

Business Planning / MTFS Options 2020/21 – 2024/25

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| 20/25 - EC01 |
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|------------------------------------|----------------------------------|-----------------------------|-------------------|
| Title of Option: | Head Lease Acquisition Programme | | |
| Priority: | Economy | Responsible Officer: | Christine Addison |
| Affected Service(s) and AD: | HRP | Contact / Lead: | Bill Ogden |

Description of Option:

- What is the proposal in essence? What is its scope? What will change?
 - What will be the impact on the Council's objectives and outcomes (please refer to relevant Borough Plan 2019-23 objectives and outcomes, and Borough Plan Evidence Packs)
 - How does this option ensure the Council is still able to meet statutory requirements?
 - How will the proposal deliver the benefits outlined?
- [Proposals will be mapped to the new Borough Plan Priorities/Objectives/Outcomes as they emerge – please take account of any likely changes when framing proposals]

The proposal is to allocate capital budget to enable the acquisition by the Council of as many head-leases/freeholds as possible in order for the Council to stop paying rent to these landlords and to receive all of the passing rent from those properties which are tenanted by commercial or other tenants.

Over the years the Council has entered into several lease agreements with third party landlords. The current schedule (Excel attached) lists 21 such leases. Some were entered into in order to support regeneration and economic development objectives, others to support operational requirements which have since disappeared, and others for reasons that are unclear from the files. The leases range from entire industrial estates to individual commercial units across the borough. The terms of these leases range from medium term to long leases.

The total amount of rent liability (ERV) for these properties is circa £2m (more if all the Wood Green properties have been).

- The acquisition of these leases will rationalise the Council's property portfolio enabling the authority to better support economic growth and employment through more effective management of its property holdings and in support of the Economy objectives of the Borough Plan 2019-23.
- The project will better enable the Council to fulfil its obligations to tenants by becoming their direct landlord rather than an intermediary landlord.
- The project will comprise of the following elements:
 - Commercial Review
 - Legal Advice

Financial Benefits Summary

| Savings | 2020/21 | 2021/22 | 2022/23 | 2023/24 | 2024/25 | Total |
|--------------------------------------------|---------|---------|---------|---------|---------|-------|
| <i>All savings shown on an incremental</i> | £000s | £000s | £000s | £000s | £000s | £000s |
| New net additional savings | - 100 | - 120 | - 130 | - 120 | - | - 470 |

| Capital Implementation Costs | 2020/21 | 2021/22 | 2022/23 | 2023/24 | 2024/25 | Total |
|------------------------------|---------|---------|---------|---------|---------|-------|
| | £000s | £000s | £000s | £000s | £000s | £000s |
| Total Capital Costs | - | - | - | - | - | - |

Financial Implications Outline

- How have the savings above been determined? Please provide a brief breakdown of the factors considered.
- Is any additional investment required in order to deliver the proposal?
- If relevant, how will additional income be generated and how has the amounts been determined?

The assumptions for the proposed saving are that approximately 50% of the acquisitions could proceed as some landlords will not want to sell even at enhanced values that could still be justified by future savings.
 It will take time to agree the purchase price with some landlords and a start to negotiation cannot commence until Cabinet approval is obtained.
 It is therefore assumed that in year 2020/21, approximately 50% of the acquisitions that are likely to proceed will be delivered so that savings can be obtained.
 Savings will increase year on year as rent reviews are undertaken to increase the rent to tenants.
 Rent reviews are normally arranged at five yearly cycles so the predicted passing rent is difficult to predict so the anticipated future rent receivable is spread evenly across the five year period.
 The financial modelling ignores inflation but this is the most significant saving.
 Capital borrowing is modelled on a fifty year loan with flat line repayment of capital and interest payable from revenue.

Delivery Confidence

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| At this stage, how confident are you that this option could be delivered and benefits realised as set out? (1 = not at all confident; 5 = very confident) | 3 |
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Indicative timescale for implementation

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|--------------------------------------------------------------------------------------|-----|--------------------------------------------------|------------|
| Est. start date for consultation DD/MM/YY | | Est. completion date for implementation DD/MM/YY | 01/04/2020 |
| Is there an opportunity for implementation before April 2020? Y/N ; any constraints? | Yes | | |

Implementation Details

- How will the proposal be implemented? Are any additional resources required?
- Please provide a brief timeline of the implementation phase.
- How will a successful implementation be measured? Which performance indicators are most relevant?

Phase 1: May/June 2019. Review of lease documents, commercial review of landlords, due diligence/title search, prioritisation of head lease negotiations, appraisal of the capital cost and benefit of prioritised properties, budget setting with corporate finance. This will be carried out by current MTFS agency staff within Strategic Property Unit and supported by commercial appraisals by Carter Jonas as part of the existing commercial review appointment. Completed.

Phase 2: January-May 2020: Approaches to landlords.

Phase 3: April 2020 onward: Acquisition programme.

Impact / non-financial benefits and disbenefits

What is the likely impact on customers and how will negative impacts be mitigated or managed?

List both positive and negative impacts. Where possible link these to outcomes (please refer to relevant Borough Plan 2019-23 objectives and outcomes)

Positive Impacts

Tenants will no longer have a confusing landlord model with the Council and the owner of the head lease. The Council will have unfettered access to its buildings so be able to redevelop run down estates to secure more suitable accommodation that promotes economic growth and secures additional rental income.

Negative Impacts

N/A

What is the impact on businesses, members, staff, partners and other stakeholders and how will this be mitigated or managed? How has this been discussed / agreed with other parties affected?
List both positive and negative impacts.

Positive Impacts

Lower management resource requirements as Council becomes the 'sole landlord' with no head lessee to deal with.

Negative Impacts

N/A

How does this option ensure the Council is able to meet **statutory requirements**?

Strengthens the Council's control in managing the estates.

Risks and Mitigation

What are the main risks associated with this option and how could they be mitigated?(Add rows if required)

| Risk | Impact (H/M/L) | Probability (H/M/L) | Mitigation |
|---------------------------------------|-------------------|------------------------|----------------------------------|
| Owner unwilling to sell/abortive fees | L | M | Early approaches to head lessees |
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| Has the EqIA Screening Tool been completed for this proposal? EqIA Screening Tool | Yes |
| Is a full EqIA required? | No |