

Report

Cabinet Member for Infrastructure and Assets

Part 1

Date: 27 September 2022

Subject Disposal of freehold interest in sites held on long leases by Linc Cymru

Purpose To seek authority to progress disposal of the Council's freehold of existing property currently leased.

Author Property Manager

Ward Multiple

Summary Linc Cymru have approached the Council and enquired as to whether the Council would dispose of the freehold to 13 sites currently held on long lease.

Proposal That the Council dispose of the freehold interest in the sites currently held on long lease by Linc Cymru.

Action by Cabinet Member for Infrastructure and Assets

Timetable Immediate

This report was prepared after consultation with:

- Chief Monitoring Officer
- Chief Finance Officer
- Head of People, Policy and Transformation
- Head of Regeneration and Economic Development
- Head of Asset Management and Valuation, Newport Norse

Signed

Background

Linc Cymru is a Registered Social Landlord. They hold a number of sites in Newport under the terms of long leases from the City Council, which have been developed by Linc or their predecessors. These are located at:

- Capel Court and Capel Grange, Pill (125 years from 13 March 1998)
- 3 Albert Street, St Woolos (125 years from 1 October 1992)
- 1-18 Albion Close and 31-33 Temple Street, Pill (125 years from 13 March 1998)
- 1-6 Church Street, 36-44 Clarence Street, 95-106 Commercial Road, and 1-8 Constables Close (125 years from 3 February 2000)
- 1-40 Wellwood House, Ringland (125 years from 7 March 2001)
- 1-40 Willowbrook, Bettws (125 years from 2 April 2004)
- 1-41 Glyn Anwen, Gainsborough Drive (125 years from 25 April 2007)
- 2-12 Renoir Road (125 years from 26 November 2012)

All of the leases are at peppercorn rents, with no reviews; premiums were paid to the Council in each case.

Linc have made an approach to request that the Council agree to the sale of the freehold interest in the various developments, to allow them greater flexibility in raising secured finance against the estate. The acquisition would strengthen Linc's financial accounts through improvements to current book values. When investigating additional lending opportunities this would demonstrate Linc's standing as a strong and sustainable business entity.

One of the freeholds in question is land in Pill which comprises properties at Constables Close, Church Street, Clarence Street, and Commercial Road. Linc are proposing to regenerate this area by redeveloping existing stock in a location with anti-social problems.

The above would culminate in additional capital to be released and savings achieved through reduce interest on borrowings. Linc's key priority for additional funding is investment into additional affordable housing units and capital expenditure to improve existing stock.

The Council's Housing Strategy and Delivery Manager has confirmed support for Linc's proposals and welcomes proposals that will strengthen Linc's financial position and potentially enable them to develop further sites in the future. Linc have been developing in Newport for a number of years and in addition to Constables Close which is mentioned in the report they have other planned and current development sites in the city.

Value and Purchase price

In discussions with Linc, they have proposed a purchase price of £150,000 (One Hundred and Fifty Thousand Pounds) for the freehold interest in all of the sites listed above, Newport Norse advise that this figure represents a fair estimate of the market value for the interests.

The proposed transaction would not materially affect Newport City Council's annual rental income levels, and it would provide a capital receipt, and provide social value, using the subject assets more efficiently and balancing short term benefits (a rental income) with long term needs (additional financial security).

The offer is subject to contract; to formal approval by Linc board; and to a final formal valuation. The proposed transfer would be subject to the Welsh Government Land Transfer Protocol, which requires that in transactions between publicly funded bodies in Wales, the parties jointly commission an independent valuation. Linc have indicated that they would meet the cost of the valuation.

Financial Summary (Capital and Revenue)

	Year 1 (Current) £	Year 2 £	Year 3 £	Ongoing £	Notes including budgets heads affected
Costs (Income)	(£150,000)				Capital receipt income to be added to the Useable Capital Receipts Reserve
Net Costs (Savings)					
Net Impact on Budget					

Risks

Risk Title / Description	Risk Impact score of Risk if it occurs* (H/M/L)	Risk Probability of risk occurring (H/M/L)	Risk Mitigation Action(s) What is the Council doing or what has it done to avoid the risk or reduce its effect?	Risk Owner Officer(s) responsible for dealing with the risk?
Risk of the aspirations of the disposal not being met.	M	L	Actions as set out in this report, and close partnership working.	Head of Communities and Housing/ Head of People, Policy and Transformation.

* Taking account of proposed mitigation measures

Links to Council Policies and Priorities

This disposal would be in keeping with the Council's priority to develop additional social housing across the City. As indicated in the report it would further support the work of the Registered Social Landlord (RSL) to combat antisocial behaviour in some of the most deprived areas of the City.

- Local Development Plan
- Economic Growth Strategy
- City Centre Master Plan
- Corporate Plan
- Local Well-being Plan.

Options Available and considered

1. For the Council to confirm authority to commission an independent valuation and dispose of the freehold interests in the sites as outlined above.
2. Do nothing and continue with the sites on long leases.

Preferred Option and Why

Option one because it will increase the RSLs ability to invest in social housing and our local communities.

Comments of Chief Financial Officer

The report outlines a proposal to dispose of the freehold interest relating to a number of sites currently held on long leases by Linc Cymru. Should the disposal proceed, a capital receipt amounting to £150,000 will be generated. This amount will be credited to the Useable Capital Receipts Reserve and, in turn, will become part of the Council's available capital headroom, for use in funding future capital expenditure schemes.

In agreeing to the sale of the freehold interest, the Council will forego the peppercorn rents currently received, however these are not material to the Council's income levels. Therefore, the benefit of receiving a capital receipt at this point is perceived to outweigh the cost of lost revenue streams. In addition, agreeing to this disposal will assist with achieving wider ambitions in terms of the availability of social housing.

Public sector disposals are subject to best value considerations and the report outlines the fact that Newport Norse have provided an opinion on the price being offered and have confirmed that it reflects, in their view, market value. It is noted that a formal, independent, valuation will be required prior to any sale being finalised. Should the independent valuation not confirm that the price offered reflects market value, then the Council would need to reevaluate its intention regarding the sale.

Comments of Monitoring Officer

The proposed sale of the Council's freehold reversionary interests in these various leasehold sites to Linc Cymru is in accordance with the Council's statutory powers under section 123 of the Local Government Act 1972 to dispose of land. In accordance with section 123, the Council has to secure the best price reasonably obtainable for the land and the purpose of the joint independent valuation under the Welsh Government Land Transfer Protocol is to demonstrate that the proposed purchase price represents market value. The land has already been disposed of by way of various long-term development leases at a peppercorn rent, to facilitate the development of these sites for social housing. However, the sale of the Council's freehold reversion will enable Linc Cymru to secure additional investment and capital funding based on the increased value of the assets once they have purchased the land outright. The purchase price should reflect the net current value of the Council's reversionary interest, when the land and property would otherwise have reverted back to the Council at the expiry of the long leases. The sale of the freehold interests in these sites will generate an immediate capital receipt, when in most cases there is still over 100 years unexpired on the current long leasehold interests. The one drawback with the sale of the Council's freehold interest in these sites is that the Council does relinquish an element of control over the future use of the land because restrictive covenants can only be included in leases, not outright sales of the freehold. Any covenants contained within the current leases would be extinguished when the leases merge with the freehold reversion.

Comments of Head of People, Policy and Transformation

The disposal of these sites to a well-established social landlord partner should bring about a range of long-term benefits in terms of wellbeing and social value as identified in this report. These include additional social housing provision, prevention of anti-social behaviour, improving community safety and strengthening Linc Cymru's financial position.

There are no direct human resources implications in this report.

Fairness and Equality Impact Assessment:

- **Wellbeing of Future Generation (Wales) Act**
- **Equality Act 2010**
- **Socio-economic Duty**
- **Welsh Language (Wales) Measure 2011**

The Well-being and Future Generations (Wales) Act seeks to improve the social, economic environmental and cultural well-being of Wales. Public bodies should ensure that decisions take into account the impact they could have on people living in Wales, in the future.

The Council has always sought to engage with residents before taking any decision which may impact upon the delivery of any public service, in accordance with the principles of fairness and legitimate expectation.

The 5 main considerations in respect of the Wellbeing of Future Generations (Wales) Act 2015 are set out below with an explanation of how this decision meets these objectives:

- Long term: The disposal of this freehold and land for development will provide affordable housing
- Prevention: The land has been subject to a long history of anti social behaviour. The development of the site will remove the issues associated with the vacant site.
- Integration: The recommended action would support the *Prosperous Wales* and *Cohesive Community Wellbeing Goals*.
- Collaboration: The Council would be supporting a partner in Melin to develop affordable housing in Newport.

No positive or negative impact on people that share protected characteristics and no positive or negative impact on economic, social, cultural and environmental well-being have been identified and therefore a full FEIA is not required.

Dated: 20 September 2022