

WAVERLEY BOROUGH COUNCIL

EXECUTIVE

29 NOVEMBER 2022

Title:

Wey Court East
Project update

Portfolio Holder: Cllr Mark Merryweather, Portfolio Holder for Finance

Head of Service: Marieke van der Reijden, Executive Head of Assets and Property

Key decision: Yes

Access: Part Exempt

Note pursuant to Section 100B(5) of the Local Government Act 1972

Annexes 1-3 of this report contain exempt information by virtue of which the public is likely to be excluded during the item to which the report relates, as specified in Paragraph 3 of Part I of Schedule 12A to the Local Government Act 1972, namely:

Paragraph 3

Information relating to the financial or business affairs of any particular person (including the authority holding that information).

1. Purpose and summary

- 1.1 Council on the 19 October 2021 agreed the funding for a project at Wey Court East in Farnham to facilitate its use and secure a lease. This report updates members on the progress of that project.
- 1.2 Due to commercial sensitivities the detail is provided in exempt annexe 1.

2. Recommendation

It is recommended that the Executive:

- 1) Note the new lease proposals to be approved under the Scheme of Delegation by the Executive Head of Assets and Property.
- 2) Give approval for further funding as detailed in exempt annexe 1.
- 3) Delegates to the Executive Head of Assets and Property the tendering and entering into contract and associated agreements for the delivery of the works required.

3. Reason for the recommendation

- 3.1. Please refer to exempt annexe 1.

- 3.2. As detailed in the report to Council on 19 October 2021, this project will secure an exceptionally long term lease at a time when demand for traditional office space continues to be at an all-time low resulting in a very uncertain future for the building. Please see exempt annexe 1 for further information.

4. Background

- 4.1. Wey Court East was acquired by the Council in December 2017 in support of Waverley's Economic Strategy 2015-2020 and Waverley's ability to provide a range of employment premises through the Borough, in particular flexible office space for mid-sized businesses in Farnham. It was also considered as a community benefit to Waverley in owning and maintaining office accommodation in the town centre location.
- 4.2. However, the building has been vacant since July 2018 and despite a significant number of leads and enquiries to lease the building as office space, nothing has materialised due to the change in demand for local office space and the impact of Covid more recently. The office lease market has become very short-term seeing the average lease term being less than five years, smaller space requirements, a significant transfer of risk to the landlord and downward pressure on the achievable rents.
- 4.3. During 2020, alternative uses for Wey Court East were evaluated including hotel conversion, co-working space/hub environment, residential conversion, and disposal as a last resort. Alternative uses have proven to be difficult to progress due to financial viability and commercial risk sharing challenges and all options requiring additional capital investment.

5. Relationship to the Corporate Strategy and Service Plan

- 5.1 This supports a 'financially sound Waverley' and the Finance and Property Service Plan 'Effectively manage the investment property portfolio in support of the Council's Carbon Neutrality Plan whilst ensuring income levels match or exceed budget targets'.

6. Implications of decision

6.1 Resource (Finance, procurement, staffing, IT)

The financial implications are set out in exempt annexes 1, 2 and 3.

6.2 Risk management

Risk is managed in line with the Asset Investment Strategy. External expertise is commissioned as required and governance and due diligence undertaken prior to any property investment proposal which considers the extent to which the capital invested is placed at risk. The capital invested will be recovered over the life of the lease. The covenant of a long lease also increases the value of the property as an occupied property.

Risk analysis also covers an assessment of sector risk and asset risk. There is an uncertain future for office buildings so securing this lease and covenant gives security to the asset.

Securing a future for the building also addresses any reputational risk the council may incur from holding an empty property that can become dilapidated if not regularly maintained and is prone to anti-social behaviour.

An external project manager has been appointed to oversee the project, ensure delivery milestones are met and manage the Risk Register.

6.3 Legal

The decision to enter into a lease and undertake works to facilitate this lease are an Executive function.

The allocation of budget is a matter for Executive under the delegation approved at Full Council on 8 February 2022.

External legal support has been used to negotiate the lease and will continue to be used to completion. These costs will be met from Asset management budget.

6.4 Equality, diversity and inclusion

There are no direct equality, diversity or inclusion implications in this report. Equality impact assessments are carried out when necessary across the council to ensure service delivery meets the requirements of the Public Sector Equality Duty under the Equality Act 2010.

6.5 Climate emergency declaration

This is addressed in exempt annexe 1.

7. Consultation and engagement

7.1 See exempt annexe 1.

8. Other options considered

8.1 The Council has not received any further interest in Wey Court East since the project was brought to Council in October 2021. The options are as below and detailed in exempt annexe 1:

Do nothing - continue to hold as a void property and continue to try to let. Void cost includes loss of rent, business rates and the Minimum Revenue Provision charge on the internal borrowing on acquisition. Works will be required under the Council's landlord function to secure any other let.

Invoke Exit Strategy – disposal of the building.

Continue with project – the Council secures a long lease at a rental stream that covers financing costs of the project as detailed in exempt annexe 3. The valuation of the property based on the lease supports the spend.

9. Governance journey

- 9.1 The report has been to the Property Investment Advisory Board to recommend to Executive who recommended to Council on the 19 October 2021. The Resources Overview and Scrutiny committee will have an opportunity to scrutinise the report.

Annexes:

Exempt Annexe 1 – Project detail
Exempt Annexe 2 – Review of Cost Report
Exempt Annexe 3 – Financial appraisal

Background Papers

There are / are no background papers, as defined by Section 100D(5) of the Local Government Act 1972).

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Agreed and signed off by:

Legal Services: date

Head of Finance: date

Strategic Director: date

Portfolio Holder: date