

NO LONGER EXEMPT

APPENDIX A

NOT FOR PUBLICATION BY
VIRTUE OF PARAGRAPHS 3 & 5
OF PART 1 OF SCHEDULE 12A TO THE
LOCAL GOVERNMENT ACT 1972

EXECUTIVE DECISION RECORD

CABINET LEAD MEMBER: COUNCILLOR MORGAN

Reasons for exemption

NO LONGER APPLIES

Publication of this document and the attached report would involve the likely disclosure of exempt information as defined in paragraphs 3 and 5 of Part 1 of Schedule 12A of the Local Government Act 1972, and the public interest in maintaining the exemption outweighs the public interest in disclosing the information. The report provides information about a commercial property purchase and related legal advice. Disclosure of this commercially sensitive information prior to completion of the purchase could put the transaction at risk, and it is not, therefore, in the public interest for it to be disclosed.

COMMERCIAL PROPERTY PURCHASE: Loughborough

The Decision

The Leader approves the following recommendations:

1. To acquire the commercial investment property detailed in the Part B report.
2. To approve the Heads of Terms as set out in the appendices of the Part B report and to delegate authority to the Service Director – Commercial Development to continue negotiations and finalise the transaction based on these Heads of Terms.
3. To delegate authority to the Head of Strategic Support to complete the legal transactions.

Reasons

1. The town centre commercial property detailed in Part B is fundamental to providing the Enterprise Hub in partnership with Loughborough College, supporting our residents.
2. Delegation of authority will allow for the timely completion of the transaction, as well as timely decision making should additional negotiation be required. The Leader, Deputy Leader, Chief Executive, S151 officer and Monitoring officer will be consulted throughout the transaction to completion.
3. To allow for timely completion and signing of contracts.

Authority for Decision

On 8th September 2020, the Leader delegated Executive authority to himself, or in his absence to the Deputy Leader, to approve the purchase and sale of commercial properties.

A handwritten signature in blue ink, appearing to read 'J. Menge', with a long horizontal stroke extending to the right.

Approved:

Date: 02 October 2020

Leader of the Council

NO LONGER EXEMPT

**SCHEDULE 12A TO THE LOCAL
GOVERNMENT ACT 1972**

Decision Record

Report of the Strategic Director for Commercial Development

Leader member: Councillor Jonathan Morgan

PART B

Commercial Property Acquisition – 14 Market Place, Loughborough

Reasons for exemption

Publication of this document and the attached report would involve the likely disclosure of exempt information as defined in paragraphs 3 and 5 of Part 1 of Schedule 12A of the Local Government Act 1972, and the public interest in maintaining the exemption outweighs the public interest in disclosing the information. The report provides information about a commercial property purchase and related legal advice. Disclosure of this commercially sensitive information prior to completion of the purchase could put the transaction at risk, and it is not, therefore, in the public interest for it to be disclosed.

Purpose of Report

This report seeks approval to acquire a commercial property.

Recommendation

1. To acquire the commercial property detailed in Part B of the report.
2. To approve the Heads of Terms as set out in the appendices and to delegate authority to the Strategic Director – Commercial Development to continue negotiations and finalise the transaction based on these Heads of Terms.
3. To authorise the Head of Strategic Support to complete the legal transactions.

Reasons

1. The town centre commercial property detailed in Part B is fundamental to providing the Enterprise Hub in partnership with Loughborough College, supporting our residents.
2. Delegation of authority will allow for the timely completion of the transaction, as well as timely decision making should additional negotiation be required. The Leader, Deputy Leader, Chief Executive, S151 officer and Monitoring officer will be consulted throughout the transaction to completion.
3. To allow for timely completion and signing of contracts.

Alternative Options Considered

The alternative to not acquire the property would leave the Council and the College in a position where a suitable location for freehold purchase may not be found and the Enterprise Hub could not be delivered. Further, if the Council were to take a lease on an alternative property instead of this purchase, the lease would create further revenue pressure on the General Fund Revenue Account and the Medium Term Financial Strategy.

Policy Justification & Previous Decisions

The justification for this decision is based on proposals submitted and approved by Charnwood Borough Council in a wider Town Deal paper discussed at the Town Deal Board in July 2020, whereby the creation of a Skills and Enterprise Hub in the Town centre would deliver benefits to

residents of Charnwood. An application for funding from Central Government was made and £750,000 have been received by the Council to implement the project.

Implementation Timetable including Future Decisions and Scrutiny

As detailed in the following report, the property in question was examined and considered for purchase in August 2020. On 25 September 2020, Heads of terms were agreed to purchase the property. A formal decision by the Leader to agree Heads of Terms and proceed must be signed within 5 working, or 2 October. The agreed deadline to simultaneously exchange and complete contracts is 15 working days or 16 October, should the results of further due diligence remain favourable. The Chair of Scrutiny Commission has been briefed on the purchase prior to this decision.

Report Implications

1. Corporate Plan:

A commercial property investment strategy has been outlined in the Corporate Plan, and an investment fund has been approved by Council and forms part of the Capital Strategy and Capital Programme.

2. Legal:

Section 120 of the Local Government Act 1972 empowers a Borough Council to acquire land for the purpose of any of the Council's functions or for the benefit, improvement or development of their area by agreement inside of or outside of its area.

3. Finance:

This report is effective from 14 September 2020 and has the following financial implications:

Budget Area	Implication
General Fund – Revenue Budget	The General Fund Revenue and Capital Financing implications are contained within Part B of the report (see paragraphs 15 to 17)
General Fund – Capital Programme	The financial implications are contained within the Part B of the report. This proposed acquisition is part of the Commercial Property Investment Scheme as approved within the Capital Strategy and Capital Programme (see paragraphs 15 to 17).
Housing Revenue Account – Revenue Budget	No implications
Housing Revenue Account – Capital Programme	No implications

4. Risk:

Risk	Likelihood	Impact	Overall	Mitigation
The property remains vacant and the Council	1 Unlikely	2 Significant	2 Low	Officers have written agreement in principle of the terms that the College will accept in signing a new lease after purchase.

fails to find a tenant				
The property is destroyed (e.g. fire, flood or other)	1 Remote	3 Serious	3 Low	The Council will be insured against these risks and against the lost rent in the event of building destruction.
The macroeconomic impact of Brexit results in general economic difficulty.	3 Likely	2 Significant	6 Moderate	The Tenant Covenant is strong and is likely to be able to withstand a period of trading difficulty. This will be monitored and managed. The Tenant has fared fairly well during the course of the COVID19 pandemic to date. They have taken proactive steps to protect their cash flow and are closely monitoring the situation. Retained profit and Net assets remain sizeable.
Ratio of external Debt/Market value	1	1	1 Low	The purchase will be funded with Capital from Central Government, distributed to the Council by way of "Pump-priming" funds related to the Town Deal.
Presence and timing of break clauses & rent reviews	2	2	4 Low	The lease to be signed will be for 10 years with a mutual break in year 3 with 6 months' notice either side. In return for full repairing and insuring obligations, the tenant will receive 3 years rent free, after which a full market rent will be applied, with a 5 yearly rent review.
Age and State of repair	2	2	4 Low	The property is in a poor state of repair. A full building survey has been carried out. As such, shortcomings will be identified. As noted, the purchase and refurbishment will be funded by the Capital grant from Central Government. .
Strength of Market for use / letting	2	2	4 Low	Strong commercial location in Loughborough. Good reversionary and alternative options exist.
Risk of revaluation loss	2	2	4	CIPFA requires LAs to make a prudent provision for MRP. Periodic valuation will be necessary. The Council will establish a property reserve to protect cash flow.

1. Human Resources: None
2. Equality and Diversity: None
3. Sustainability Implications: None

Urgency

The proposed acquisition would be a key decision and the authorising report would contain exempt information, but the full 28 days' notice is unlikely to be possible due to the urgency of the matter.

In the circumstances, agreement was reached with the Chair of the Scrutiny Commission on 1 October 2020 that the decision was urgent and could not reasonably be deferred and was also exempted from Call-in. The call-in procedure provides for a period of five clear working days during which councillors can ask for decisions taken by the Cabinet and individual Cabinet members, and key decisions taken by officers to be reviewed. With the agreement of the Chair of the Scrutiny Commission or in his/her absence the Mayor or Deputy Mayor) a decision can be exempted from call-in if the decision to be taken is both urgent and reasonable and the delay caused by the call-in process would not be in the interests of the Council or the public. Scrutiny Committee Procedure 11.9 requires that decisions that are exempted from call-in are reported to Council.

Exemption

The report contains exempt information by virtue of paragraphs 3 and 5 of part 1 of Schedule 12A of the Local Government Act 1972 and in respect of which, the Proper Officer considers that the public interest in maintaining the exception outweighs the public interest in disclosing the information.

The report contains financial information relating to a proposed land transaction that is subject to contract which, if in the public domain, could adversely affect the Council's ability to achieve a favourable outcome. The report also contains information that is legally privileged.

Key Decision:	Yes
Background Documents:	None
Officer Contact:	Justin Henry justin.henry@charnwood.gov.uk

PART B

Detailed information

The Property & Location

1. The proposed acquisition is 14 Market Place in Loughborough Town Centre.



The property is prominently located on Market Place, which forms the dominant high street retail pitch in Loughborough Town Centre. Nearby occupiers consist predominantly of large national retailers which include; McDonalds, Boots, Greggs and Costa Coffee.

Property Specification and Inspection

2. The property comprises a two-storey building of brick construction, with a prominent frontage on to Market Place and ornate carved stonework fascia at first floor level. Internally, the ground floor provides an open sales area which benefits from a vinyl flooring throughout, suspended ceiling and led lighting. There is further storage space at ground floor level.

The first floor is accessed via two internal staircases at the front and rear of the property. This was which was previously used as sales and storage. Externally, the property benefits from rear access from George Yard, for loading and servicing. The property also benefits from two electrically operated roller shutter doors to the front.

The site has an EPC rating of "C" (72).

3. The table below outlines the distribution of space within the property.

	Sq M	Sq Ft
Ground floor sales	134.7	1,450
Ground floor stores	16.7	180
First floor sales	101	1,087
First floor stores	46.8	504
Total	299.2	3,221

4. Officers inspected the property on 13 August 2020 and found that the site presents as described.

Tenant

5. The property is currently vacant.

Tenure

6. The property is to be sold Freehold.

Intended Future Use

7. The location will be known as the Loughborough Careers and Enterprise Hub, which will be an entrepreneurial learning environment. This will be delivered through a collaborative partnership between Loughborough College and Charnwood BC with a distinct Skills offer and distinct Enterprise offer.
8. We will provide a compelling and accessible skills offer to those who are not traditional participants in learning and development. Flexible opening hours (including weekend and evening) will provide access to skills advice, learning related employment opportunities, including apprenticeships and the Government's new kickstart initiative and involve the direct delivery of bite size and introductory units of learning to all audiences on a structured and drop in basis.
9. For Enterprise we will bring together problem solvers, innovators and aspiring entrepreneurs into one space to provide the inspiration and tools to rapidly design and test new solutions, connect and collaborate with people from a range of backgrounds and learn the latest methods for building new, resilient businesses with potential to scale. As ideas are developed, we will provide routes to connect more specialist expertise and facilities at Loughborough University, providing access to more advanced specialist equipment through LU Inc., the University's business incubator, for founders to prototype their innovative products and services.
10. The space will provide an anchor for collaborative enterprise activities, facilitating interaction and engagement between the university and local communities e.g. through student groups like Enactus (which focuses on social enterprise formation) or community focussed initiatives led by Loughborough University Student's Union.
11. The Skills and Enterprise Hub will provide a new High Street portal into learning and enterprise for those best engaged through outreach in learning and enterprise development. It will enable those most challenged by the impact of Covid-19 to plan and undertake key aspects of their learning and development in a way which relates to and works for them. It will bring new and contemporary life to a high street location which would otherwise remain vacant and is no longer required from a retail perspective.

Future Lease Principles

12. Loughborough College will take a lease on the property for 10 years, with a break either side at year 3. A rent free period of 3 years will be applicable, after which commercial rents will apply to the property in line with the market at that point. All occupation costs, including utilities, rates and building maintenance will fall to the College as occupier.
13. With refurbishment, the total spend on the property, including acquisition, remedial works and fit-out will be no more than £750k. The college will be responsible for managing the fit-out process, with plans and spend to be approved by the Strategic Director – Commercial Development with approval not to be unreasonably withheld and for works to be completed no later than 31 March 2021.

Red Flag Due Diligence

14. As the property is vacant, no red flag due diligence has been undertaken on the tenant. The title has been reviewed and no issues exist. A change of use application will be required.

VAT

15. As the property is currently vacant, VAT will apply to the purchase price.

Successful Bid

16. A bid from Charnwood Borough Council to the vendor was accepted at £500,000 ex VAT. The Heads of Terms in the Appendix outline the agreement and timetable.

Financial Information

17. The purchase will be funded by a S31 grant from Central Government. The value of the grant is £750,000 and is offered to the Council to fund capital projects that are in line with the Towns Fund intervention framework. These monies must be spent by 31 March 2021.
18. At the level of the bid, total costs to acquire will be:

Purchase price	£500,000
Stamp Duty Land Tax	£14,500
Agent's fees	£10,000
Legal Fees	£5,000
Survey Cost	£7,000
TOTAL	£536,500

19. As this amount falls within the grant level of £750,000 there will be no prudential borrowing for the acquisition. The balance of the grant will be used to refurbish the property. As such, there will be no impact on neither the General Fund Revenue Account nor the General Fund Capital Plan.
20. Once the purchase is completed, a business rates exemption will be sought. This will cover the refurbishment period and will negate revenue obligations until the lease is agreed.
21. As the purchase is funded by grant money, no Minimum Revenue Provision must be made.

Innes England

CHARTERED SURVEYORS
COMMERCIAL PROPERTY CONSULTANTS

HEADS OF TERMS

DETAILS OF SALE DRAFT

2 The Triangle, Enterprise Way, NG2 Business Park, Nottingham NG2 1AE

SUBJECT TO FORMAL CONTRACT

Tel: 0115 924 3243 Fax: 0115 924 2310

Ref: SH/GF

Date	23 rd September 2020
Property	Ground and first floor retail premises known as: 14 Market Place Loughborough Leicestershire LE11 3EA As outlined in the attached marketing particulars for identification purposes only The property is to be sold with vacant possession.
Vendor	Acai Group 8 Sackville Street London W1S 3DG

Appendix A: Agreed Heads of Terms

Purchaser	Charnwood Borough Council Southfield Road Loughborough LE11 2TX
Vendor's Solicitor	TBC FAO: Tel: Email:
Purchaser's Solicitor	Bevan Brittan LLP Fleet Place House 2 Fleet Place London EC4M 7RF FAO: Ian Caplan Tel: 0370 194 7738 Email: ian.caplan@bevanbrittan.com
Vendor's Agent	Innes England 2 The Triangle Enterprise Way NG2 Business Park Nottingham NG2 1AE FAO: Sam Hall Tel: 07929204405 Email: shall@innes-england.com

Appendix A: Agreed Heads of Terms

Purchaser's Agent	<p>Jones Realty Limited 83 Baker Street London W1U 6AG</p> <p>FAO: Andy Byrne Tel: 07779 611 765 Email: andy@jonesrealty.co.uk</p>
Tenure	The property is held on a freehold basis
Price	£500,000 (five hundred thousand pounds) exclusive of VAT.
VAT	The property is elected for VAT and therefore VAT will be payable in addition to the purchase price
Timings	<p>The purchaser will carry out a measured survey, building survey and environmental survey within 12 working days from agreeing heads of terms.</p> <p>Charnwood Borough Council's Delegated Decision Record approval is to be obtained within 5 working days from agreeing Heads of Terms.</p>
Exchange & Completion	Simultaneous exchange and completion to take place within 15 working days from the purchaser's solicitor receiving title documents and draft contract from the vendor's solicitor.
Costs	Each party is to bare their own legal and professional costs incurred as part of the transaction.
Conditions	<p>Subject to:</p> <ol style="list-style-type: none"> 1. Contract 2. Council Delegated Decision Record approval 3. Measured survey, building survey and environmental survey 4. Exclusivity from receipt of title documents and draft contract for 15 working days.

NO LONGER EXEMPT

APPENDIX B

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VIRTUE OF PARAGRAPHS 3 & 5
OF PART 1 OF SCHEDULE 12A TO THE
LOCAL GOVERNMENT ACT 1972

EXECUTIVE DECISION RECORD

CABINET LEAD MEMBER: COUNCILLOR MORGAN

Reasons for exemption

NO LONGER APPLIES

Publication of this document and the attached report would involve the likely disclosure of exempt information as defined in paragraphs 3 and 5 of Part 1 of Schedule 12A of the Local Government Act 1972, and the public interest in maintaining the exemption outweighs the public interest in disclosing the information. The report provides information about a commercial property purchase and related legal advice. Disclosure of this commercially sensitive information prior to completion of the purchase could put the transaction at risk, and it is not, therefore, in the public interest for it to be disclosed.

COMMERCIAL PROPERTY PURCHASE: Belton Road, Loughborough

The Decision

The Leader approves the following recommendations:

1. To acquire the commercial investment property detailed in the attached report.
2. To approve the Heads of Terms as set out in the appendices and to delegate authority to the Service Director – Commercial Development to continue negotiations and finalise the transaction based on these Heads of Terms.
3. To authorise the Head of Strategic Support to complete the legal transactions.

Reasons

1. Purchasing this property is a prudent investment and will support the Medium Term Financial Strategy (MTFS). The proposed acquisition is in line with the Council's approved Commercial Property Investment Strategy. By investing capital in the purchase of this property, the Council will receive a revenue income and will be the freehold owner of the property. Ultimately, the purchase will support MTFS, thereby protecting the delivery of services to Charnwood's residents.
2. Delegation of this authority will allow for the timely completion of the transaction, as well as timely decision making should additional negotiation be required. The Leader, Deputy Leader, Chief Executive, S151 officer and Monitoring officer will be consulted throughout the transaction to completion.

3. To allow for timely completion and signing of contracts.

Other Options Considered and Rejected

As set out in the attached report.

Reasons for the matter being dealt with if urgent

The Chair of the Scrutiny Commission has been consulted and has agreed that the decision be exempted from call-in, given its nature and the need to proceed quickly to successfully complete the purchase.

Authority for Decision

On 8th September 2020, the Leader delegated Executive authority to himself, or in his absence to the Deputy Leader, to approve the purchase and sale of commercial properties.

Approved:



Date:

9th September 2020

Leader of the Council

NO LONGER EXEMPT

Decision Record

Report of the Strategic Director for Commercial Development

Leader member: Councillor Jonathan Morgan

PART A

Commercial Property Acquisition – Belton Road, Loughborough

Purpose of Report

This report seeks approval to acquire a commercial investment property.

Recommendation

1. To acquire the commercial investment property detailed in Part B of the report.
2. To approve the Heads of Terms as set out in the appendices and to delegate authority to the Strategic Director – Commercial Development to continue negotiations and finalise the transaction based on these Heads of Terms.
3. To authorise the Head of Strategic Support to complete the legal transactions.

Reasons

1. Purchasing this property is a prudent investment and will support the Medium Term Financial Strategy (MTFS). The proposed acquisition is in line with the Council's approved Commercial Property Investment Strategy. By investing capital in the purchase of this property, the Council will receive a revenue income and will be the freehold owner of the property. Ultimately, the purchase will support MTFS, thereby protecting the delivery of services to Charnwood's residents.
2. Delegation of this authority will allow for the timely completion of the transaction, as well as timely decision making should additional negotiation be required. The Leader, Deputy Leader, Chief Executive, S151 officer and Monitoring officer will be consulted throughout the transaction to completion.
3. To allow for timely completion and signing of contracts.

Alternative Options Considered

The alternative to not invest in this property would not realise any additional revenue to support the MTFS. Any investment carries risk; however, these risks have been evaluated and understood.

Policy Justification & Previous Decisions

The justification for this decision is outlined within the financial projections and associated challenges set out within the latest version of the MTFS (approved by Council on 20 January 2020), and the proposed method of addressing that challenge through the acquisition of commercial investment property set out in the current Capital Strategy as well as the forthcoming Capital Strategy due for approval by Council on 4 November 2020.

Implementation Timetable including Future Decisions and Scrutiny

As detailed in the following report, the property in question was examined and considered for purchase in early 2020. With the outbreak of the COVID19 pandemic, the purchase underway at that time was aborted, and all efforts moved to focus on managing the pandemic. Officers were made aware in the weeks prior to this report that the property was still available for purchase. After reviewing previous

surveys and reports, a decision was taken to continue with the purchase. At that point, the Chair of Scrutiny Commission was briefed on the purchase prior to submitting this second bid.

The bid was submitted on Friday 4 September at 7.00pm. The bid was accepted and Heads of Terms (HoT) were agreed on Monday 7 September at 7.30pm. A delegated decision that is supported by this report must be signed by the Leader no later than Monday 14 Sep at 5.00pm. Should the results of further due diligence remain favourable, completion of the acquisition will be completed no later than Monday 21 September at 5pm

Report Implications

1. Corporate Plan:

A commercial property investment strategy has been outlined in the Corporate Plan, and an investment fund has been approved by Council and forms part of the Capital Strategy and Capital Programme.

2. Legal:

Section 120 of the Local Government Act 1972 empowers a Borough Council to acquire land for the purpose of any of the Council's functions or for the benefit, improvement or development of their area by agreement inside of or outside of its area.

3. Finance:

This report is effective from 14 September 2020 and has the following financial implications:

Budget Area	Implication
General Fund – Revenue Budget	The General Fund Revenue and Capital Financing implications are contained within Part B of the report (see paragraphs 22 to 27)
General Fund – Capital Programme	The financial implications are contained within the Part B of the report. This proposed acquisition is part of the Commercial Property Investment Scheme as approved within the Capital Strategy and Capital Programme (see paragraphs 22 to 27).
Housing Revenue Account – Revenue Budget	No implications
Housing Revenue Account – Capital Programme	No implications

4. Risk:

Risk	Likelihood	Impact	Overall	Mitigation
The tenant does not renew the lease at expiry.	2 Unlikely	2 Significant	4 Low	<ol style="list-style-type: none"> Charnwood will establish and maintain a property reserve in the event of such a circumstance. The property's location allows for alternative reversionary options e.g. re-let, use change or re-development. The reversionary letting rates are competitive and will not unduly

				disadvantage Charnwood, given the current circumstances.
The tenant moves staff/operations from this location to alternative locations, decreasing utilisation of the site.	2 Unlikely	2 Significant	4 Low	Regardless of how the tenant uses the space, the tenant remains liable under contract to maintain rent and insurance payments as well as to maintain the building. If the tenant wished to exit the lease and property early, they would be obligated to pay the balance of rents due under the lease. In this case, the tenant and Charnwood would enter (likely protracted) negotiations, during which Charnwood would be able to plan alternative strategies and develop business cases for viability determination.
Tenant fails to pay rent	2 Unlikely	3 Serious	6 Moderate	The property reserve to be established will serve as a buffer and monies would be released to maintain cashflow. Simultaneously, Charnwood would take Legal action to recover any rents unpaid.
The property is destroyed (e.g. fire, flood or other)	1 Remote	3 Serious	3 Low	Charnwood will be insured against these risks and against the lost rent in the event of building destruction.
The macroeconomic impact of Brexit results in general economic difficulty.	3 Likely	2 Significant	6 Moderate	The Tenant Covenant is strong and is likely to be able to withstand a period of trading difficulty. This will be monitored and managed. The Tenant has fared fairly well during the course of the COVID19 pandemic to date. They have taken proactive steps to protect their cash flow and are closely monitoring the situation. Retained profit and Net assets remain sizeable.
CIPFA updates Statutory Guidance relating to non-financial investments.	2 Unlikely	2 Significant	4 Low	Charnwood is acting in line with the latest guidance (issued 18 November 2019). Should the guidance be updated further, Charnwood will respond accordingly. The direction of anticipated changes is currently unknown. Should the guidance halt investment activity altogether, Charnwood must find alternative income sources and/or reduce expenditure accordingly to compensate.
Tenant's financial stability – the health and viability of the business	3	2	6 Moderate	Motus Group (UK) Ltd have a strong trading history and very well established performance record.

				<p>Moreover, they are making moves to adapt to the Central Government target of electric only vehicles by 2035.</p> <p>The current pandemic has not been easy for Motus; however, they have taken proactive steps to mitigate risk and have strong net asset levels at their disposal.</p>
Tenant Covenant	3	2	6 Moderate	Again, the tenant trades and performs well in normal circumstances and is addressing risks of the current pandemic.
Ratio of external Debt/Market value	1	1	1 Low	The purchase will be funded initially without borrowing, and if borrowed, is likely to be internal borrowing. However, prudence dictates that analysis with borrowings be undertaken to ensure the profitability of the investment.
Ratio of Purchase value/Investment pool value	2	2	4 Low	Consumes 23% of the £10M currently allocated in the Capital Plan. Net yields are outlined above. Prudence dictates that the asset be monitored quarterly for performance.
Presence and timing of break clauses & rent reviews	2	2	4 Low	Rent reviews are upwards only at the 5 th and 10 th anniversaries of the current lease and are subject to open market value meaning that the property is not over-rented. Lease end is 1 September 2034, with a tenant only break option at 2 September 2029.
Age and State of repair	2	2	4 Low	The property is maintained fully by the tenant and is in generally good repair. Lease clauses for dilapidations and reinstatements have been reviewed and provide ample recourse and protection to the property owner. The property is a public showroom. As such, it is very unlikely that the tenant would want to damage their brand by not maintaining the property adequately as this would directly impact on the customer experience and perception.
Strength of Market for use / letting	2	2		Strong commercial location in Loughborough. Good reversionary and alternative options exist.

Risk of revaluation loss	2	2		CIPFA requires LAs to make a prudent provision for MRP. Periodic valuation will be necessary. Charnwood will establish a property reserve to protect cash flow.
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4. Human Resources: None
5. Equality and Diversity: None
6. Sustainability Implications: None

Urgency

The proposed acquisition would be a key decision and the authorising report would contain exempt information, but the full 28 days' notice is unlikely to be possible due to the urgency of the matter.

In the circumstances, agreement was reached with the Chair of the Scrutiny Commission on 9th September 2020 that the decision was urgent and could not reasonably be deferred and was also exempted from Call-in. The call-in procedure provides for a period of five clear working days during which councillors can ask for decisions taken by the Cabinet and individual Cabinet members, and key decisions taken by officers to be reviewed. With the agreement of the Chair of the Scrutiny Commission or in his/her absence the Mayor or Deputy Mayor) a decision can be exempted from call-in if the decision to be taken is both urgent and reasonable and the delay caused by the call-in process would not be in the interests of the Council or the public. Scrutiny Committee Procedure 11.9 requires that decisions that are exempted from call-in are reported to Council.

Exemption

The report contains exempt information by virtue of paragraphs 3 and 5 of part 1 of Schedule 12A of the Local Government Act 1972 and in respect of which, the Proper Officer considers that the public interest in maintaining the exception outweighs the public interest in disclosing the information.

The report contains financial information relating to a proposed land transaction that is subject to contract which, if in the public domain, could adversely affect the Council's ability to achieve a favourable outcome. The report also contains information that is legally privileged.

Key Decision: Yes

Background Documents: Heads of Terms

Officer Contact: Justin Henry
justin.henry@charnwood.gov.uk

PART B

Detailed information

The Property & Location

1. The proposed acquisition is the Pentagon Vauxhall, Peugeot and Renault Dealership, fronting onto the A6004 Belton Road, immediately to the north of Loughborough Town Centre. Approximately 17,400 cars pass this location daily.



2. The property sits in an established commercial location approximately 1 mile north of the town centre. The property forms part of the successful Belton Road area which is the main retail warehouse, car showroom and trade counter location within Loughborough. Belton Road also provides access into the prime industrial location of Bishop Meadow Industrial Estate which is home to several multi-national businesses. The A6004 Belton Road connects directly, via Epinal Way, to the M1 at J23 3 miles east.
3. Neighbouring occupiers in the area include Home Bargains, Aldi, Inchcape Mercedes, Sandcliffe Ford and Wickes.

Property Specification and Inspection

4. The property comprises a detached, modern car dealership with workshop and valet facilities operating under the Pentagon franchise banner. The dealership is of steel portal framed construction with full height glazed cladding to the front elevation under a metal profiled sheet pitched roof.
5. The workshop element and rear elevation of the dealership have half height masonry facades with composite cladding above. Internally the property provides substantial showroom facilities with integral offices and WC facilities within the showroom. At first floor there are offices which overlook the showroom. Adjoining the showroom is a large workshop incorporating MOT stations, accessed via 7 roller shutter doors. There is a specific parts store between the Vauxhall and the Peugeot / Renault servicing areas with further mezzanine storage above. To the rear of building are the Peugeot / Renault servicing bays and a valet facility. Externally, the site provides 59 display spaces to the front of the showroom with 56 customer / storage spaces to the front and side of the workshop facilities.
6. The site has an EPC rating of "C" (71).
7. The site area is 0.58 hectares (1.42 acres) offering a very low site density of 21%. The table below outlines the distribution of space within the property.

Floor	Use	Area Sq m	Area Sq ft
Ground	Showroom	366.78	3,948
	Workshop	552.95	5,952
	Ancillary / Parts	270.07	2,907
	Valet	37.36	402
First Floor	Showroom Offices	192.08	2,068
	(Mezzanine Parts)	(202.89)	(2,184)
Spaces	Display	59	
	Customer / Compound	56	
Total (Excluding Mezzanine Parts)		1,419.25	15,277

8. Officers inspected the property on Thursday 6 February 2020 and found that the site presents as described. The General Manager acted as escort through the building and noted that there are no major issues identified.

Tenant

9. The site is leased in its entirety to the Motus Group (UK) Ltd (Companies House Reg: 00653665). Motus Group (UK) Ltd is a wholly owned UK subsidiary of Motus Holdings Ltd, the largest automotive dealer in South Africa. Motus acquired the Pentagon Motor Group brand in 2017 and with that 38 franchise outlets on 23 sites across the East Midlands and North of England, further expanding Motus's presence in the UK.
10. Motus now employs over 3000 staff in the UK with 119 franchise outlets over 72 locations. In addition, the business incorporates seven body repair locations and two specialist truck body building locations. Operating franchises for Alfa Romeo, Citroen, Dacia, DAF, Fiat, Ford, Isuzu, Jeep, Kia, LDV, MAN, Mazda, Mercedes Benz, Mitsubishi, Nissan, Peugeot, Renault, Seat, Vauxhall and Volkswagen across the UK. Combined sales figures place the company well inside the Top 10 of UK automotive dealer groups overall.
11. The Motus Group (UK) Ltd had a pre-pandemic Dun & Bradstreet rating of 4A 2, indicating a tangible net worth of £27.6m and lower than average risk. Since the pandemic, their rating has changed to 4A 3 indicating higher risk with net assets increased to £36.2m.
12. As of 8 September 2020, Dun & Bradstreet's assessment of the business states:

- a. Overall assessment of this organisation over the next 12 months: **STABLE CONDITION**
- b. Based on the predicted risk of failure: **LIKELIHOOD OF CONTINUED OPERATIONS**

c. Based on the predicted risk of severely delinquent payments: VERY LOW POTENTIAL FOR SEVERELY DELINQUENT PAYMENTS”

13. There have been no Court Judgements against the tenant and no adverse financial events.
14. In the most recent set of accounts filed at Companies House on 9 Jul 2020, the following statement on the tenant’s business reaction to the COVID19 pandemic is recorded and shown below:

Covid-19

On 11 March 2020 Covid-19 was declared a pandemic and it has had a significant impact on the activities of the company from the middle of March to date. The closure of the company’s vehicle showrooms on 24 March 2020, in response to the UK Government’s regulations, meant that the new and used vehicle sales volumes were significantly lower than expected during the lockdown period. The aftersales businesses were able to continue trading through the lockdown but at reduced levels, the commercial vehicle businesses operated at around 65% of normal levels and in the passenger car businesses only key worker and essential business vehicles could be serviced.

We are thankful and proud of our team members who continue to respond as essential service providers. The wellbeing of our employees and business partners is of paramount importance as we adhere to the government guidelines in all areas of the business.

We have introduced social distancing measures in businesses and have enabled at home working for many employees. Appropriate supplies of PPE are provided to our staff to enable them to carry out their duties in a safe manner. Our priority is to keep operations safe for customers, employees and business partners.

In response to Covid-19 the company has taken a number of internal actions and utilised government schemes available to the business. The company has deferred its March 2020 VAT payment of £6.1m to March 2021, placed non-essential capital expenditure on hold including property developments and property upgrades, taken advantage of PAYE deferrals, deferring payments from March and April 2020 to June 2020 totalling £4.4m, furloughed 54% of its staff (of which 32% still remain furloughed) and implemented a redundancy and voluntary salary reduction programme which have been communicated in May and June 2020. All other supplier payments continue to be made in accordance with the agreed terms.

The company’s vehicle showrooms reopened on 1 June 2020 and the capacity in the aftersales business was increased. In response to this a number of employees were brought back from furlough.

Tenure

15. The property is to be sold Freehold.

Lease

16. The site is leased for a 15-year term from 2 September 2019 at a passing rent of £165,000 (£10.80 per ft²), with a tenant break option in September 2029, which requires 6 months written notice. The property is let on a full repairing and insuring basis (FRI) and is subject to a photographic schedule of condition. Rent reviews are 5 yearly, upwards only, and subject to open market value.

Red Flag Due Diligence

17. Officers reviewed the Title and Lease documents prior to inspecting the property and found no anomalies or issues that would prevent Charnwood from acquiring the property. Further due diligence has uncovered a Landlord repair liability for the showroom windows in the property for which a reserve will be created.

VAT

18. The property has been elected for VAT. It is intended that the property will be sold as a Transfer of a Going Concern.

Bid Strategy

19. Over the last 12 months to March 2020, the market for investment properties has struggled to bring forward many quality investments – most activity completed during the period was off market. The

slowdown in movement was largely attributed to Brexit and fears of a No Deal Scenario. Since March 2020 to date, this has been further impacted by the COVID19 Pandemic. This opportunity, however, remains a strong, long-income investment with a robust tenant covenant. Likewise, the size of the purchase is optimal for private investors, property companies and Self Invested Personal Pensions (SIPPs).

20. In February 2020, the advertised asking price was £2.215m, which reflects a 7% Net in Yield (NIY) after Purchaser's costs. This asset sharpened at the bidding stage to £2.475m or 6.26% NIY. Even at this increased price, the asset remained good value and a sound investment.
21. When the opportunity presented itself to acquire the property again, Charnwood and another party were involved. Charnwood was able to secure the property with a bid of £2.3m, with the transaction to be finalised in 10 working days. The revised offer over Charnwood's initial offer gives a saving of £175k against the initial bid and will provide a yield net of total costs of 4.77% (see the table following paragraph 27).

Financial Performance

22. The full financial performance of the asset is detailed in the appendix.
23. The purchase will be funded by prudential borrowing. Prudential borrowing can be met through internal borrowing or by external borrowing. However, prudence dictates that analysis with external borrowing be undertaken to ensure the profitability of the investment.
24. At the time of the initial investment it is **highly unlikely** that Charnwood will secure borrowing at 100% of the capital value due to its cashflow position and internal borrowing capacity; therefore, the MTFS will benefit from lower interest costs than shown in the above appraisal. However, the internal borrowing position and associated interest rate risk must be monitored and managed, and additional external debt may need to be taken in the future.
25. In order to understand the impact and contribution this asset will make to Charnwood's MTFS, asset performance must be aligned to the timing of Charnwood's Financial Year and for Charnwood's MRP policy to be applied with a likely level of borrowing. The table below, presented for illustrative purposes, shows the financial return after costs assuming that none of the capital value is externalised and a nominal interest rate, payable internally, is applied.

Charnwood Financial Year	Annual Net Return
20/21	3.373%
21/22	4.774%
22/23	4.736%
23/24	4.697%
24/25	4.658%
25/26	4.617%
26/27	4.576%
27/28	4.533%
28/29	4.489%
29/30	4.444%
30/31	4.398%
31/32	4.351%
32/33	4.302%
33/34	0.397%