
A separate report is submitted in the private part of the agenda in respect of this item as it contains details of financial information required to be kept private in accordance with Schedule 12A of the Local Government Act 1972.

Cabinet
Council

10th December 2013
14th January 2014

Name of Cabinet Member:

Cabinet Member (Business, Enterprise and Employment) – Councillor Kelly

Director Approving Submission of the report:

Executive Director, Place

Ward(s) affected:

St. Michaels, Westwood, Longford, Foleshill, Binley & Willenhall, Holbrooks

Title: Commercial Property - Ground Lease Disposals

Is this a key decision?

Yes - The proposal in the report will result in financial implications exceeding £500k.

Executive Summary:

The Fundamental Service Review “Strategic Review of Property” A60 requires the Council to save £3m per annum from its property portfolio by 2016/17. These targets can only be achieved by a combination of property solutions including rationalisation of operational property, optimisation of the commercial property portfolio and the disposal of some property assets. This report sets out the work of the review team in identifying a list of income producing ground lease properties from within the commercial portfolio, where there is an opportunity to either restructure leases to grow rental income, or dispose of the asset and use the capital receipt to pay off debt.

Recommendations:

Cabinet are requested to recommend that Council:

1. Approve the list of properties set out in appendix 1 of this report for lease restructure or freehold disposal subject to detailed terms being approved in accordance with the Council’s constitution and in compliance with Section 123 of the Local Government Act 1972.
2. Approve that the proceeds of any disposal be allocated to reduce debt servicing costs in accordance with the Council’s Medium Term Financial Strategy, which provides that prudential borrowing should be repaid from capital receipts as they are generated.

3. Approve that the savings realised through debt reduction are allocated against the savings targets for the Strategic Review of Property - Fundamental Service Review.
4. Delegated authority to the Assistant Director - Property Asset Management to approve the terms of the individual lease restructures and freehold disposals.

List of Appendices included:

Appendix 1 - List of Properties

Background papers:

None

Other useful papers:

None

Has it been or will it be considered by Scrutiny?

No

Has it been or will it be considered by any other Council Committee, Advisory Panel or other body?

No

Will this report go to Council?

Yes – 14th January 2014

Report title:

1. Context (or background)

- 1.1** The budget report approved by the Council in February 2013 requires the Council to make substantial savings through the implementation of the ABC programme. Under the ABC initiative, a full service review of property (FSR A60) requires savings of £3m per annum to be realised by 2016/17.
- 1.2** The Council operates its portfolio mainly for rental income return, not for capital appreciation. Current performance is good in the current climate.
- 1.3** To optimise the portfolio the Council needs to grow rental income, reduce non recoverable expenditure and dispose of some assets where there is no financial justification or strategic reason for retention.

2. Options considered and recommended proposal

- 2.1** Officers have carried out a review of income producing ground leasehold interests within its commercial portfolio. The properties shown at appendix 1 have been identified where there are opportunities to either restructure leases to grow rental income, or dispose of the freehold asset and use the capital receipt to pay off debt, thus realising a revenue benefit. These properties include non-strategic city centre and industrial ground leased interests. The ground leased interests on the Torrington Avenue and Charter Avenue estates are the small residue of a previous disposal programme from 2007. The remaining ground leased assets within the portfolio are considered strategic and will not be disposed of at the present time.
- 2.2** For the rental income growth and lease restructure option to be pursued the new rent to be achieved on the restructure of each lease will need to be equal to or greater than the net annual saving to the Council of paying down debt.
- 2.3** In the property investment market ground lease investments are a niche investment sub market and market intelligence indicates that there is currently strong demand for low risk ground leased investments.
- 2.4** There are also further economic benefits in extending ground leases or selling freehold interests. Time limited leasehold premises can be a disincentive for tenants to invest in their premises. In addition bank funding usually requires a long unexpired term or freehold ownership as a condition of borrowing for improvement. The restructuring of leases or freehold disposals will encourage investment with associated employment opportunities.
- 2.5** Officers have also carried out a review of those assets within the commercial portfolio let on short occupational leases at market rents. Disposal of these assets is not currently a viable option as reinvestment of the capital that would be realised on the sale of each asset does not give a positive net return on the rent given up for any of the assets. However, this will be reviewed periodically.
- 2.6** Doing nothing is also not an option as this would not generate any savings.
- 2.7** A two stage approach will be adopted for the ground leased interests: Firstly, approach the tenants to restructure and extend their leases and grow the rental income, and/or: secondly, where rental growth does not meet the target rent (equal to the debt repayment benefit to the Council) dispose of the Council's freehold interest in the asset in the open market subject to a competitive process.

- 2.8** With the disposal of the Council's freehold interest this will be offered in the open market at auction with a reserve price and the existing long leaseholder invited to bid. This ensures that the Council receives best consideration for the asset in accordance with Section 123 Local Government Act 1972. Individual sales will be at the Council's discretion and if there is no revenue benefit the asset will not be sold.
- 2.9** As this is a specialist area and market in which your officers are not regularly involved, a partner will be appointed to undertake the restructure/disposal programme. The partner will be procured in accordance with the Council's procurement rules.

3. Results of consultation undertaken

- 3.1** No consultations have been undertaken

4. Timetable for implementing this decision

- 4.1** It is intended that the recommendations in this report be implemented over the period 2014/15 to 2016/7.

5. Comments from Executive Director, Resources.

5.1 Financial implications

- 5.1.1** This report proposes to use disposal proceeds to offset new debt and or future debt repayments.

- 5.1.2** The estimated net annual return from either rental growth or disposals will contribute towards the FSR target and the approved Council budget. The exact profile of the savings will depend on the timing of the lease restructure or disposal and achieving the value / revenue benefit.

5.2 Legal implications

- 5.2.1** Officers will ensure that the Council achieves the best value reasonably obtainable for each asset in accordance with the requirements set out in section 123 of the Local Government Act 1972. This will be verified at the relevant time by officers, or the Council's appointed partner referred to in 2.12 above

6. Other implications

Property Implications

The proposed transaction will contribute towards the corporate financial target as mentioned in paragraph 5.1 above.

6.1 How will this contribute to achievement of the Council's key objectives / corporate priorities (corporate plan/scorecard) / organisational blueprint / Local Area Agreement (or Coventry Sustainable Community Strategy)?

- 6.1.1** The savings outlined will contribute to the Council maintaining a balanced budget into the medium term thus preserving services for the people of Coventry.

6.1.2 There are economic benefits in extending ground leases or selling freehold interests as this encourages investment with associated employment opportunities.

6.2 How is risk being managed?

6.2.1 The proposals contained within this report are to mitigate against the risks of the Council being unable to maintain a balanced budget. A Project Board at Executive Director level provides governance to the whole FSR.

6.3 What is the impact on the organisation?

6.3.1 The impact to the organisation will be minimal but it will generate additional work for officers within Place and Resources Directorates.

Equalities / EIA

An equality impact assessment is a process designed to ensure that a policy project or service does not discriminate against any disadvantaged or vulnerable people. Section 149 of the Equality Act 2010 imposes an obligation on Local Authorities to carry out an equality impact assessment when the local authority is exercising a public function.

An equality impact assessment has not been undertaken by officers as the proposal set out in this report relates to the granting of or the creation of a legal interest in the land and does not constitute a change in service delivery policy or the exercise of a public function.

6.5 Implications for (or impact on) the environment

None

Implications for partner organisations?

There are no implications for any partner organisations.

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Councillor Kelly	Cabinet Member (Business, Employment and Enterprise)	-	28/10/13	31/10/13

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