

Report

Cabinet Member for Finance and Resources

Part 1

Date: 17 November 2016

Item No: 3

Subject Requests to Purchase Council owned Land at Granville Street

Purpose To consider recent proposals and to determine the most appropriate course of action in respect of this Council Asset.

Author Housing and Assets Manager

Ward Stow Hill

Summary The land subject to this report is owned freehold by the Council but is subject to a series of long term leases to local businesses. Two of the lessees have independently brought forward proposals to purchase all or parts of the site. The report sets out details of the proposals and sets out the merits of the various options.

Proposal Offer the freehold interest in all areas within the asset held on lease/easement to the respective lessees. If any lessee declines to purchase the freehold it could be offered to another purchaser.

Action by Head of Regeneration, Investment and Housing

Timetable Immediate

This report was prepared after consultation with:

- Property Services Manager, Newport City Council
- Estates Team Leader, Newport Norse
- Estates Portfolio Officer, Newport Norse
- Property Services Manager, Newport Norse
- Capital Strategy and Asset Management Group
- Head of Street Scene and City Services
- Head of Regeneration, Investment and Housing
- Corporate Strategy and Asset Management Group
- Head of Finance (Chief Finance Officer)
- Head of Law and Regulation (Monitoring Officer)
- Head of People and Business Change

Signed

1. Background

- 1.1 The Council is the freehold owner of the subject land, which is identified on the plan attached to this report.
- 1.2 Most of the land is subject to a series of lease, brief details of which are summarised below. It should be noted that the leases terms are contractually binding but do not conform in all respects to the terms that would be negotiated in the current property market.
- 1.3 Coincidentally, there have been approaches by two of the existing lessees, requesting independently that they be allowed to purchase some or all of the Council's freehold interest. Brief details of these requests are set out below.
- 1.4 Lessee 1
Lessee 1 is the proprietor of a business, operating from the site. He has requested to purchase the two parcels of land he currently holds on lease. He states the reason for this request is principally to secure the long term future for the business, especially as other land in the vicinity has been sold.
 - 1.4.1 He states also that securing the freehold would enable him to invest in the business, including updating plant and to undertake improvements/refurbishment of the premises themselves.
 - 1.4.2 Lessee 1 has indicated the level of sum he is minded offer for the land he currently occupies, subject to the existing leases.
- 1.5 Lessee 2
Lessee 2 is the owner of premises on Lower Dock Street, as well as certain plots within the subject land. She has requested to be allowed to purchase all of the land shown edged on the plan, ie including that let to third parties. Lessee 2 states the reasons for this request are partly to secure her own leasehold interests and to be in a position to bring forward comprehensive redevelopment proposals at the end of the lease terms.
- 1.6 If the Council is not minded to agree this request, Lessee 2 would instead wish to purchase the two parcels she holds on lease and the unlet land adjacent. She has identified a number of reasons for this request, including the opportunity to extend the existing business onto the unoccupied land. Lessee 2 states she would find it more convenient to raise funding against a freehold title and she has indicated she would be more willing to invest in the premises, should she own the freehold.
- 1.7 For information, the parcels held by Lessee 2 are subject to sub-leases to another business.
- 1.8 Lessee 2 has chosen not to specify the level of consideration she has in mind for the acquisition of these assets.
- 1.9 This asset is not used by the Council for direct service delivery and the terms of the respective leases means it is unlikely to be available for operational use in the foreseeable future. The current uses make a positive contribution to the local economy in providing employment opportunities and services to local people. This position is unlikely to be affected whether the site remains in Council ownership or is owned freehold by others.
- 1.10 The leases give neither party the right to compel the sale/purchase of the freehold interest. Any agreement therefore will be a matter of negotiation and eventually choice for all parties.
- 1.11 There are no staffing issues raised by this report, other than the opportunity to redeploy management and administrative resource, should a sale proceed.

1.12 Under the circumstances it is not considered appropriate to apply for planning permission in respect of the premises.

2. Comments of the Head of Street Scene and City Services

2.1 The George Street Granville/Street junction improvement recently undertaken required some of the land under consideration although this was not progressed due to cost and scheme time constraint.

2.2 Although no specific proposals exist, it is anticipated that future improvement works or metro proposals will require some additional land. Any sale must, therefore, include a satisfactory buy back clause should land be required for highway purpose.

3. Financial Summary

3.1 Details of the current leases are set out below. The number referencing is identified on the plan accompanying this report.

Table 1 – Summary of existing Leases at Granville Street

Ref	Lease Summary
1	Lease dated 1 December 1962. Term 99 years from 1 April 1963 (expiring 2062).
2	Lease dated 8 October 1991. Term expiring 31 March 2076.
3	Lease dated 8 November 1962. Term 99 years from 1 October 1962 (expiring 2061).
4	Lease dated 1 October 1962 (as 5 below). Term 99 years from 1 July 1962 (expiring 2061).
5	Lease dated 1 October 1962 (as 4 above). Term 99 years from 1 July 1962 (expiring 2061).
6	Lease dated 12 January 1977. Term 99 years from 1 July 1976 (expiring 2075).
7	Council land subject to 2 easements for services/emergency access. Term 21 years from 12 July 2001 (expiring 2022).
Total Rental Income	1,895

3.2 It can be seen therefore, this asset generates only a modest rental income and there are limited opportunities to increase the rent within the foreseeable future. In some years, the management costs of holding this asset may exceed the revenue income generated.

3.3 In the absence of any overriding policy or operational considerations, the choice between continuing to receive a revenue income and selling some/all of the interest to generate a capital receipt will largely be a matter of financial comparison. Any sale therefore should reflect the potential marriage value of the transaction, rather than the investment value only.

3.4 Should it be decided to proceed with a sale of all or some of these interest, Newport Norse will liaise with the Head of Finance to ensure the market value negotiated also achieves the best position from a financial management perspective.

4. Risks

<i>Risk</i>	<i>Impact of Risk if it occurs* (H/M/L)</i>	<i>Probability of risk occurring (H/M/L)</i>	<i>What is the Council doing or what has it done to avoid the risk or reduce its effect</i>	<i>Who is responsible for dealing with the risk?</i>
<i>Not all lessees will proceed with the purchase, resulting in a fragmented ownership pattern.</i>	<i>L</i>	<i>H</i>	<i>If negotiations stall the Council could reopen discussions at a future time or, subject to approval, offer the freehold of residual parcels to third parties.</i>	<i>Newport Norse</i>

** Taking account of proposed mitigation measures*

5. Links to Council Policies and Priorities

- 5.1 Proposals support the Council's Asset Management Plan and the Corporate Financial Strategy.
- 5.2 The proposals will help encourage investment, support local businesses and assist development of local businesses.

6. Options Available

6.1 Broadly, options are:

1. Retain the freehold interest in this asset and continue to manage the leases as currently.
2. Agree to sell the freehold of the whole site to Lessee 2.
3. Agree to sell the freehold of the premises occupied under lease/easement respectively by Lessee 1 and Lessee 2.
4. Offer the freehold interest in all areas within the asset held on lease/easement to the respective lessees. If any lessee declines to purchase the freehold it could be offered to another purchaser.

6.2 Note:

- i) In respect of options 2, 3 and 4 above, the land would be sold on terms to be recommended by Newport Norse, in consultation with the Head of Finance and agreed by the Head of Law and Regulation.
- ii) In respect of options 3 and 4, there is the possibility that a fragmented freehold ownership would result if not all lessees wished to proceed with a purchase.

7. Preferred Option and Why

- 7.1 Offer the freehold interest in all areas within the asset held on lease/easement to the respective lessees. Any disposal would be on financial terms beneficial to the Council and incorporate safeguards regarding future road improvement proposals.
- 7.2 Sale of these assets will enable the Council to generate a capital receipt and avoid management costs for low income premises. It also should encourage the proprietors of these premises to invest in their businesses.
- 7.3 It would appear equitable to allow all operating businesses the opportunity to purchase the freehold of the premises they occupy.

8. Comments of Chief Financial Officer

The preferred option is the most equitable in terms of opportunity for all lessees to purchase their respective freeholds. The resulting generation of capital receipts will benefit the Authority by increasing funds available to reinvest in capital programme priorities, but the total amount receivable is subject to a number of variables including number of lessees taking up the offer and whether market value can be achieved for each property.

These properties are currently generating a small rental income with little opportunity to increase in the medium term. This together with any associated management costs as landlord, make the option to retain the freehold less desirable than disposal. Each proposed sale should be assessed on an individual basis, comparing the net present value of the remaining rental income due against the purchase price offered.

9. Comments of Monitoring Officer

Any sale of this land would be in accordance with the Council's legal powers to dispose of land under Section 123 of the Local Government Act 1972. The land is already the subject of a number of long leases which generate only a modest ground rent but the Council has a statutory duty to ensure that, if it disposes of its freehold interest, it secures the best price.

10. Staffing Implications: Comments of Head of People and Business Change

The report responds to proposals from existing leaseholders to purchase the freeholds for the site at Granville Street. The site consists of commercial properties and is not used for direct Council service delivery. The report notes that the asset provides a base for economic activity and employment and that this would likely continue regardless of whether the freehold is sold or retained. There are no direct human resources implications other than through a reduction in administrative costs if the freehold were to be sold.

11. Comments of Cabinet Member

11.1 Cabinet Member has approved the report.

12. Local issues – Ward Members

Councillor M Al-Nuaimi:

My observations in respect of "Requests to Purchase Council owned Land at Granville Street" Not having all the information relating to the preferred option in respect of the above, I find it difficult to support the preferred course of action. The parcels of land are situated in an important part of the city centre close to good communications and so they may be attractive for existing businesses expansion as well as new businesses who might like to locate. It is also not clear as to what level of capital receipts can be obtained through the disposition of the freehold titles.

Until 2008 the council followed a policy of not disposing off land just because it's not generating enough income. Economic regeneration or housing needs were considered important factors in maintaining ownership of land parcels. I would be far more supportive of council disposing of a parcel(s) of land against a definite plan to expand rather than a tentative one. Then some public benefit can be achieved by the council.

In summary I advise not to dispose of the freehold unless we have firm undertakings about future expansion of business(s).

Cabinet Member Response:

The existing leasehold ownerships and terms of the respective leases makes it most unlikely that a comprehensive redevelopment scheme could be brought forward without the use of Compulsory Purchase Order powers. This would be an extremely expensive and complex process. It is not considered that such a course will be pursued in the foreseeable future.

The motivation to sell the land is to support the development of these businesses. The two business owners have indicated that the reasons to purchase the freehold interest include justifying their investment in the business, to make raising funds less expensive and to secure the premises as a long term premise. There are no specific commitments to date and it is therefore anticipated that, agreeing the freehold sales will support development of these businesses.

The level of capital receipt for each prospective sale has still to be negotiated. The report notes however, that any sale sum will, in addition to being a full market value, be subject to confirmation from the Head of Finance that it is a better return to the Council than continuing to receive rent. If a satisfactory sum is not agreed, the sales will not proceed. In this way, the Council's financial position will be safeguarded. The principle of freehold sale is considered on a case by case basis. On this occasion, the opportunity to support these businesses and improve the Council's position financially is considered as the sufficient reason to agree the request to allow the purchase of the freehold.

Councillor Kevin Whitehead:

Can we be assured that as is encouraged by the Welsh Government, those assets deemed surplus to requirements by local authorities, and in this instance Newport City Council, will be considered for use by interested Community Groups? I ask the question having twice been turned down for surplus Council assets in my Bettws Ward which would've had a positive impact on our children in particular within our Community, a Community that lost a boxing club and youth club with a combined membership of approximately 150 kid's.

Cabinet Member Response:

The Council often receives requests to transfer property assets which have been declared surplus to Community Organisations. The Council weighs these proposals against criteria that have been considered by its Corporate Strategy and Asset Management Group. This approach has provided a clear and consistent basis for assessment, and has enabled the Council to reach a reliable conclusion. It is not clear that an application from a Community Group would be consistent with the circumstances set out in these reports, should such an application be received, this process would be followed and the application considered.

13. Scrutiny Committees

N/A.

14. Equalities Impact Assessment

N/A.

15. Children and Families (Wales) Measure

N/A.

16. Consultation

N/A.

17. Background Papers

Site plan attached.

Dated: 17 November 2016

