

The Audit Findings for Sandwell Metropolitan Borough Council

Year ended 31 March 2020

September 2021

Report on Providence Place



Value for Money

Significant risk

Informed decision making

In June 2019, the Department for Education approved the provision of a new, 750 place secondary free school in West Bromwich, to be delivered in partnership with Shireland Academy and the City of Birmingham Symphony Orchestra (CBSO). It is proposed that the Council sell the freehold interest of 1 Providence Place, West Bromwich, with vacant possession, along with a development plot to the DfE for £8.46m

1 Providence place

In 2007, the Council signed a 15-year Strategic Partnership Agreement with British Telecom for the provision of several support services. –As part of this arrangement a company called Stofords built 1 Providence Place which was then leased to BT.

In July 2014, Cabinet subsequently approved the purchase of the long leasehold interest in 1 Providence Place, at a cost of £23.558m (including Stamp Duty). We understand that this was to avoid onerous rent increases on the property.

An independent valuation was undertaken by DTZ, which confirmed the purchase price. We note that in October 2013, DTZ had estimated the freehold market value to be £9,500,000 - £11,400,000. The Council was advised that the significant difference between the valuations of the long leasehold interest and that of freehold was due to the secured long tenancy held by BT.

The external borrowing to support the purchase of 1 Providence Place secured in 2014/15 was £21m and was spread in three tranches across 10, 20 and 30 years as follows:

- £7m – Over 10 years – Annual Interest (£225k) – Redemption Date August 2024
- £7m – Over 20 Years – Annual Interest (£263k) – Redemption Date August 2034
- £7m – Over 30 Years – Annual Interest (£267k) – Redemption Date August 2044

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The Council has undertaken an assessment of its property needs. It's current office estate covers 16 sites at 51,000m². Based on pre COVID19 layouts this estate can accommodate up to some 4,970 workstations. Research undertaken in 2018 confirmed that the Council had 2,528 full time equivalent office based workers requiring use of a work station. As such the Council no longer requires the capacity offered by 1 Providence Place. On 22nd July 2020, the Cabinet approved that 1 Providence Place was surplus to the Council's office accommodation requirements.

As Provident Place is being sold at its current market value and the decision to purchase it was made in 2014 we do not consider that the sale impacts on our 2019/20 VfM conclusion. However, due to the significance of the loss we have raised this matter with the Chief Executive to ensure that future purchases or sales of land and property are clearly aligned with a long term estate strategy.

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A receipt of £8.46m is envisaged from the sale. This is significantly below the acquisition of £23.558m in 2014. We also note that the Council is still committed to making the loan and interest payments related to the initial purchase. The total remaining loan and interest (for the period 2021 to 2055) are £31.69m.

We have considered the action taken by the Council in both 2014 and 2020. When viewed separately the actions do not appear unreasonable. The 2014 decision to purchase the asset with a long leasehold interest was based on external valuations at market value. Similarly, the sale to the DfE is at the current market value based on there being no long leasehold in place.

However, when viewed together it is clear that the Council will make a significant loss on the basis of these decisions. We estimate that the direct loss against the 2014 purchase price of Providence Place is c. £15m (Purchase price £23m, sale price £8.46m).. We also note that future loan and interest payments of £31m need to be made (against which only the capital receipt arising from the sale of £8.46m can be set). In effect the total loss to the Council is c£22.5m. This is a significant loss.

We have considered the reasons for such a significant loss. These are difficult to determine. However, we consider that:

- greater challenge should have been applied to the original purchase price, especially as the price paid appears to reflect a long leasehold period but break clauses existed in the leases,
- the original purchase was intended to support the Council's Office Accommodation Strategy. It was envisaged that by 2017, the Council's workforce would reduce by 20-30% and the premises could then be used to accommodate more staff from less efficient buildings, thereby rationalising the use of council assets. The later change in the estates strategy with Providence Place being considered to be surplus has significantly undermined the original basis on which it was purchased.

We note that the Council have requested that Internal Audit review both the original purchase of the property and its subsequent sale. We will review this on completion and will consider what we should report in public.

