

DECISION-MAKER:	CABINET COUNCIL
SUBJECT:	FUTURE PROPOSAL FOR 271 WINCHESTER ROAD
DATE OF DECISION:	17 DECEMBER 2024 / 26 FEBRUARY 2025
REPORT OF:	COUNCILLOR BOGLE ECONOMIC DEVELOPMENT

<u>CONTACT DETAILS</u>			
Executive Director	Title	Executive Director Growth & Prosperity	
	Name:	Stephen Haynes	Tel: 023 8083 2400
	E-mail	stephen.haynes@southampton.gov.uk	
Author:	Title	Chartered Surveyor	
	Name:	Amal Uddin FRICS	Tel: 023 8083 2295
	E-mail	Amal.Uddin@southampton.gov.uk	

STATEMENT OF CONFIDENTIALITY	
Appendix 1- 6 contains information deemed to be exempt from general publication based on Category 3 (information relating to the financial or business affairs of any particular person (including the Authority holding that information)) of paragraph 10.4 of the Council's Access to Information Procedure Rules. This includes details of a proposed transaction which if disclosed prior to contract, could put the Council or other parties at a commercial disadvantage.	
BRIEF SUMMARY	
The purpose of this report is to seek approval for the splitting of the unit at 271 Winchester Road currently occupied by Wickes into two units and to pursue the route of entering into an arrangement for this to be funded as part of a lease arrangement.	
RECOMMENDATIONS: FOR CABINET	
(i)	The Cabinet approve the splitting of the unit at 271 Winchester Road into two units as outlined in the commercial and financial terms in Appendix 1.
(ii)	That Cabinet delegate finalising the detail of the terms of the splitting of the Unit and the Lease to the Executive Director of Growth and Prosperity following consultation with the Executive Director for Enabling Services and the Director of Legal and Governance.
(iii)	That Cabinet delegate approval for any other matters necessary to finalise this transaction in association with this proposal to the Executive Director of Growth and Prosperity following consultation with the Executive Director for Enabling Services and the Director of Legal and Governance.

	(iv)	Subject to any proposal falling within Cabinets financial authority, that Cabinet delegate approval to dispose of this property in the future to the Executive Director of Growth and Prosperity following consultation with the Executive Director for Enabling Services and the Director of Legal and Governance (if best consideration can be demonstrated for a disposal compared to retention of the property).
RECOMMENDATIONS: FOR COUNCIL		
	(i)	To retain the site without making a direct capital contribution, but via a discounted rental arrangement and in lieu of this payment, Aldi will receive a discounted rent over a 10-year period.
	(ii)	Aldi will take a new 20-year Full Repairing and Insuring lease, subject to five yearly upward only rent reviews and Wickes will surrender the surplus accommodation and take a new Full Repairing and Insuring lease of the remainder for a term of 15 years.
	(ii)	That, in the event of a disposal valued in excess of Cabinets financial authority to approve a disposal, Council delegate approval to dispose of this property in the future to the Executive Director of Growth and Prosperity following consultation with the Executive Director for Enabling Services and the Director of Legal and Governance (if best consideration can be demonstrated for a disposal compared to retention of the property).
REASONS FOR REPORT RECOMMENDATIONS		
1.	The unit at 271 Winchester Road which is part of the Councils investment portfolio would be more desirable for future lettings if it was split in two. The recommended approach outlined in this report (see Appendix 1) and the Appendices enables the splitting of the unit through the agreement of a lease rather than requiring the Council to fund these works from its own capital budget.	
2.	The proposal offers the City Council an opportunity to be able to improve the physical condition of a property, reconfigure the current layout, which is not compatible with market demands with two tenants that offer strong covenants.	
ALTERNATIVE OPTIONS CONSIDERED AND REJECTED		
3.	The alternative options are also set out in the Appendix 1.	
DETAIL (Including consultation carried out)		
4.	The Council acquired the unit in 271 Winchester Road in 2016 for £12,090,000, it was purchased as part of the council's investment portfolio. The unit is 50,295 sq ft / 4,674 sqm of retail warehousing as part of a small retail park. The unit is currently occupied by Wickes under a protected lease due to expire on 28 th September 2027. Further lease details are in Appendix 3.	
5.	In November 2021, a Business Case was prepared which made a case for the splitting of the unit at 271 Winchester Road into two smaller units. The business case stated that this work was required to support the effective asset management of the portfolio and improve the assets rental return and capital value.	
6.	The report outlined several benefits of this decision, notably reducing the Council's dependence on a single tenant for such a large unit. By splitting the unit, the Council would enhance the combined covenant supporting the asset, create more marketable space, and improve future growth and income stability. This strategy would boost both	

	short and long-term rental income while increasing the asset's secured income term and capital value.
7.	The business case resulted in the Council allocating £1.837M in capital funding for the scheme in February 2022. However, in March 2024, the capital programme was reviewed for potential savings, and the £1.837 million was removed.
8.	During the period between February 2022 and March 2024 progress had been made with the existing and a potential tenant of the new unit. Cost had been incurred by external parties developing the proposal as well as with planning matters and both tenants were keen to continue. The current deal involves Aldi funding the development of the site by way of a loan contribution in lieu of the Council's financial contribution, which would be as a capped discounted rent applied for a period of 10 years and the final detail of this arrangement is outlined in Appendix 1. This involves the tenant carrying out the works (See Appendix 6) and incurring the cost of splitting the unit and the associated costs.

RESOURCE IMPLICATIONS

Capital/Revenue

9.	Appendix 1 Outlines the financial analysis of the options available and the recommended approach. The recommendation is to fund the splitting of the unit through the lease terms providing a capped discounted rent.
10.	The income for this unit will temporarily reduce for a period of 10 years, after which it will increase, and the City Council will benefit from rent being received from two units. See Appendix 1.

Property/Other

11.	Unit 271 is part of the Council's investment portfolio, the unit is therefore responsible for income generation to the Council. By providing a discounted rent, whilst there will be a reduction in the Council's income for a period of 10 years; by splitting the unit, the Council would enhance the combined covenant supporting the asset, create more marketable space, and improve future growth and income stability over the long term.
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LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

12.	The Council's ability to extend leaseholds or make freehold disposals lies in the Local Government Act 1972, the Local Government Act 2000, and the Localism Act 2011.
13.	Under the Local Government Act 1972, the Council has a requirement to achieve "best consideration". Any purchase price agreed with the special interest party or any other party in the open market will be subject to a Section 123 LGA 1972 Valuations. Appendix 1 includes The Commercial and Financial Terms with Related Recommendation. Appendix 2 provides the Colliers Desktop Valuation Report (15 Dec 2023). This gives an independent valuers opinion of the future value of the site and supports the Best Consideration principle in relation to the recommended proposal. This deal will be subject to Best Consideration being demonstrated by way of an independent valuers S123 valuation.

Other Legal Implications:

14.	The proposals require an Equalities Impact Assessment to be completed prior to final disposal terms being agreed in accordance with the Council's duties under s.149
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	Equality Act 2010 (the 'Public Sector Equality duty') and any disposal to a special interest party needs to comply with UK Subsidy Control legislation.
RISK MANAGEMENT IMPLICATIONS – See Appendix 4	
POLICY FRAMEWORK IMPLICATIONS	
15.	Southampton City Council Corporate Plan 2022/30 includes the goal to make the Council a successful and sustainable organisation. This proposal will contribute to this ambition together with the goal to make Southampton a prosperous city.

KEY DECISION?	Yes
WARDS/COMMUNITIES AFFECTED:	ALL
<u>SUPPORTING DOCUMENTATION</u>	
Appendices (Confidential)	
1.	CONSIDERATION OF THE OPTIONS AND RECOMMENDED COMMERCIAL AND FINANCIAL WITH RELATED RECOMMENDATION
2.	COLLIERS DESKTOP VALUATION – 15 DECEMBER 2023
3.	LEASE DETAILS
4.	RISK MANAGEMENT IMPLICATIONS
5.	DRAFT HEADS OF TERMS (1. ALDI 2. WICKES)
6.	SCOPE OF WORKS
7.	ESIA

Documents In Members' Rooms

Equality Impact Assessment	
Do the implications/subject of the report require an Equality and Safety Impact Assessment (ESIA) to be carried out.	Yes
Data Protection Impact Assessment	
Do the implications/subject of the report require a Data Protection Imp Assessment (DPIA) to be carried out.	No
Other Background Documents	
Other Background documents available for inspection at:	
Title of Background Paper(s)	Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)
1.	
2.	