

BOROUGH OF KETTERING

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Report Originator	Mark Dickenson Head of Resources	<i>Fwd Plan Ref No:</i> A17/005	
Wards Affected	All	26 th July 2017	
Title	ASSET MANAGEMENT: SHEERNESS HOUSE, 41 MEADOW ROAD, KETTERING		

Portfolio Holder: Councillor Lesley Thurland

1. PURPOSE OF REPORT

To seek Executive approval for the lease of Sheerness House to Kettering General Hospital for a term up to 15 years.

2. INFORMATION

- 2.1 The budget report elsewhere on this agenda highlights the fact that in the medium term the Council will need to consider schemes that can contribute to it being more financially independent. Such considerations include looking at how the Council can maximise the income generation opportunities of its assets – both existing and potential.
- 2.2 The Executive at the April meeting approved a framework agreement governing the Council's relationship with Kettering General Hospital (KGH) through a memorandum of understanding (MoU). This to support collaborative working between KGH and the Council.
- 2.3 One of the areas for joint working was for the Council to support KGH's Estate Strategy identifying potential off-site accommodation.
- 2.4 The Council has acquired the freehold interest in an office block known as Sheerness House in Meadow Road, Kettering. This property has been identified as suitable office space for KGH.
- 2.5 Sheerness House requires works to be undertaken to bring the property up to a lettable standard. The Council has instructed external quantity surveyors to undertake a costing exercise and it is estimated capital works in the region of £400,000 are required. A more accurate figure will be known once the scheme has been put through the appropriate procurement process.

3. LEASE AGREEMENT

- 3.1 A high level Heads of Terms are in the process of being negotiated with KGH which reflect a market rent on a full repairing and insuring lease for a period up to 15 years. Rent levels will be reviewed and will be the higher of the market rent or

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the passing rent. This would produce an acceptable rate of return to the Council once the cost of adaptations and financing are taken into account.

- 3.2 The Property Investment Strategy approved by the Executive at the April 2017 meeting considers the acceptable risk and returns associated with potential investment opportunities. The purchase of Sheerness House was assessed against the criteria in the Strategy. Whilst the disposal of the property does not strictly fall under the Strategy, it provides useful guidelines to assess the business case for granting the lease. The risk and return considerations are summarised in Table 1:

Table 1 - Risk and Return Considerations	
Risk	Outcome
1. Covenant	Excellent – Single Tenant – Strong Financial Covenant
2. Lease Length	Within KBC parameters
3. Repairing Obligations	Excellent – Full Repairing and Insuring (FRI)
4. Net Yield	Fully within KBC parameters.

- 3.3 It is important that the Risk and Return considerations are considered in totality rather than in isolation. Table 1 shows that this opportunity provides the Council with a good business case, furthermore this would enable a significant number of individuals to be based in a Town Centre location which helps with investment into the local economy and demonstrates good partnership working between KGH and the Council.

4 RECOMMENDED COURSE OF ACTION

- 4.1 The property has stood empty for some time and it is important that it is brought back into use and generates a good positive rental income stream for the Council. KGH at the board meeting of 30th June agreed to lease the property, however there is still some negotiation on the draft Heads of Terms. This also demonstrates good partnership working between KBC and KGH as set out in the Memorandum of Understanding.
- 4.2 The draft Heads of Terms have not yet been finalised between the parties, the Executive is however being asked to grant delegated authority to the Head of Resources in consultation with the Finance Portfolio Holder to enter into the lease to enable works to progress in accordance with the timetable required by KGH.

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5 CONSULTATION & CUSTOMER IMPACT

5.1 Productive use of the building could have a positive impact on the town centre.

6 POLICY IMPLICATIONS

6.1 Members have made their priorities for infrastructure and jobs led growth clear, these are the prerequisites of growth. Members have indicated they wish to use the growth agenda to leverage three key interrelated ambitions for the Borough; namely:

- A better offer for our town centres.
- A better education and training offer.
- A better employment offer – high grade, higher density jobs.

6.2 Bringing this building back into use, be that as office accommodation, would contribute towards the continued regeneration of Kettering Town Centre.

7 FINANCIAL RESOURCE IMPLICATIONS

7.1 The estimated financial implications are outlined in the report.

7.2 The Council's Capital Programme for 2017/18 has a budgetary provision of £22.3m for Commercial Investments. The capital costs of this scheme would be financed from that budget.

8 LEGAL IMPLICATIONS

8.1 S123 of the Local Government Act 1972 provides that Local Authorities have a duty to dispose of land at the best price reasonably obtainable. In law, the lease of an asset for a period greater than 7 years constitutes a disposal (even though the council will retain the freehold of the property).

8.2 When 'disposing' of land the Council should ensure that it complies with the usual commercial best practice. The Council is not bound by a particular process in deciding what is the best consideration. The usual practice is to market the land or obtain an independent valuation or both.

8.3 An independent valuation of the rent achievable on the open market has been obtained and the rent levels will be sufficient to meet the duty under S123.

8.4 The transaction will require the appropriate legal documentation to reflect the agreement for lease of the building

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9 RECOMMENDATIONS

That the Executive;

- 9.1 To agree in principal to lease Sheerness House to Kettering General Hospital subject to 9.2 and 9.3 as set out below;
- 9.2 Delegate authority to the Head of Resources in consultation with the Finance Portfolio Holder to finalise the draft Heads of Terms;
- 9.3 Delegate authority to the Head of Resources to finalise the lease agreement with KGH.

Background Papers:

Title Acquisition of Town

Centre Property

Date 18/02/2015/16/03/16

Contact Officer Head of

Democratic and Legal

Previous Minutes/Reports:

Ref:

Date: