REPORT TO FULL COUNCIL

SALE OF 60 KING STREET

Report Reference	C-22-24
Meeting Date	9th January 2023
Agenda Item	8
Prepared by	Town Clerk

1.0 BACKGROUND

1.1 PURPOSE OF REPORT

At its November meeting, the Assets and Operations committee resolved to recommend to full council that it authorise the sale of 60 King Street and approve the engagement of an agent to put the property on the market.

1.2 HISTORY AND BACKGROUND TO PROPERTY

The Knutsford Urban District Council was gifted 60 King Street after the death of its creator, Richard Harding Watt. At that time (c.1914) it was the offices for the council as well as being a coffee house and including some residential accommodation. Since Knutsford Town Council was established in 1974, the building had been occupied by La Belle Epoque Limited. The lease with the company was terminated through insolvency of the tenant in 2019, after multiple years of legal disputes and rent arrears.

In 2019 the property was put on the market to obtain a new tenant on a full repairing and insuring lease. Efforts to obtain a new tenant were unsuccessful – of the three proposals received, one was considered suitable, but this prospective tenant withdrew from negotiation after several months due to the condition of the building. The council sought further negotiation on the terms of the lease, but this was rejected.

In April 2021 the Assets and Operations Committee agreed that the option of obtaining grant funding to renovate the building as a mixed use (commercial, community and potentially council offices) should be explored and in June consultants were appointed to support this on a pro-bono basis (with their remuneration to be secured through obtaining grants in the future). The objective was to secure a £2m+ grant from the National Heritage Lottery Fund which would require a great deal of advance work to prepare a strong application. In late 2021 funding from the Architectural Heritage Fund was secured to undertake public consultation which took place in March-May 2022.

The consultation indicated support from the community for a community focused use of the building and a keenness for the building to be put back into use. However, the consultants advised that further work on developing a NHLF bid is likely to cost in the region of £30,000; £7,000 would be seek grants to fund the next £23,000. The larger stage would be identifying partners and completing the options appraisal including work on financial assumptions. This does not include preparation of the development stage grant so further expenditure would be required. The certainty of obtaining grants was not guaranteed and the consultants advised that a council led scheme is harder to fund and alternative governance models (such as the building being operated by a charity) would be more fundable.

At the November 2022 Assets and Operations Committee meeting, the committee discussed the future of the project. There was hesitancy in committing further, and potentially committing financial resource, with the uncertainty of securing grants in the longer term. The committee was also acutely aware of the fact that the property has been vacant for 3.5 years.

1.3 CONDITION OF PROPERTY

In 2018, Fisher German prepared a maintenance schedule for the 2020-2024 period. This was prepared in accordance with the council's then responsibilities as landlord under the lease. The programme was notably greater than previous years with a five year expenditure plan of £307k. This was limited to the external/fabric of the building (not internal repair or decoration which was a tenant responsibility). The substantial items included render repairs to various elevations, replacement of flat rooves and overhauling/replacement of tile rooves. A further £400k of expenditure was then likely post 2024 (predominantly replacement of the concrete deck over the kitchen). Only responsive maintenance has been undertaken since 2019. To make the building habitable requires electrical works (making safe cables left by the former tenant when fixtures were removed), window repairs (following vandalism) and the installation of a new gas pipe and boiler (including the removal of asbestos) in addition to redecoration as needed for different uses.

2.0 FINANCIAL IMPLICATIONS

2.1 ANTICIPATED RECEIPT

Savills recommend a guide price around £1.1m, advising that a higher value may be achieved depending on buyers' margins and risk appetites. An agent fee of 1% is anticipated (£11,000 on £1.1m) and legal fees of approximately £2,000. These would be deducted from the sale proceeds.

2.2 IMPACT ON COUNCIL BUDGET

A receipt of over £10,000 for the sale of an asset is a capital receipt. There are statutory restrictions as to how capital receipts can be spent which limit it to the repayment of external debt and the acquisition, construction and enhancement of land, buildings, vehicles, plant and equipment. A capital receipt cannot be used for revenue expenditure. The council holds capital receipts in a reserve and invests these to achieve the maximum interest whilst ensuring the requirements for security and liquidity are met. The interest earned on a capital receipt is revenue income which can applied as the council wishes.

Sale of the asset will remove operational expenditure and, whilst a reserve is held, generate bank interest. Assuming completion around June, the net effect for the 2023/24 financial year would be a reduced net expenditure of £25,000.

The council currently has two major capital projects in the planning stage – renovations to the Council Offices and the Market Hall. A capital reserve would enable these projects to proceed without/minimal need for borrowing which would reduce future revenue budgets and remove interest payments.

3.0 METHOD OF SALE

Discussions have taken place with Savills regarding a potential sale. Savills were contracted as the letting agent when the council sought to re-let the property. It is recommended that Savills be reappointed for marketing the property as a major estate agent and as an extension of the original contact for the letting[1].

Savills recommend a guide price of £1.1m to invite offers with a closing date approximately 8 weeks after the property launch. The flexibility of informal tender should maximise the level of interest and offer, as it does not obligate the buyer to purchase there is some uncertainty until exchange of contracts as with a traditional sale.

Noting the present economic challenges of high interest rates and inflation, the alternatives of formal tender (where the council is obligated to accept the highest bid and the buyer obligated to complete) and auction (where the contract is made on the hammer fall) are not recommended as they better suit a stronger market and economy.

4.0 ALTERNATIVE OPTIONS

The table overleaf overviews a number of alternative options with a high-level appraisal.

5.0 DECISION REQUIRED

The Assets and Operations Committee recommends that council approves the freehold sale of 60 King Street.

Council should consider:

a) whether to approve the sale of the freehold of 60 King Street
b) the approval of Savills as the council's estate agent for the sale
c) authorising the Assets and Operations Committee to deal with all matters related to the sale
d) authorising the sealing of any legal documents as required

[1] No fee other than disbursements was paid to Savills for the work on re-letting the property.

Option	Pros	Cons	Risks	Financial Impact
1. Continue NHLF Bid Project	• Secures community use, meeting established needs	• Building continues to be empty for further years • Likely to require expenditure from council funds for next bid development work • Significant officer time requirement	• Cost / time incurred but failure to secure required investment	• Ongoing operational costs of c. £9k per year • Ongoing resource (staffing) cost • Ongoing risk of unoccupied building • Potential need to fund initial work phase £30k+
2. Readvertise property to obtain new commercial tenant	• Generates ongoing revenue income	• Likely to involve lengthy negotiations during which council continues to have liability	• Previous marketing exercise failed to secure a tenant on agreeable terms, no reason to think a repeat would be any different especially as economic environment now significantly worse than 2019	• Ongoing operational costs of c. 9k per year whilst tenancy agreed, thereafter removed • Incur legal/professional fees involved with creating tenancy • Generates revenue income of up to £75k pa
3. Lease building to new charity/CIC for community led model	• Secures community use, meeting established needs • Transfers operational risk to third party • Positive community project, good for community governance and capacity building • Opens additional funding opportunities for small immediate improvements	• Would be on peppercorn/non-commercial rent generating negligible revenue income	• Charity fails to afford maintenance of building (can be mitigated by covenants in lease to some degree) resulting in building deteriorating and/or returning to the council • Requires on a strong delivery team to manage the asset	• Initial legal costs involved in agreeing lease • No ongoing revenue income, but removal of ongoing operational costs (saving £9.3k in 2023)
4. Undertake works and	• Generates ongoing revenue income	• Ongoing revenue income would be required to cover loan repayments	• Unless an agreement for tenancy was secured prior to	• Ongoing loan repayment liability, likely loan repayments of £62k pa on

Option	Pros	Cons	Risks	Financial Impact
then seek to let property	• Overcomes main obstacle of option two • Ensures building is in good condition	• Interest rates currently high (compared to previous years)	works, financial burden of works would be at risk • May still be a challenging building to let	a 30 year term, rental income of c. £75k pa.
5. Joint venture operation	• Working with established partner to operate the building for e.g. wedding use increases likelihood of sustainable operation • Generates ongoing revenue income	• Likely to require upfront investment to renovate building • Limitation on ongoing community use • Unknown officer time requirement	• Likely to require significant at risk upfront investment • Failure of partnership	• Uncertain, theoretically generating revenue income to cover cost
6. Occupy building, undertake phased works over time.	• Maintains ownership • Delivers community use, meeting established needs • Enables multi-use of the building e.g. council occupation, room lettings, shared work space, room hire • Subject to funding (e.g. capital reserve, grants) could deliver use in the building more quickly than reliance on major grants	• Insufficient finances to restore building upfront, requires a phased approach • Greater reliance on council funds e.g. reserve or income from building to fund works	• Requires a business case to be prepared to explore fully before it can be committed to • Will require a significant amount of time resource • Need to carefully plan building works with a risk of works being needed sooner than planned	• Would require an initial upfront investment to make building habitable (heating system etc) • Ongoing and unknown operational costs for utilities • Some potential for grants for some works e.g. from FCC for up to £100k if tied to community use • Potential to generate income from room lettings/ shared work space / hire etc • Income from sale of council offices (reduced by required payback to CEC)