

SLOUGH BOROUGH COUNCIL

REPORT TO: Cabinet Committee for Asset Disposals

DATE: 12th January 2023

SUBJECT: Disposal of the Adelphi Theatre, Slough

CHIEF OFFICER: Pat Hayes, Executive Director Housing and Property
Steven Mair, Executive Director Finance and Commercial (s151)

CONTACT OFFICER: Fin Garvey, Group Manager – Place Delivery
Peter Worth, Finance Lead Technical Advisor

WARD(S): Chalvey

PORTFOLIO: Lead Member for Financial Oversight and Council Assets

KEY DECISION: YES

EXEMPT: Public with exempt appendices under paragraph 3 of Schedule 12A Local Government Act 1972 – Information relating to the financial or business affairs of the Council

DECISION SUBJECT TO CALL IN: YES

APPENDICES:

Confidential Appendices:

- 1 – Avison Young Disposal Report (24 November 2022) recommending disposal of the Adelphi Theatre, Slough
- 2 – Draft Heads of Terms Adelphi, Slough.
- 3 - Draft Deed of Covenant Adelphi, Slough.
- 4 – Listing information from Historic England
- 5 – Legal implications
- 6 – Detailed Financial Implications

1. Summary and Recommendations

- 1.1. This report relates to a building which has been marketed and seeks approval for disposal under the Council's Asset Disposal Strategy.
- 1.2. The proposed asset sale has been subject to a due diligence process and reflects best consideration reasonably obtainable for the disposal of the assets in accordance with section 123 of the Local Government Act 1972. The asset sales will generate both:

- a) net savings to the revenue budget; and
- b) capital receipts which will be applied to reduce borrowing and the Council's Minimum Revenue Provision (MRP).

Recommendations:

1.3. To recommend to Cabinet to:

- a) Agree to the Council sale of the Adelphi, Slough with the bidder named in Appendix 2;
- b) Delegate authority to the Executive Director of Property and Housing, in consultation with the Lead Member for Financial Oversight and Council Assets and the Executive Director of Finance and Commercial, to negotiate the terms of and enter into the contract and any associated documentation in connection with the disposal consistent with the disposal report and Heads of Terms appended at Confidential Appendices 1 and 2.

Reason:

- 1.4. The early disposal of the Adelphi is in accordance with the Council's Asset Disposal Strategy. Agreement to the recommendations in this report will contribute to the reduction in the Council's future financial commitments, generate disposal receipts at the earliest opportunity and reduce the Council's borrowing and MRP. The proposed asset sale has been subject to a due diligence process and reflects best consideration reasonably obtainable for the disposal of the assets in accordance with section 123 of the Local Government Act 1972.
- 1.5. The disposal of such assets supports the priority of the new Corporate Plan for "a Council that lives within its means, balances the budget and delivers best value for taxpayers and service users."
- 1.6. The disposal of such assets will enable the Council to simplify the property portfolio and enable the Council to focus on its core activities and services.

Commissioners Review

"The recommendations are supported. This disposal not only makes a contribution to the capital receipts target but also releases an asset that does not make the revenue rate of return the Council's rules required."

Introduction and Context

Context

- 1.7. On 2 July 2021, the s.151 officer issued a report under Section 114 of the Local Government Finance Act 1988 which highlighted a "significant estimated unfunded financial deficit forecast", which, if no further actions were taken by the Council, would result in a "negative General Fund balance of £174 million" by 31 March 2025.
- 1.8. The projected deficit was subsequently revised to £302m by 31 March 2023 and £415m by 31 March 2025, as part of the budget setting process in March 2022.
- 1.9. Legally, local authorities cannot exceed their revenue funding including reserves in any single year and as a result a number of measures to control spending and improve the Council's financial position have been identified and implemented.
- 1.10. On 21 June 2021, Cabinet approved the Asset Disposal Programme which outlined the principles and process for disposing of surplus General Fund land and

property assets to reduce borrowing costs. The report highlighted that the Council would seek to dispose of surplus assets to support the following objectives:

- Provide capital receipts to contribute to the 2022/23 budget through reducing MRP and borrowing costs; and
- Provide capital receipts to meet Capitalisation Directive commitments and align with the Medium-Term Financial Strategy (MTFS) to reduce overall borrowing costs

- 1.11. In September 2022 the Council approved an Asset Disposal Strategy incorporating the advice of Avison Young, the Council's strategic property advisor.
- 1.12. As part of the Council's budget setting process for 2022/23, the Council approved a Treasury Management Strategy (TMS) for the period 2022/23 to 2026/27 on 10 March 2022. A key element of the TMS is the need to reduce borrowing to bring the Council back onto a more sustainable financial footing.
- 1.13. The TMS includes a target to generate capital receipts from asset disposals of £50m in 2022/23 with an aspiration to realise £100m of receipts by 31st March 2023. This forms part of an overall target to generate between £400m and £600m by 31 March 2027 set out in the Debt Repayment Strategy.

Asset Review

- 1.14. Following a detailed procurement exercise, Avison Young (AY) were appointed to support the delivery of the Asset Disposal Programme in March 2022. The appointment comprises two phases:
- Phase 1 - To develop and report back on an asset disposal strategy for the Council; and
 - Phase 2 – to market and dispose of assets identified under Phase 1.
- 1.15. AY were instructed by the Executive Director Place and Community to commence marketing a number of selected assets including the Adelphi in advance of completion of Phase 1, on the grounds that:
- there are no operational or service implications arising from disposing of these assets;
 - they are tradeable assets likely to deliver capital receipts before 31 March 2023; and

The Adelphi Background

- 1.16. Originally completed in 1930 the Adelphi opened as an independent cinema. Designed by noted cinema architect Eric Norman Bailey the building comprised of an auditorium seating 2042 in the stalls and balcony, a large stage and ballroom. Notable stage performances, in addition to cinema use, included artists Roy Orbison, The Beatles, Little Richard and Chuck Berry. The Adelphi Theatre closed in 1973 and converted into a Granada Bingo Club. The building is currently leased to Buzz Bingo until July 2023.
- 1.17. The Adelphi was acquired by the Council in August 2018 for £4.6m as a key element of the Chalvey Regeneration Strategy. The purchase was intended to protect the building from unsympathetic redevelopment. Aspirations for community use and a potential cultural offer were not taken forward before a moratorium on

all Council property developments was implemented and the Debt Recovery Strategy programme authorised in September 2021.

- 1.18. The building is locally listed but there are no constraints on its disposal.

Marketing

- 1.19. The building was marketed with the benefit of a technical pack that included existing tenancy information, title information and a planning appraisal. The Property was formally launched to the market on Saturday 18th June 2022 with a half page, colour advert in the Estates Gazette (EG). The opportunity has also been published on the Estates Gazette Property Link website, which benefits from approximately 400,000 monthly visitors. On Monday, 22nd June 2022 a marketing mailshot detailing the opportunity was sent out to an extensive contact list.
- 1.20. A bespoke marketing brochure was produced and circulated to all parties upon request, as well as individuals and organisations who had previously indicated an interest in properties of a similar nature.
- 1.21. 157 parties expressed an initial interest in the opportunity and had requested a copy of the brochure and access to the data room.
- 1.22. Four viewing days were arranged on Tuesday 28th June, Tuesday 5th June, Tuesday 12th June and finally Wednesday, 20th June 2022.
- 1.23. Across the four days, 26 parties booked to attend however we understand a number of parties inspected externally on other days.
- 1.24. The property was received well by the market with many credible parties engaging and requesting more information with regard to the sale.
- 1.25. After an extensive marketing campaign an initial bid deadline was set for Thursday 26th July 2022. This was clearly communicated to all parties who enquired about the Property.

Bids Received

- 1.26. 8 unconditional bids and 3 subject to planning bids were received. Each bid was reviewed in detail focusing on price, timescales, conditionality of offer and track record. It was decided to proceed with inviting the top 5 unconditional bidders to submit a best and final offer by Thursday 4th July 2022.
- 1.27. Upon receipt of the best and final offers, some further clarifications were sought and within this clarification period, an unsolicited revised bid was received. After further discussions, our property agent was instructed to invite the two top bidders to a 3rd and final round of bids with a bid deadline set for 12 noon, 30th August 2022.
- 1.28. All additional requested information was provided to support the highest bid. In addition, the bidder's track record was provided by their agent suggests that they will be able perform at the price level stated.
- 1.29. A significant number of expressions of interest in acquiring the building have been received. Some of these were for total redevelopment while some were based on maintaining the existing structure and utilising its inherent design to maximise value. Serendipitously the highest bids sought to do the later.
- 1.30. The preferred bidder is buying the building to retain and use it as a banqueting suite and has a confirmed track-record of similar undertakings across the south east.

- 1.31. The proposed use will secure the future of the building as a public amenity and as freeholder will have a commercial interest in maintaining and safeguarding its façade and interior features.
- 1.32. There is unmet demand for banqueting suites in the Thames Valley, West London area and the proposed use would meet a significant public need while maintaining public access to the building and supporting the town centre economy.
- 1.33. The Council has not obtained an independent valuation of the land to inform this sale. This is contrary to its asset disposal strategy and means the Council does not have independent evidence to demonstrate best consideration reasonably obtainable. However the Council does have advice from its strategic advisors and the property has been extensively marketed.

Summary of proposed terms

- 1.34. Heads of Terms have been agreed with preferred bidders as set out in Confidential Appendix 2 and will be ready to complete subject to approval of Cabinet.
- 1.35. The purchaser has agreed to enter into a Deed of Covenant with the Council as set out in confidential appendix 3 which will prevent demolition, any structural works, or alteration to the facade of the Adelphi for a period of five years.
- 1.36. Confidential Appendix 4 provides details on the listing from Historic England.
- 1.37. Confidential Appendix 5 sets out legal advice on the enforceability of the available options.

Options considered

- 1.38. Option A - To retain the Adelphi. Whilst this would retain the rental income stream, the costs of servicing the debt outweigh the income generated.
- 1.39. Option B – To dispose of the asset by way of freehold disposal.
- 1.40. Option C – To dispose of the asset by way of freehold disposal together with a Deed of Covenant in favour of the Council.
- 1.41. **Option C is recommended** to Cabinet for approval as this option affords the best protection to the structure and internal features of the build while realising the value of the property.

2. Implications of the Recommendation

Financial implications

- 2.1. The detailed financial implications from disposing of the Adelphi is reported in Confidential Appendices where more comprehensive comments are set out. In summary, there will be a net revenue saving of £0.464m from the reduction in borrowing costs less the loss of rental income.

3. Legal implications

- 3.1. Pursuant to section 123 of the Local Government Act 1972 (“Section 123 LGA 1972”) and/or Section 1 of the Localism Act 2011, the Council has the power to dispose of land in any manner it wishes, subject to certain provisions. The Council has a statutory duty to obtain the best price reasonably obtainable, subject to certain exemptions.
- 3.2. When disposing of land, the Council has a duty to obtain best consideration under section 123 LGA 1972, not less than the best that can be reasonably obtained. What is reasonable in any particular case depends entirely on the facts of the transaction. Although there is no absolute requirement to market the land being disposed of, or to obtain an independent valuation, in order to comply with the best consideration duty, it is good practice to should obtain independent professional valuation advice, as a failure to take proper advice can constitute a breach of section 123 LGA 1972.
- 3.3. The Council has employed Avison Young (“AY”) as specialist property advisors to advise on an asset disposal strategy and to market and dispose of the assets identified for disposal.
- 3.4. Exempt Appendices 6 shows that the agreed offer price for the Adelphi is £4,025,000
- 3.5. Acting in their capacity as specialist property advisors to the Council, AY have advised that the best and final offer received by AY following a competitive disposal process exceed both the valuation carried out on 31 March 2022 and exceed the original acquisition cost and this in their opinion reflects best consideration reasonably obtainable in accordance with Section 123 LGA 1972.

4. Risk management implications

- 4.1. The recommendations required from Cabinet, as outlined in this report, are intended to improve the Council’s financial position, by realising capital receipts which can then be used to repay Council borrowing from the existing high level and reduce debt servicing charges in the form of interest and minimum revenue provision (MRP) If the recommendations are not approved this will delay the Council being able to return to a financially sustainable position. – specific risks are summarised below:

| Risk | Summary | Mitigations |
|-------------|---|--|
| Financial | Delay in realising capital receipts from assets sales will delay the Council’s financial recovery | Cabinet to approve officers to proceed with the sales |
| Governance | Failure to obtain best consideration from the disposals could expose the Council to risk of legal challenge | The Council has employed external property advisors to manage and market the properties, having access to wider markets than officers locally. |

| | | |
|--------------|--|---|
| Legal | Delay to contract negotiations | Bi-weekly monitoring of asset disposals by commissioners and officers |
| Governance | Failure to establish robust governance arrangements could expose the Council to risk of impropriety and legal challenge | The Council has established sound governance arrangements for asset disposals to ensure that the Council achieves best consideration from asset disposals |
| Reputational | Unable to agree a way forward causing delay to asset disposals and failure to deliver capital receipts within the timescales set out in the Debt Reduction/Asset Disposal Strategy | Governance, project management and decision-making operate effectively to deliver asset disposals on time and best consideration for the Council. |

5. Environmental implications

- 5.1. The future use of the site is relevant to the protection of the building for future generations in the Borough. No other environmental implications have been identified as a direct result of this report.

6. Equality implications

- 6.1. No equality implications have been identified as a direct result of this report.

7. Procurement implications

- 7.1. The appointment of Avison Young as the Council's external property advisors was secured in compliance with:
- The Public Contracts Regulations 2015
 - Council Contract Procedure Rules, and
 - Expenditure Control Panel requirements.

8. Workforce implications

- 8.1. No workforce implications have been identified as a direct result of this report.

9. Property implications

- 9.1. This report will directly impact on the Council's property holdings. Full details will be provided via progress reports to Cabinet.

10. Background Papers

None