

MEDWAY COUNCIL

CABINET

10 JUNE 2014

DISPOSAL OF PREMISES AT DOUST WAY

Portfolio Holder: Councillor Alan Jarrett, Finance

Report from: Perry Holmes, Assistant Director of Legal & Corporate Services

Author: David Howe, Senior Valuation & Asset Management Surveyor

Summary

This report seeks delegated authority, so that officers can progress the disposal of the premises at Dust Way, Rochester, as shown edged black on the attached plan.

1. Budget and Policy Framework

- 1.1 The capital receipt from the sale of the premises will be over £1 million and as a result the matter requires approval by Full Council.
- 1.2 The purchaser has stipulated that it must complete the purchase by 31 July 2014. The next meeting of Full Council is not until 24 July 2014. This does not give sufficient time to complete the disposal by the purchaser's deadline of 31 July 2014 and so it is proposed that the Chief Executive uses the urgency provisions as set out in paragraph 4.1 of the Employee Delegation Scheme to agree the proposed disposal on behalf of Full Council, to avoid the cost and inconvenience of holding an extraordinary Council meeting for the sole purpose of considering this disposal. The use of these urgency provisions will be reported to Full Council on 24 July 2014 for information.

2. Background

- 2.1 The Council owns in excess of 1,000 property assets and, next to staff, property is the Council's largest single cost. Effective management is

therefore essential if the Council is to fulfil its core objectives and provide good quality, value for money services.

- 2.2 To ensure that the Council's property assets contribute to its priorities, outcomes, objectives and key actions, as set out within the Council Plan, all properties are considered in the context of rationalisation.
- 2.3 This report brings forward proposals to dispose of premises at Doust Way.

3 Premises at Doust Way

- 3.1 The Council owns the freehold of the 1.30 acre site as edged black on the attached plan. The former City Council of Rochester Upon Medway granted Hyde Housing Association Limited a 125 year ground lease of the site from 12 September 1997 with 5 yearly rent reviews. The Council receives a minimum ground rent of £46,000 per annum and a maximum of £67,000 per annum from the lease. Hyde completed a development of 4 blocks of student accommodation on the site providing 216 units.
- 3.2 Hyde has granted a 30-year sub-lease of the completed development to the University for the Creative Arts for use by its students.
- 3.3 The proposed disposal to the purchaser would be made subject to and with the benefit of the 125 year lease to Hyde and the sub-lease granted by Hyde, both of which would continue. The purchaser would effectively step into the Council's shoes and take over the Council's obligations as landlord of the premises.

4. Options

- 4.1 Cabinet can decide whether to retain the freehold of the premises or delegate authority to declare them surplus so that they can be disposed of for the best price reasonably obtainable. If the Council sells its freehold, the Council would receive a capital receipt.

5. Advice and analysis

- 5.1 The Council's lease to Hyde is unusual as the majority of property investors hold the freehold of student accommodation. The investment market prefers freehold investments. Hyde has recently revised its business strategy and no longer considers investment in student accommodation as part of its core business and so it wishes to sell its long leasehold interest.
- 5.2 The purchaser has provisionally agreed terms to purchase Hyde's long leasehold interest but this purchase is conditional on the purchaser also acquiring the Council's freehold. The purchaser must complete the purchases by 31 July 2014.
- 5.3 On completion of the transaction, the purchaser has agreed to grant a new lease to the University for the Creative Arts and to jointly

undertake a major refurbishment/upgrade of the premises that will increase the university's security at the site.

- 5.4 The Council has achieved its original objective of providing good quality student accommodation, which has contributed to the Community Plan objectives by helping to develop Medway as a place of learning and the freehold is now considered surplus to requirements.

6. Consultation

- 6.1 Consultation has taken place with the relevant Directorates and no objections to the disposal have been received.

7. Financial and legal implications

- 7.1 The Council has a duty under section 123 of the Local Government Act 1972 to obtain the best consideration reasonably obtainable when it disposes of property, unless the disposal is by way of a lease for a term of 7 years or less or consent is obtained from the Secretary of State or one of the general consents applies.
- 7.2 Hyde is entitled to a 30% reduction in rent if it uses the premises wholly for residential student lets and it notifies the Council of this. Whilst the income from the letting would be lost, the disposal will generate a capital receipt and will eliminate the risk and uncertainty of fluctuations in the level of income. It will also reduce management costs.
- 7.3 Under Part 5 of Part 3 of the Council's Constitution, the decision to dispose of the premises requires the approval of Full Council, as the disposal value is over £1,000,000. As the next Full Council meeting is not until 24 July 2014, and the purchaser requires completion of the purchase by 31 July 2014, the Chief Executive will be asked to exercise his powers under Chapter 3 Part 5 paragraph 4.1 to approve the disposal on behalf of Full Council.
- 7.4 In addition to Full Council approval, the approval of Cabinet to the disposal is required because the disposal of land is an executive function under section 9D Local Government Act 2000. This is therefore a decision for Cabinet.
- 7.5 The Council's commercial property budget includes an annual income of £46,900 from the premises. If the premises are sold at the end of July, there will be a reduction of income in 2014/15 of approximately £31,250. It is considered that this reduction can be covered by rental increases from other sources in 2014/15.
- 7.6 However, the income from the commercial property budget for 2015/16 onwards will need to be reduced by £46,900 to take into account the disposal of the premises.

8. Risk Management

Risk	Description	Action to avoid or mitigate risk	Risk rating
Failure to dispose	Loss of capital receipt and uncertainty over future rental income.	Declare the property surplus to requirements and sell on the best terms reasonably obtainable.	C3
Failure to dispose	Proposed upgrade and improvements to the premises will be postponed or provided to an inferior standard.	Declare the property surplus to requirements and sell on the best terms reasonably obtainable.	C3

9. Recommendations

- 9.1 That Cabinet agrees to dispose of the premises at Doust Way and recommends to the Chief Executive (using urgency powers (in place of referring this matter to Full Council)) that he grants delegated authority to the Assistant Director, Legal and Corporate Services, in consultation with the Portfolio Holder for Finance, to:

Declare the premises at Doust Way surplus to the Council's requirements and to dispose of them on the best terms reasonably obtainable.

- 9.2 That Cabinet agrees to take account of the income budget for commercial property as part of the budget building exercise for 2015/16, to account for the revenue foregone

10. Suggested reasons for decision(s)

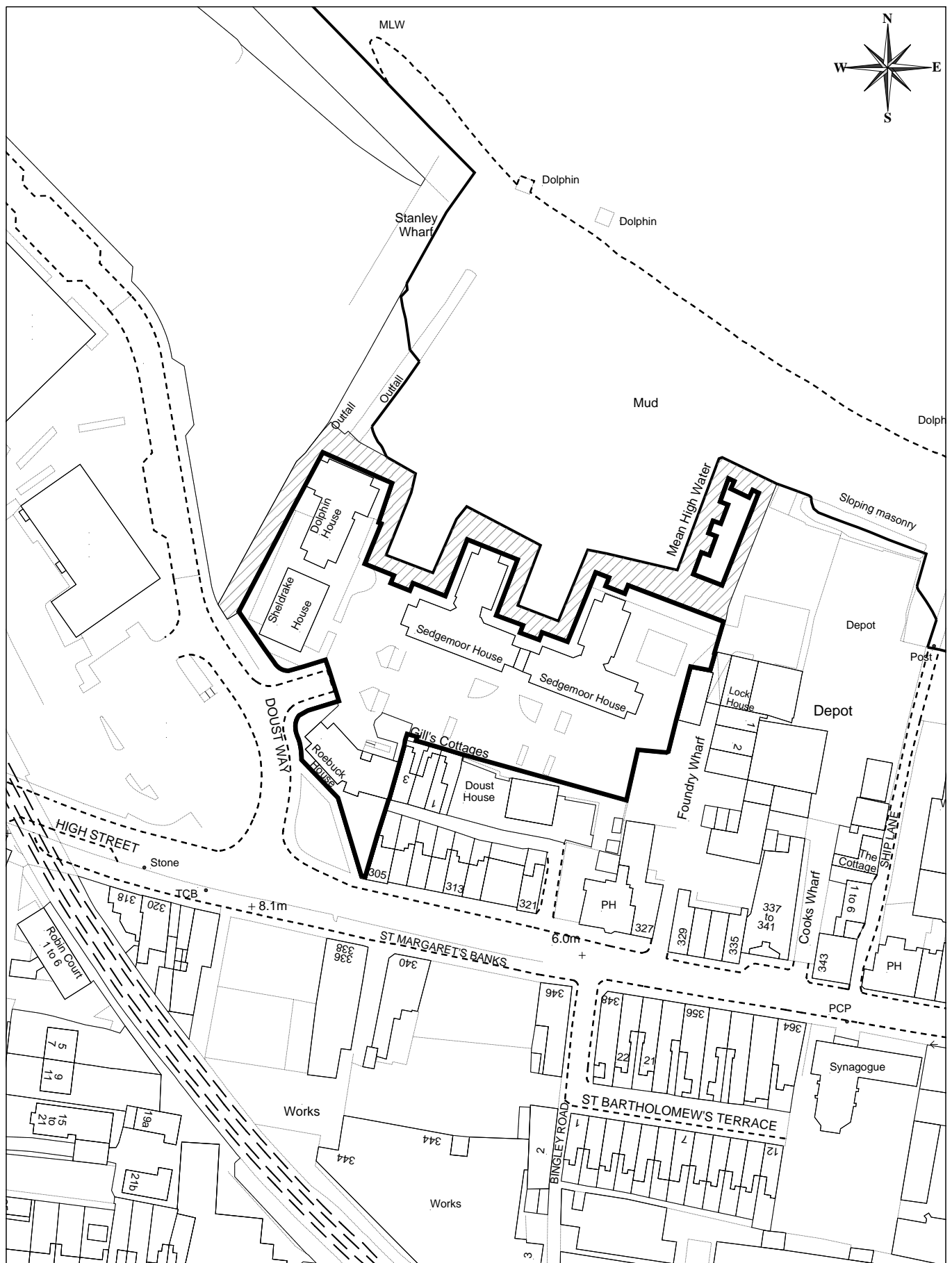
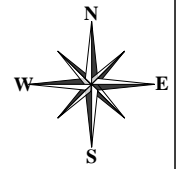
- 10.1 Realise a capital receipt, reduce management costs and to enable improvements to the premises to take place.

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Background Papers

None



Land at Doust Way Rochester



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