

Title of meeting: Leader of the Council with responsibilities for Planning, Regeneration and Economic Development (PRED)

Date of meeting: 15th November 2016

Subject: Sale and leaseback - White Hart Road

Report by: Tom Southall - Property & Investment Manager

Wards affected: All

Key decision: Yes

Full Council decision: No

1. Purpose of report

- 1.1 To update members as to the envisaged terms of the proposed 'sale and leaseback' transaction as detailed in the Cabinet report 22nd September 2016.

2. Recommendations

2.1 That the Leader of the Council with responsibilities for PRED authorises

- i. **The Council to grant a new headlease and leaseback in land on White Hart Road, Portsmouth, the term of the headlease to be up to 150 years with a break in favour of the Council as freeholder, operable on expiry of the Wightlink occupational lease;**
- ii. **Delegated authority to be given to the Director of Property and the Director of Finance & Section 151 Officer, taking advice from the City Solicitor, and in consultation with the Leader of the City Council, to approve the completion of disposal in i. above.**

3. Background

- 3.1 The background to the sale and leaseback transaction is set out in detail in the 22nd September 2016 report to Cabinet.
- 3.2 Following the recommendations passed by Cabinet, officers have marketed the sale and leaseback proposal (the sale of the *income strip*).
- 3.3 Feedback received during the Marketing of the income strip has highlighted an opportunity to further increase the capital receipt receivable by the Council.

- 3.4 The 22nd September report detailed the proposal to grant a new headlease to a purchaser for 41/42 years (broadly the same term as the occupational Wightlink Lease) with a new lease for a slightly lesser term back to PCC.
- 3.5 The opportunity presented by the market, and its clear preference is for Portsmouth City Council to grant a longer term lease (say 150 years) with a break option after 41 years. The market has offered a significant (circa 12%) pricing increase for the grant of a longer lease term.
- 3.6 The break option would be in favour of Portsmouth;
- Probably on six months' notice
 - Only operable after 31st December 2057 (end of the Wightlink lease) and then any time thereafter
 - No rent would be payable by Portsmouth after 2057
 - The break could not be exercised if PCC was in default paying the rent to its purchaser.
- 3.7 The granting of a longer leasehold interest is seen by prospective purchasers as giving total protection in the unlikely event that Portsmouth City Council stops paying the rent.
- 3.8 In the unlikely event that Portsmouth City Council stops paying the rent the purchaser could seek forfeiture of the Portsmouth Leasehold interest.
- 3.9 The granting of a longer leasehold interest as structured above has no adverse impact on Portsmouth City Council, save the administration of operating a break notice.

4. Reasons for recommendations

- 4.1 Granting a longer term leasehold interest will create substantially more capital for Portsmouth.
- 4.2 It is important that this decision is made quickly to enable a clear and timely dialogue with the market.

5. Equality impact assessment

- 5.1 The generic EIA for the disposal of assets is available on the City Council's website.

6. Legal implications

- 6.1 Various structures have been considered in order to release capital from this asset.

6.2 Under s123 of the Local Government Act 1972 the Council may dispose of any land in any manner they wish provided that it must be for the best consideration obtainable. If the recommendations of this report are accepted then a headlease in the property will be granted at the best price reasonably obtainable.

7. Director of Finance's comments

7.1 The main driver behind the recommendations is to better spread our investment property risk, whilst achieving equivalent or better covenant strength and therefore an improving financial return.

7.2 It should be noted that rather than putting the Council into an adverse financial position, the extension of the lease to a term of 150 years with a break in favour of the Council as freeholder upon the expiry of the Wightlink occupational lease, is anticipated to deliver an increased capital receipt, at no additional risk.

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Signed by:

Appendices:Nil

The recommendation(s) set out above were approved/ approved as amended/ deferred/
rejected by on

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Signed by: