

REPORT OF: STRATEGIC DIRECTOR

TO: EXECUTIVE

DATES: 25th AUGUST, 2016

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**ACQUISITION OF THE ACE CENTRE
(Ground Floor, First Floor and the Bistro)**

PURPOSE OF REPORT

1. The purpose of this report is to seek the Executive's approval to acquire the Council's interest in the ACE Centre (Ground Floor, First Floor and the Bistro).

RECOMMENDATIONS

2. It is recommended that the Executive:-
 - a) recommend to Council that approval is given to a supplementary capital estimate of £2.200m for the acquisition of the Council's interest in the ACE Centre;
 - b) note that, subject to (a) above, it is proposed to borrow £2.200m from the Public Works Loan Board to fund the acquisition.

REASONS FOR RECOMMENDATION

3. To acquire the Council's interest in the ACE Centre as a means of reducing the financing costs to the Council and as a contribution to the budget savings target.

ISSUE

4. As Councillors may be aware, the Council leases the ground floor, first floor and the Bistro in the ACE Centre, Nelson from Pendle Enterprise and Regeneration Ltd (PEARL), the Council's joint venture company established in partnership with Barnfield Investment Properties. A plan of the Council's demise is provided at **Appendix A**.

5. There are two leases (one for the ground and first floor and one for the Bistro), each of which commenced in May 2009 and are for a 25 year period, expiring in May 2034 (which, at the time of writing, means that there are c18 years remaining on the lease). The current annual combined lease rental payable by the Council is £194,000 (an amount which is reviewed every 5 years until the expiry of the lease).
6. At the inception of the Council's lease with PEARL, the Council entered into a 25 year sub-lease at a peppercorn rent with the Pendle Leisure Trust (PLT) which currently operates the facilities (200-seat auditorium, Recording Studio, Dance Room, Functions Rooms) as part of its leisure, arts and culture offer. A separate lease on the same terms (25 yrs, at a peppercorn) between the Council and PLT is also in place for the ACE Centre Bistro. Given these sub-lets, the Council has no financial obligations from operating the ACE Centre other than the lease rentals as all other costs of operation are met by PLT.
7. As part of the work being undertaken to review the Council's budget in light of the significant savings requirement for the period to 2020, consideration has been given to the cost of the ACE Centre leases compared to the cost of borrowing funds necessary to acquire the Council's interest in the Centre, ie changing the Council's interest from lessee to owner.
8. Discussions have taken place with PEARL about the cost of acquiring the Council's interest (as set out in the plan at **Appendix A**) and a price of £2.200m has been agreed, subject to the Executive's consideration of this matter and, ultimately, Council approval to the capital expenditure. Members should note that two independent valuations of the Council's interest have been obtained – from both Liberata and the District Valuation Service – which indicate that the agreed value is reasonable and represents good value for money.
9. The cost of borrowing by the Council comprises both interest and principal repayments (technically referred to as Minimum Revenue Provision (MRP)). On the basis of the prevailing interest rates, it is estimated that the cost of borrowing £2.3m (comprising the agreed purchased price plus £100k for Stamp Duty Land Tax) will be c£48k pa. Principal repayments are estimated to be £46k pa (although borrowing would be delayed until 31st March 2017 as there is no requirement to provide for principal repayment in the first year after borrowing). Table 1 below compares the estimated cost of borrowing to the current lease rentals:-

Table 1: Estimated Savings from Acquisition of ACE Centre

	Year 1 (2017/18) £	Ongoing £
Interest *1	48,300	48,300
MRP	-	46,000
Total Estimated Debt Charges	48,300	94,300
Current Rent	194,000	194,000
Estimated Savings	145,700	99,700

*1 – assumes loan of £2.250m obtained from PWLB at interest rate of 2.1%

*2 – assumes loan amortised at 2%pa

*3 – assumes transaction takes place on 31st March 2017

10. As the table indicates, by acquiring the Council's interest in the ACE Centre, a saving of £146k will be achieved in 2017/18 and £100k for each year thereafter.
11. Other than taking ownership of the Council's interest in the Centre, there will be no changes to how the Centre is operated by PLT as a consequence of the proposal in this report. PLT will, however, continue to review how the ACE Centre is operated as part of the work they are undertaking in conjunction with the Council to reduce the overall level of subsidy payable by the Council.
12. Similarly, the Council's acquisition of its interest in the ACE Centre will not affect any other part of the ACE Centre which will remain in the ownership of PEARL.

IMPLICATIONS

Policy

13. There are no policy implications arising directly from the contents of this report.

Financial

14. The financial implications are as given in the report. The estimated savings proposed will be a contribution to the requirements to achieve savings of c£4.8m over the period to 2020.
15. Should the Executive agree to the proposal as set out in this report, it is not envisaged at this stage the Council will need to amend its borrowing limits as set out in the Treasury Management Strategy. However, that is a matter which is kept under review and any need to change borrowing limits will be reported to Members as part of the regular review of treasury management activities.

Legal

16. Subject to the Executive's agreement, the Council will acquire its interest in the ACE Centre by way of normal conveyance.

Risk Management

17. There are no risk management implications arising directly from the contents of this report.

Health and Safety:

18. There are no Health and Safety implications arising from this report.

Climate Change:

19. As with health and safety implications, there are no climate change implications arising directly from this report.

Community Safety:

20. There are no community safety issues arising directly from the contents of this report.

Equality and Diversity:

21. There are no equality and diversity implications arising directly from the contents of this report.

APPENDICES

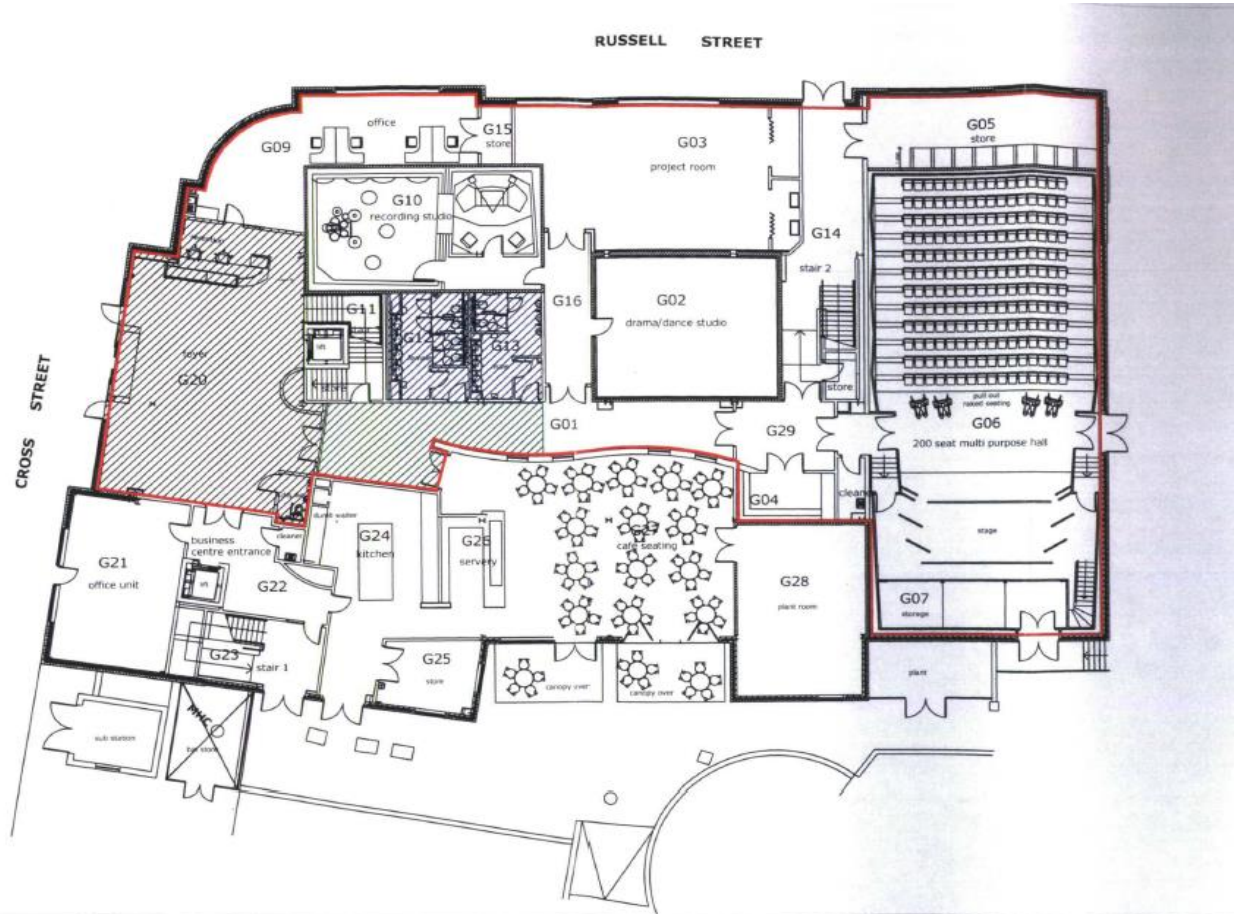
Appendix A – ACE Centre, Nelson – The Council's Demise comprising the Ground Floor, First Floor and the Bistro

LIST OF BACKGROUND PAPERS

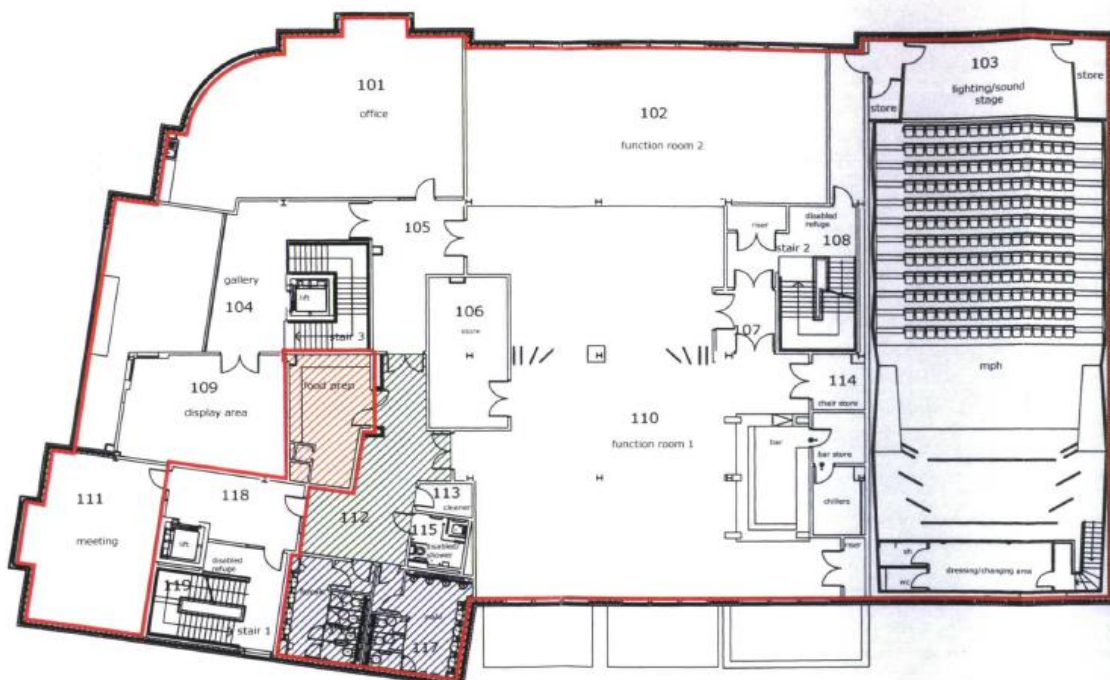
Appendix A

ACE Centre, Nelson - The Council's Demise

Ground Floor



First Floor



Bistro

