

Exempt Appendix 1d (a)

This appendix is exempt from publication under paragraphs 3 and 5 of Schedule 12A to the Local Government Act 1972 because it contains information relating to the financial or business affairs of a particular person (including the authority holding the information) and/or information in which a claim to legal professional privilege could be maintained in legal proceedings and, having regard to all the circumstances, the public interest in maintaining the exemption outweighs the public interest in disclosing the information because publication may result in commercially sensitive information being revealed which could impact detrimentally on negotiations and/or reveal legal advice to which legal professional privilege could be maintained.

Business Case in respect of: Refurbishment of Governor's House & Judges Retiring Rooms, forming part of Shire Hall, High Pavement, Nottingham, NG1 1HN

1.0 Background

The Bridge Estate hold the benefit of a long leasehold interest in the subject property for a term of 999 years (virtual freehold) having commenced 31st December 2002 at a peppercorn rent on an effective full repairing and insuring basis. The interest in the reversion is held by Nottingham City Council (as landlord) which granted a lease to The Museum of Law Trust Company in respect of Shire Hall as a whole (including the subject premises), on for a term of 125 years having commenced 30th September 2004 on a full repairing and insuring basis. The above mentioned lease is held subject to the lease in respect of the subject premises.

Accordingly, The Museum of Law Trust covenanted to perform the landlord's (NCC's) obligations under the lease which includes the administration of a service charge with the latter yet to be put into effect.

The asset was acquired by the Bridge Estate in 2011 in the sum of £212,935 however, has since remained vacant.

2.0 Property Description

The subject premises form part of Shire Hall (which is operated by the National Justice Museum), comprising a Grade II * listed building. The Premises comprise the former Judges Retiring Rooms (shown edged green) and Governor's House (shown edged blue) as shown edged red on the plan attached providing a combined net internal floor area of 2,824 sq. ft.

3.0 Business Need

The premises are marketed by Innes England, with copy particulars attached. It is understood that whilst the premises have received limited interest, the overall condition and arrangements regarding the services from the adjoining property has served to deter prospective tenants.

The Bridge Estate holds a commercial property asset which if let, could realise a notable rental income and further improve the Charity's capacity to meet its core objectives.

The premises are however, in poor to fair condition which, coupled with the constraints posed by 'borrowed' services from the adjoining Shire Hall museum premises it is proposed that the following works are undertaken as broadly detailed below: -

- Renew part of the roof covering to Governors House *
- Repairs to the building fabric (e.g. rendering, window frames etc)
- New floor coverings, redecoration and cleaning
- Severing the mains services (i.e. gas, electricity and water) from Shire Hall
- Install new separately metered mains services (i.e. gas, water and electricity) to both buildings
- Upgrade lighting
- Modify the existing integrated fire alarm system

*this has already been ordered at a cost of £9,940 due to the continued risk posed to health and safety and costs access costs which would otherwise be posed in in undertaking localised repairs.

The total cost for undertaking these works are estimated at **£235,000** (plus VAT).

Subject to the undertaking of the works, terms have been agreed (subject to contract and committee approval). The principal terms are as shown detailed below with the full heads of terms attached:

Term:	15 years contracted within the provisions of the Landlord and Tenant Act 1954
Rent:	Years 1 – 2 £13,500 per annum (i.e. half rent) Years 3 - 5 £ 27,000 per annum
Repair:	effective full repairing
Rent Review:	End of the 5 th and 10 th years of the term upward only
Service Charge:	Maintenance of the exterior and structural elements and services provided by the superior landlord subject to a capped rate at £2.50 p.s.f. subject to annual RPI increases.
Utilities:	The tenant will be responsible for utilities consumed at the premises
Rent Deposit:	A rent deposit equal to one quarters rent £6,750 to be held for the duration of the term
Building Insurance:	To be recharged to the tenant
Alienation:	Subject to landlord's consent to assign the whole or under-let the latter being at the higher of the passing rent or open market rent.
Alterations:	Structural alterations prohibited Non-structural alterations permitted to obtaining landlord's consent.
Use:	To be used for offices (under B1 and D1 Use Classes)

The headline rent devalues at £10.00 p.s.f. in respect of the office areas and £3.00 p.s.f. to the low headroom storage area and represents the best rental that could reasonably be achieved in the current market and has been endorsed by the letting agent.

The undertaking of these works will serve to future proof the premises for future lettings or disposal should it be determined as appropriate.

In the event the proposed letting fails to take effect alternative occupiers will be identified with the premises let either as whole, as two separate buildings or possibly on a suite basis.

4.0 Financial Appraisal

The financial business case has been undertaken assuming the lease terms as detailed in section '3.0 Business Need'.

On the key assumptions that:

- All works are completed during 2019/20 ✓
- The lease commences on the 1st April 2019
- The financial model is over 15 years
- There is no rental increase at either rent review period (years 5 and 10), therefore, remains at £27,000 per annum
- Sinking fund set at 5% of income is included within the model
- The capital expenditure of £235,000 is funded from capital receipts
- The prudent assumption that the building has £nil residual value at the end of the 15 years

The revenue impact of this proposed project is summarised in the below table:

Cumulative Position (15 years) £	(Surplus) / Pressure	2020/21 £	2023/24 £m	2024/25 £m	Cumulative MTFO Period (Year 1-5) £m	Payback Period £m
(187,057)	NPV @ 4.5%					
(356,398)	Revenue	(10,124)	(12,824)	(25,650)	(99,898)	Year 11 2030/31

The capital receipt resources being proposed to be used by this project could be put to an alternative use. The table below shows the alternative options and the revenue impact during the MTFO period and the projects life 15 year:

	Investing in Governors House £	Interest Earned from Cash balance (@ BoE base rate) (*) £	Repay debt on Lister Gate Loan £
MTFO – Year 1 to 5 (Surplus) / Pressure	(99,898)	(8,946)	(109,988)
Project – Year 1 to 15 (Surplus) / Pressure	(356,398)	(27,872)	(279,415)

(*) Assumed at 0.75% over the 5 year period on a compounded basis

Even though the capital receipt to repay the Lister Gate Loan does generate a larger MTFO surplus than the proposed works to Governors House, the works to Governors House give the Bridge Estate better value for money in the medium to long term. This is due to the Lister Gate Loan being fully repaid in 2032/33, compared to significant elements of the works having a longer life and progressing with Governors House means the Bridge Estate is making better use of its assets.

4.1 Financial Model Sensitivity

A sensitivity analysis of the financial model in section 4.0 has been undertaken based on rental income and construction costs both increasing and decreasing by 5 and 10%. See the below table for details.

Cumulative (Surplus) / Pressure £ at year 15		Capital Costs				
		(10%)	(5%)	Base	+5%	+10%
Rental Income	+10%	(236,834)	(225,084)	(213,334)	(201,584)	(189,834)
		(373,408)	(373,408)	(373,408)	(373,408)	(373,408)
	+5%	(223,696)	(211,946)	(200,196)	(188,446)	(176,696)
		(364,903)	(364,903)	(364,903)	(364,903)	(364,903)
	Base	(210,557)	(198,807)	(187,057)	(175,307)	(163,557)
		(356,398)	(356,398)	(356,398)	(356,398)	(356,398)
	(5%)	(197,419)	(185,669)	(173,919)	(162,169)	(150,419)
		(347,893)	(347,893)	(347,893)	(347,893)	(347,893)
	(10%)	(184,281)	(172,531)	(160,781)	(149,031)	(137,281)
		(339,388)	(339,388)	(339,388)	(339,388)	(339,388)

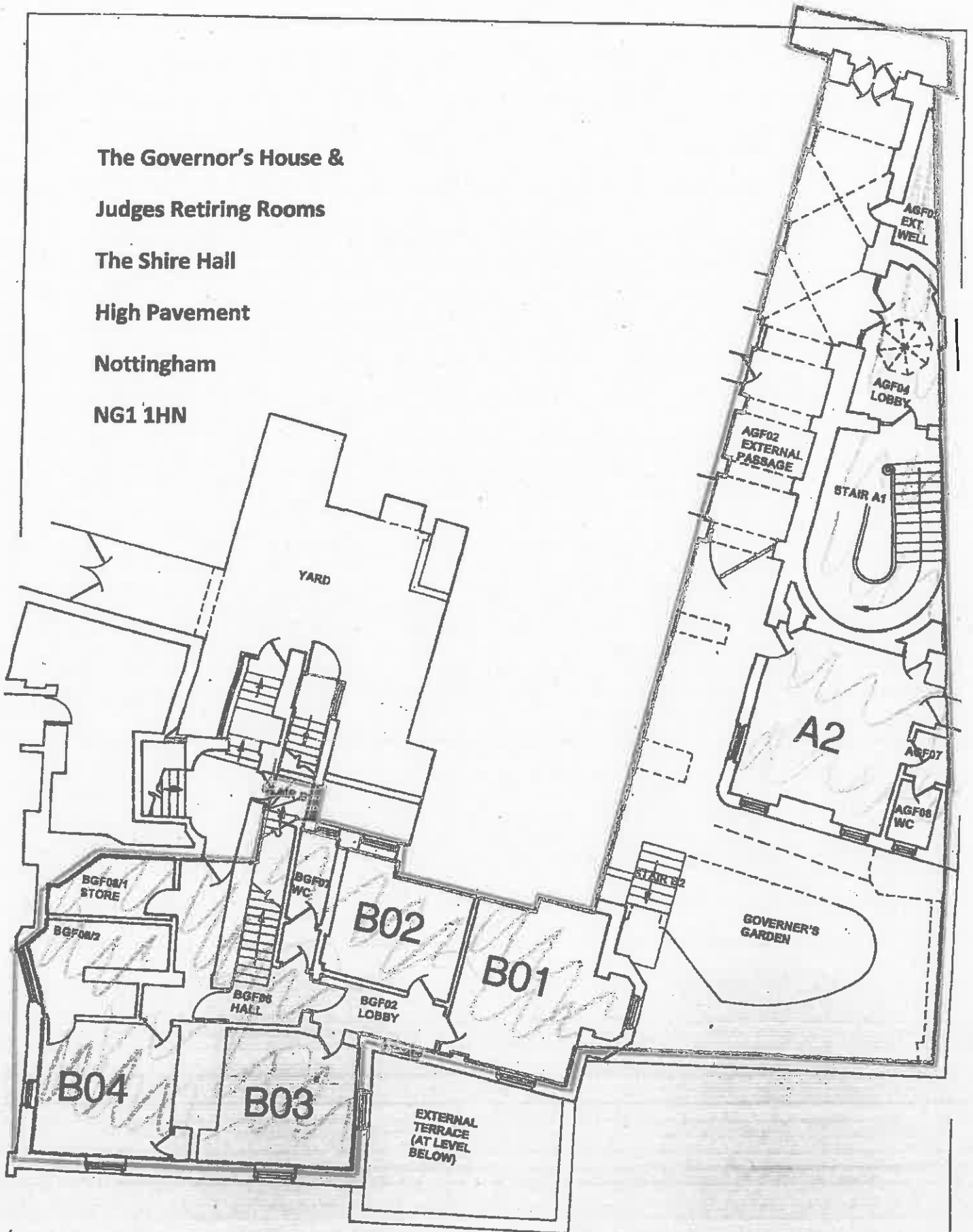
Key	NPV
	Cash

The financial model meets the parameters set out in the City Council's Capital Strategy in all of the above scenarios. Therefore, the proposed works at Governors House are financially supported.

4.2 Taxation Advice

Due to the Bridge Estates VAT status, Governors House will require opting to tax prior to works further being carried out on site. Opting to tax will ensure that Bridge Estate is able to recover VAT charged on the capital works. Otherwise, the costs of the project would increase by £47,000, due to irrecoverable VAT on the construction (based on the construction cost of £235,000). Once opted it means VAT would need to be charged to any tenant in occupation of the building.

**The Governor's House &
Judges Retiring Rooms
The Shire Hall
High Pavement
Nottingham
NG1 1HN**



Type: Shire Hall

Ground

The information on this plan is for guidance only. It is not intended to be used as a legal document. It is subject to the terms and conditions of the contract between the client and the surveyor.

Scale: 1:500

plus
Property Records
Nottingham City Council 100010117_001

HEADS OF TERMS

DETAILS OF LETTING

SUBJECT TO FORMAL CONTRACT

2 The Triangle, Enterprise Way, NG2 Business Park, Nottingham NG2 1AE

Tel: 0115 924 3243 Fax: 0115 924 2310

Ref: CS/CT

Date	24 September 2019
Property	The Judges Retiring Room & Governors House Shire Hall High Pavement Nottingham NG1 1HN
Landlord	Nottingham City Council (in its capacity as Sole Trustee of the Bridge Estate Charity) Loxley House Station Street Nottingham NG2 3NG
Tenant	The Practice Rooms Ltd 141 Englishcombe Lane Bath BA2 2EL
Landlord's Solicitor	Nottingham City Council Loxley House Station Street Nottingham NG2 3NG Tel: 0115 87 63198 Email: Mick.Suggett@nottinghamcity.gov.uk FAO: Mick Suggett
Tenant's Solicitor	TBC Tel: Email: FAO:
Landlord's Agent	Innes England 2 The Triangle Enterprise Way ng2 Business Park

	<p>Nottingham NG2 1AE</p> <p>Tel: 0115 9243243 Email: cstraw@innes-england.com FAO: Craig Straw</p>
Term	A new effective full repairing and insuring lease for a term of 15 years inside the Security of Tenure & Compensation Provisions of the Landlord & Tenant Act 1954, Part II (as amended).
Rent	<p>Years 1 & 2 - £13,500 (thirteen thousand, five hundred pounds) per annum exclusive.</p> <p>Years 3-5 - £27,000 (twenty thousand pounds) per annum exclusive.</p>
Rent Deposit	£6,750 (six thousand seven hundred and fifty pounds) to be held as a deposit and used if needed in remedy of the tenant's obligations under the terms of the lease or returned at the end of the term to the tenant if not needed.
Rent Review	The rent will be subject to an upward only rent review at the end of the 5 th and 10 th years of the term to the higher of the passing rent or the Open Market Rental Value.
VAT	All figures quoted are exclusive of VAT [which is payable at the prevailing rate.]
Service Charge	A service charge will be payable in respect of the maintenance of the exterior and structural elements of the building and those services for the benefit of the subject property as provided from time to time by the superior landlord under the terms of the superior lease capped at £2.50 per sq ft per annum subject to annual RPI linked increases. For the avoidance of doubt the Tenant is to be responsible for the maintenance of the courtyard/gardens.
Utilities	The Tenant will be responsible for the utilities consumed at the premises.
Buildings Insurance	The Landlord will insure the premises and the Tenant will refund a fair proportion of the total premium based on the floor area of the property.
Alienation	<p>The lease will provide the following alienation provisions, the Landlord's consent not to be unreasonably withheld or delayed:</p> <ol style="list-style-type: none"> 1) To assign the whole of the demise. On any such assignment the Tenant will enter into an Authorised Guarantee Agreement guaranteeing the obligations of the Assignee until the Assignor is released under the terms of the Landlord & Tenant (Covenants) Act 1995. 2) To sub-let the demise at the higher of the passing rent or Open Market Rent. Any such sub-tenancies are to be outside of the Security of Tenure & Compensation Provisions of the Landlord & Tenant Act 1954, Part II (as amended).

<p>Alterations</p>	<p>Structural and external alterations are not permitted.</p> <p>Non-structural alterations shall be permitted, with prior consent of the Landlord, such consent not to be unreasonably withheld or delayed.</p> <p>The Tenant shall be permitted to reconfigure demountable partitioning during the course of the lease without prior consent of the Landlord. The Tenant will provide details of any such revisions to the Landlord in writing including plans and specification within 3 months of completion of the work.</p> <p>In all instances the Tenant is to be responsible for complying with any requirements as a result of the building's Listed Building status and is to be under an obligation to reinstate at the end of the lease if required to do so by the Landlord.</p>
<p>Use</p>	<p>The Tenant shall be permitted to use the property as B1(a) Offices or D1 (non-residential institution) as set out under the Town & Country Planning (Use Classes) Order 1995.</p>
<p>Business Rates</p>	<p>The Tenant will be responsible for the payment of business rates direct to the local charging authority. The Tenant's liability for rates will commence at the earlier of legal completion or occupation.</p>
<p>Costs</p>	<p>Each party to be responsible for its own legal costs in connection with the transaction.</p>
<p>Conditions</p>	<p>Subject to:</p> <ol style="list-style-type: none"> 1. Contract 2. Landlord Trustee approval 3. Receipt of satisfactory covenant information on the proposed Tenant.

