards to the future of Bootle town centre (and beyond) – this includes future opportunities around decanting into Bootle Town Hall, as associated capital costs to accommodate would no longer be required.
3. The capital expenditure in acquiring the property is less than the remaining rental and anticipated dilapidation liabilities.
4. The capital costs for acquisition will be sourced from PWLB.

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

Do nothing and remain as tenant.

The risks: The 'do nothing' approach was considered to be financially disadvantageous and also limits the Council in being able to affect change to meet its future occupational needs.

What will it cost and how will it be financed?

(A) Revenue Costs

The proposed acquisition of Magdalen House is to be funded entirely through PWLB borrowing resulting in a cash positive position. The revenue implications for borrowing will be funded from the current rental budget.

(B) Capital Costs

The capital costs for acquisition will be sourced from PWLB.

Implications of the Proposals:

Resource Implications (Financial, IT, Staffing and Assets):

The acquisition of Magdalen House will be resourced internally from officers in Legal and Property Services teams.

Legal Implications:

The Chief Legal and Democratic Officer will advise on the necessary legal documentation for the freehold acquisition.

Equality Implications:

There are no equality implications.

Impact on Children and Young People:

None

Climate Emergency Implications: To be considered.

The recommendations within this report will

Have a positive impact	Yes
Have a neutral impact	No
Have a negative impact	No
The Author has undertaken the Climate Emergency training for report authors	Yes

It is envisaged that post acquisition a strategy will be determined to explore the various options available to the Council, via grant funding, to improve the energy efficiency of Magdalen House to improve its carbon footprint.

In this regard the topic of improving the building's energy efficiency has been discussed with the Energy and Environmental Management Team.

Contribution to the Council's Core Purpose:

Protect the most vulnerable: Not applicable.

Facilitate confident and resilient communities: Not applicable.

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: Achievable. See Reasons for the Recommendation(s) above.

Greater income for social investment: Achievable. See Reasons for the Recommendation(s) above.

Cleaner Greener: Achievable upon developing specific strategy for the building.

What consultations have taken place on the proposals and when?

(A) Internal Consultations

The Executive Director of Corporate Resources and Customer Services (FD 7613/24) and the Chief Legal and Democratic Officer (LD 5713/24) have been consulted and any comments have been incorporated into the report.

(B) External Consultations

Not applicable.

Implementation Date for the Decision

Immediately following the Council meeting.

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Appendices:

The following exempt appendix is attached to this report:

Appendix 1 – Financial Details

Background Papers:

N/A

1. Introduction

An opportunity has arisen for Sefton MBC to acquire the freehold interest in Magdalen House, which would end the c.8.5 years remaining on the current lease and provide the Council with full control over its future occupational requirements, whilst also delivering a saving on rent, future dilapidation liabilities and potential longer term call on capital requirements.

2. Analysis and Findings

Work has been undertaken to develop a comprehensive analysis of projected liabilities associated with Magdalen House, together with recommendations on the ideal course of action balanced with risks and rewards. **Appendix 1 of this report gives further details and calculations in relation to this.**

The conclusions from the analysis and the main reasons for the proposed acquisition of the freehold interest in Magdalen House are as follows:-

1. An acquisition would allow the Council to occupy the Property rent free for the Useful Economic Life (UEL) of the Property and remove the requirement to pay dilapidations (based upon continued office uses).

2. The Council would gain control and flexibility to react to its changing occupational needs and requirements – this includes future opportunities around decanting into Bootle Town Hall, as associated capital costs to accommodate would no longer be required. To build the equivalent space within other Council owned operational property would far exceed the acquisition cost of Magdalen House.
3. Furthermore, the Council would have control over a significant asset close to Bootle town centre, strengthening its ability to influence long-term vision and future uses of the site. Ownership of the asset by the Council provides control over the quality of office accommodation, whether for the Council or for future tenants and occupiers, or over potential future uses of the site if long-term strategy for the area proposes alternative uses for consideration. Ownership by a third party limits the Council's ability to control outcomes in terms of long-term uses, whereas the acquisition provides time for the development and implementation of the strategy for the long-term.
4. If it is decided that the Council does not wish to remain in occupation of Magdalen House, it can be repurposed (for other uses), refurbished and relet as offices and / or redeveloped. Of major importance, these options will provide future income and/or capital receipts to be achieved on Magdalen House. These options can be delivered by the Council or in a joint venture initiative if so required.
5. In owning the freehold of Magdalen House, the Council has the opportunity at any given time to switch back to a tenancy by way of undertaking a Sale & Leaseback-(S&L), which would yield a much high capital receipt than the proposed purchase price. An S&L is a very common mechanism whereby an owner of a property switches to a lease and receives a capital receipt in return for paying rent. Importantly this allows the owner of the property to largely influence the terms of the lease in their favour (e.g. limit liabilities on future dilapidation claims – via a schedule of condition, and limit future increases in rent at rent review).
6. Net Present Value calculations in the Investment Appraisal demonstrate a saving to the Council by acquiring Magdalen House.
7. It would de-risk the cliff edge date of 2032 for moving to Bootle Town Hall.
8. Based on property advice, the residual value of the asset in 2032 is expected to be closely aligned to the proposed purchase price, and to a large extent underpins the price to be paid. Further investment into the Bootle area will only positively impact upon the future residual value of Magdalen House and its location. Should the Council wish to lease the building beyond 2032, to a third party, then based upon comparable market rental evidence, we would expect the property to generate an income way in excess of the current passing rent.
9. It is proposed that the loan for the purchase of the asset will be 40 years. In the event that the asset is disposed of the advice received is that the council would not have a long term liability it cannot finance based on the following:
 - Borrowing only when required – loans are not usually linked to specific assets and the Council borrows when required. Therefore, in reality the Council would be unlikely to take out a loan specifically for this acquisition given the relatively low value but consider it as part of the Council's wider cash flow.

- Repayment – The Council reviews its loans each year and considers whether it is worth repaying these early and any borrowing linked to this acquisition would be considered as part of the whole outstanding debt rather than on an individual basis. Essentially, if the asset is sold in 2032/33, this doesn't automatically mean the loan would be repaid.
- Using capital receipts to reduce the overall Capital Financing Requirement (CFR) – The Local Authorities (Capital Finance and Accounting) (England) regulations 2003 [Regulation 23] – and as clarified by consultation guidance issued by the Department for Levelling Up, Housing and Communities (DLUHC) in December 2023 – states that an authority can use capital receipts to reduce the overall CFR. This results in a corresponding reduction in the Minimum Revenue Provision which is the amount the Council must set aside each year as a provision for the repayment of debt. In the event that the asset is sold in 2032/33 in return for a capital receipt – this would be used to reduce the CFR and this would effectively free up some or all of the budget used for this element of the MRP charge. This budget could then be used to fund the cost of renting or purchasing alternative premises instead. This would depend on the value of the receipt received and would need to be approved in line with the Council's MRP Policy Statement.
- Inflation – Inflation would erode the value of any annual annuity loan repayment to the PWLB over the medium to long term. Therefore, the estimated annual repayment of £0.3m would reduce in real terms value over the term of the loan and therefore the call on the budget would reduce in real terms.

10. The capital expenditure in acquiring the property is less than the remaining rental and anticipated dilapidation liabilities.

On the basis of these conclusions and findings, the Council's Property Services team engaged in negotiations with the vendor's agent, which resulted in the Council making a formal offer for the freehold interest, which was subsequently accepted. The offer was made conditional on contract, Cabinet and full Council approval being received.