

MINUTES OF THE CABINET MEMBER SIGNING
THURSDAY, 10 APRIL 2014

Present: Councillor Claire Kober – Leader of the Council

In Attendance: Xanthe Baker - Principal Committee Officer, Jon McGrath – Assistant Director Corporate Property and Major Projects, David Hatley – Head of Supplier Management.

MINUTE NO.	SUBJECT/DECISION	ACTION BY
HSP76.	<p>URGENT BUSINESS</p> <p>There were no items of urgent business.</p>	
HSP77.	<p>ACQUISITION OF MUNRO WORKS</p> <p>The Leader of the Council considered a report, previously circulated, which sought approval to purchase the freehold interest in Munro Works for a consideration not exceeding the purchase price detailed in the exempt part of the report. The report also sought agreement for the additional capital cost of the purchase and any associated cost of refurbishment, as outlined in the report, to be added to the Council's Capital Programme.</p> <p>Exempt information pertaining to the report was considered under Item 6 below.</p> <p>RESOLVED:</p> <ul style="list-style-type: none"> i. That the current onerous leasing arrangement of Munro Works and ongoing annual cost to the Council be noted. ii. That the opportunity to reduce the financial liability of Munro Works to the Council via the purchase of the freehold interest of the estate, in accordance with the option to purchase contained within the head leasehold interest, be noted. iii. That approval be granted for the Council to purchase the freehold interest in the Munro Works, as outlined in Option 1 below (shown edged red on the plan attached), for a consideration not exceeding the purchase price detailed in the exempt section, Part B, of the report with delegated authority for the Section 151 Officer and the Director of Regeneration, Planning and Development Reduction to agree the final terms of the acquisition, after consultation with the Cabinet Member for Finance, Employment and Carbon Reduction. iv. That it be agreed that the addition of the capital cost of the purchase and any associated costs of refurbishment, as outlined in this report, be added to the Council's capital programme. 	<p>Dir RP&D</p> <p>Dir RP&D</p>

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- v. That it be noted that the funding for the purchase cost is to be met from the future rental income to be generated from commercial letting of the site.

Alternative Options Considered

Asset Management has approached the freeholders in the past with regard to relaxing the sub-letting and rent review provisions within the head-lease for Munro Works so that vacant units might be let to applicants for commercial tenancies. Further information on the options appraised is included in part B of the report.

Aside from the financial business case for options, other non economic factors and benefits have been considered such as the potential to support regeneration.

Option 1 - Pursuing the Option to Purchase that is included in the Head Lease.

The option to purchase the freehold interest is perceived as the only viable way forward in view of the financial outcomes of the other options addressed below. Financial modelling indicates that this is a financially better option for the Council than either continuing to manage and maintain the current situation [Option 2 below] or to make radical changes in tenant structure in order to comply with existing lease terms [Option 3 below] or to in order to move forward with a modern lease structure that benefits both the freeholders and the Council [Option 4].

The price is to be the current open market value of the premises.

The option to purchase is exercised by serving six months' notice on the owner of the freehold interest, which was done on 28 October 2013, subject to Cabinet approval and subject to contract. Therefore, the effective date of the expiry of the notice is 28 April 2014.

There is only one opportunity within the terms of the lease to exercise this option.

The Council undertook a procurement exercise with regard to the external valuation of the site and engaged Lambert Smith Hampton to provide that valuation. Please refer to the exempt section, Part B, for the main findings within the valuation report and the financial implications of this option.

The landlords have engaged Knight Frank to carry out a valuation on their behalf. The lease sets out the valuation may be referred to the RICS in the event that the respective valuers are not able to agree the purchase price of the site.

Option 2 - Continuing to Manage the Asset without Changing the Lease Structure.

The Council may decide not to pursue the opportunity to exercise the option to

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purchase the freehold interest of this site that is presented to the Council within the Head Lease.

The Council would continue to suffer an annual net loss in this situation, which would worsen for the remainder of the lease, and be exacerbated at the end of the lease in the likely event that a schedule of dilapidations would be served on the Council at that time.

The vacant units were taken out of the Rating List following the fire in 2008. Those units were brought back into the Rating List in September 2013, albeit with exemption for six months from NNDR, as they were vacant. Those exemptions expired in March 2014 so full rates are now payable by the Council on the empty units at Munro Works.

Further information on this option is included in part B of this report.

Option 3 – Restructuring the Letting Arrangements at the Estate so that the Estate may be let to one tenant in accordance with the Lease Terms

This option would involve identifying an industrial tenant that is in the market for a large amount of commercial space, as the whole of the estate is approximately 30,000 sq.ft., which is considered to be highly unlikely in the present commercial market.

The narrow access to the estate is a known deterrent against industrial users requiring access for large distribution vehicles.

The rental income derived from letting the estate as a whole would be less than achieved as individual units, if such a tenant were to be found.

It is highly likely that a significant rent free period would be expected by such a tenant in order to address the considerable fitting out costs that would ensue from a re-organisation of the estate.

There are currently two units at the estate that are let. The leases or those existing leases would have to be terminated, for which compensation would have to be paid to the tenants. It is highly likely that the current tenants would expect to be found alternative premises and for the Council to pay their relocation costs in these circumstances

Therefore, this option is considered to be very high-risk, as it would involve the loss of the existing income of £36.5k p.a., with no guarantee that a potential tenant for the whole premises would be achieved, and if there was such a tenant that a considerable rent-free period would have to be given to induce the tenant to take over the responsibilities of the whole estate.

There is an additional risk factor which is that the Council's risk with regard to voids, rent arrears and lease default is increased substantially where there is only one tenant, whereas it is spread in situations where there are many individual tenants.

Option 4 – Surrendering the Existing lease and Renegotiating Terms under a New lease Structure.

Attempts to date to renegotiate the terms of the existing lease have been less

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than successful to date, which has resulted in there being little confidence that this option would benefit the Council.

The landlords have offered to relax the letting clause and the user clause in exchange for the removal of the option to purchase and an adjustment to the rent review clause to reflect these changes.

This would not lead to a positive asset, although the losses might well not be as great as they are currently.

The landlords are likely to expect to receive a capital sum for the surrender of the existing lease, i.e. they would expect to be compensated on the basis of the lost rental income for the remainder of the lease but discounted to take account of the receipt of an immediate capital sum rather than an annual rental income.

There would probably be a further claim for dilapidations in addition to the surrender of the lease.

This option is considered in further detail within Part B to this report. However, it is highly likely that the combined figure for the surrender value plus dilapidations would be very similar to the purchase price under Option 1 but with the outcome that the Council.

In view of these factors, this option is less attractive than exercising the option to purchase.

Reasons for decision

The Munro Works site is an onerous asset that in its current form is costing the Council £68,5000 p.a., potentially to lease expiry in 68 years, due to the restrictive covenants on sub-letting contained within the head lease to the Council.

Financial modelling confirms that this option represents a financially better option than any of the three other options considered within this report and Part B to this report.

It is expected that the site would remain a financial liability if the option to purchase is not pursued, as even with improved lease terms under a new lease, negotiations for which may take years to reach settlement, this long-leasehold interest will always remain as a financial liability to the Council.

Therefore, officers have given notice of the option to purchase the freehold interest which crystallises the Council's position.

Market testing indicates that there is strong demand for units of this type and that a properly managed estate could yield a surplus of up to £150,000 per annum to repay financing costs of the purchase.

The availability of these units could possibly support the decant required to assist in the Tottenham regeneration.

A review of all properties within the Corporate portfolio is nearing completion, and this asset, Munro Works, is regarded as the only remaining truly onerous

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	<p>lease.</p> <p>The opportunity to take action is time-driven, as a decision on whether the option to purchase is to be exercised has to be communicated to the freeholders by the end of April 2014.</p>	
HSP78.	<p>EXTENSION OF CONTRACT FOR PAYMENT TRANSACTION PROCESSING SYSTEM</p> <p>The Leader of the Council considered a report, previously circulated, which sought approval to accept a proposal to vary and extend the contract for the provision of the payment transaction processing system, for an additional three years, until 2019.</p> <p>Exempt information pertaining to the report was considered under Item 7 below.</p> <p>RESOLVED:</p> <p>That the proposal for varying and extending the contract for an additional three years until 2019, to secure a reduced unit cost for transactions and for the contract itself, achieving value for money, as outlined in the report, be approved.</p> <p>Alternative options considered</p> <p>If nothing was done the contract would continue to run until 2016 and the charges will increase further as Customer Services Transformation activities encourage greater usage of online payment methods.</p> <p>At current levels of usage, the Council will incur an additional £50,000 per annum if the recommendation is not accepted. The proposed extension of a further three years reduces the impact of this increase by at least £14,000 per annum.</p> <p>The contract would be competed in 2015 to allow for a potential migration when the contract expires in 2016. There will be a cost for any potential migration for implementation and licenses and this would coincide with activities under the Customer Transformation Program.</p> <p>Extension of the contract for five years – this would attract additional reductions in the increase – at least £28,500 per annum at current volumes compared to doing nothing. However, due to the longer contractual commitment this term was felt to be too long.</p> <p>Reasons for decision</p> <p>Extending the contract for the payment processing system will secure the services for a further period at a reduced price, reducing the impact on the Council and providing value for money.</p>	Interim COO
HSP79.	NEW ITEMS OF URGENT BUSINESS	

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	There were no new items of urgent business.	
HSP80.	EXCLUSION OF THE PRESS AND PUBLIC RESOLVED: That the press and public be excluded from the remainder of the meeting as the items below contain exempt information, as defined under paragraph 3, Part 1, schedule 12A of the Local Government Act 1972.	
HSP81.	ACQUISITION OF MUNRO WORKS Exempt information pertaining to Item 2 above was considered.	
HSP82.	EXTENSION OF CONTRACT FOR PAYMENT TRANSACTION PROCESSING SYSTEM Exempt information pertaining to Item 3 above was considered.	