

CABINET MEETING: 20 JANUARY 2022

**DISPOSAL OF THE LAND AT ST MELLONS, CARDIFF TO LINC
CYMRU HOUSING ASSOCIATION**

**INVESTMENT & DEVELOPMENT (COUNCILLOR RUSSELL
GOODWAY)**

AGENDA ITEM: 7

Appendices B and C of this report are not for publication as they contain exempt information of the description contained in paragraphs 14 of part 4 and paragraph 21 of part 5 Schedule 12A of the Local Government Act 1972.

Reason for this Report

1. To seek Cabinet Approval for the disposal of its freehold interest in land at St Mellons, Cardiff to Linc Cymru Housing Association with transaction to complete within 21/22 Financial year.

Background

2. The 2015-2020 Property Strategy set out a framework to improve the performance of this estate. The Strategy introduced the Corporate Land and Property Management Plan (CLPMP), which details all property related activities planned over the course of the relevant financial year.
3. Based the property strategy, the Capital Programme approved by Council in February 2018 set a target for non-earmarked General Fund Capital receipts of £40 million, with a subsequent increase of £1 million to this target in 2019/20, after making a deduction for eligible revenue costs of disposal. The CLPMP proposed to raise capital receipts to be delivered from the disposal of surplus assets derived from the Council's Operational Land and Buildings, Non-Operational Land and Buildings and land portfolios.
4. It is also noted that subsequently, on 16th December 2021 Cabinet also approved the new 2021-2026 Property Strategy. Under this Strategy progress towards the original year end 22/23 £40m target is noted and, to deliver the full amount, the Council will seek to generate a total of £25m general fund capital receipts over the next five financial years to

year end 25/26. The receipt from this transaction is a significant step to delivering on the capital receipts target.

5. The Council's portfolio currently holds the freehold interest for approximately 16.5 acres of land in St Mellons, Cardiff which is held under lease to Linc Cymru Housing Association, as show on the Redline Plan in Appendix A. The current lease runs for term of 125 years from 2nd July 1987 and accordingly will expire on 1st July 2112.
6. Contained within the demise are 288 properties managed and leased by Linc Cymru. From 1st July 2022, a rent will become payable to Cardiff Council. The lease is based on net rent provisions with the amount payable determined by the income generated from rents of the 288 properties payable to Linc Cymru less certain allowable running costs.
7. The sale of the Council's freehold interest will generate a significant capital receipt, furthermore it will give a local housing association the benefit of a freehold interest in title fee simple absolute in possession.
8. Purchase Price & Marriage Value - Linc Cymru has agreed to purchase the Council's freehold interest for the the market value of the Council's current interest, plus 50% of the marriage value attributable to a value uplift released by the purchaser obtaining a simplified freehold title to the land. (See Heads of Terms in Confidential Appendix B)
9. Valuation - The land value and marriage value have been assessed by external valuers in a report dated 7th December 2021 (see Valuation Report in Confidential Appendix C).

Issues

10. Current Lease – Since the commencement of the lease on 2nd July 1987 the Council has not been entitled to rental payments from Linc Cymru. However, the first rental payment payable under the terms of the lease is due in 2022. Throughout the remainder of the term, Cardiff Council is entitled to a yearly rent, to be assessed annually, being 15% of the “Net Rents Received” for the relevant year proceeding.
11. Net Rents Received are defined as the aggregate of all income in the Relevant Year, but deducting certain allowable amounts for property and reasonable management costs, repairs and property insurance.
12. Similar transactions between Housing Associations and local Authorities, including Cardiff, have taken place previously as it is considered that this form of lease is undesirable over the long term as the net rent definition leaves open the possibility of dispute and it is a structure that financial institutions are reluctant to allow debt to be raised against. Therefore, it is in both parties interest to share the marriage value created by simplifying the ownership structure, ideally through a freehold sale.

13. Via the transaction, the Council will receive a payment to reflect marriage value unlocked from the sale and in the absence of a transaction, this marriage value would not otherwise be captured.

Local Member consultation

14. The proposed transaction was included within the Annual Property Plan 2021/22 approved by Cabinet on 16th December 2021.

Reason for Recommendations

15. To sanction the disposal of Cardiff Council's freehold interest in the land at St Mellons, Cardiff to Linc Cymru housing association to generate a significant receipt towards the Council's capital programme.
16. Disposal of freehold interest in the land, will result in a capital receipt for the Council during 2021/22. As set out in the valuation, the recommendation is disposal on the basis that the site is deemed to have no strategic relevance for the Council and that income now in the form of a receipt is preferable to income receivable over the remaining term of the lease and reversion of the asset to the council at the end of the lease.
17. The independent valuation sets out the market value, which is based on an estimated net rent receivable in future years. The market valuation estimate is based on the lower end of a band of net rent assumptions. Whilst any open market disposal may attract strong investor demand due to covenant and length of lease, the valuation suggests investors would be deterred due to the uncertainties surrounding the clauses that determine calculation of Net Rent.
18. No income assumptions have been made for this site in future revenue budget income targets in respect to property. This property is deemed by estates to be non-operational property rather than investment property; accordingly, any capital receipt will be non-earmarked.
19. The report highlights the £40 million Capital receipts target set as part of previous budgets and confirms these targets in the latest iteration of the Property strategy, considered by Cabinet in December 2021. Receipts of £8 million have been generated in the three years to 31st March 2021 towards this target, with a further £17 million deemed receivable by 31 March 2023 as per the latest property strategy. This disposal to Linc is part of the forecast for receipts.

Financial Implications

22. Disposal of freehold interest in the land, will result in a capital receipt for the Council during 2021/22. As set out in the valuation, the recommendation requested to be agreed is disposal on the basis that the site is deemed to have no strategic relevance for the Council now or in future, and that income now in the form of a receipt is preferable to income receivable over the remaining term of the lease and reversion of the asset to the council at the end of the lease.

23. The independent valuation sets out the market value, which is based on an estimated net rent receivable in future years. The market valuation estimate is based on the lower end of a band of net rent assumptions. Whilst any open market disposal may attract strong investor demand due to covenant and length of lease, the valuation suggests investors would be deterred due to the uncertainties surrounding the clauses that determine calculation of Net Rent. Accordingly the report proposes an agreed valuation and disposal directly with Linc housing association, based on independent valuation advice.
24. No income assumptions have been made for this site in future revenue budget income targets in respect to property. This property is deemed by estates to be non operational property rather than investment property, accordingly any capital receipt will be non earmarked.
25. The report highlights the £40 million Capital receipts target set as part of previous budgets and confirms these targets in the latest iteration of the Property strategy, considered by Cabinet in December 2021, Whilst £15 million of the target has been identified in respect to school sites, future iterations of the plan are proposed to provide further detail when approved as part of the specific sites and potential valuations. Receipts of £8 million have been generated in the three years to 31st March 2021 towards this target, with a further £17 million deemed receivable by 31 March 2023 as per the latest property strategy. This disposal to Linc is part of the forecast for receipts.

Legal Implications

26. Section 123 of the Local Government Act 1972 provides general power to dispose of any of its land.
27. The Council's Disposal and Acquisition of Land Procedure Rules requires the decision maker to have regard to advice from a qualified valuer, to ensure value for money. The decision maker should have regard to the valuation report annexed to this report.

Equalities & Welsh Language

28. In considering this matter the decision maker must have regard to the Council's duties under the Equality Act 2010 (including specific Welsh public sector duties). Pursuant to these legal duties Councils must, in making decisions, have due regard to the need to (1) eliminate unlawful discrimination, (2) advance equality of opportunity and (3) foster good relations on the basis of protected characteristics. Protected characteristics are: (a) Age, (b) Gender reassignment(c) Sex (d) Race – including ethnic or national origin, colour or nationality, (e) Disability, (f) Pregnancy and maternity, (g) Marriage and civil partnership, (h) Sexual orientation (i) Religion or belief –including lack of belief.
29. When taking strategic decisions, the Council also has a statutory duty to have due regard to the need to reduce inequalities of outcome resulting

from socio-economic disadvantage ('the Socio-Economic Duty' imposed under section 1 of the Equality Act 2010). In considering this, the Council must take into account the statutory guidance issued by the Welsh Ministers ([WG42004 A More Equal Wales The Socio-economic Duty Equality Act 2010 \(gov.wales\)](#)) and must be able to demonstrate how it has discharged its duty.

30. An Equalities Impact Assessment aims to identify the equalities implications of the proposed decision, including inequalities arising from socio-economic disadvantage, and due regard should be given to the outcomes of the Equalities Impact Assessment.
31. The decision maker should be mindful of the Welsh Language (Wales) Measure 2011 and the Welsh Language Standards.

The Well-being of Future Generations (Wales) Act 2015

32. The Well-Being of Future Generations (Wales) Act 2015 ('the Act') places a 'well-being duty' on public bodies aimed at achieving 7 national well-being goals for Wales - a Wales that is prosperous, resilient, healthier, more equal, has cohesive communities, a vibrant culture and thriving Welsh language, and is globally responsible. In discharging its duties under the Act, the Council has set and published well being objectives designed to maximise its contribution to achieving the national well being goals. The wellbeing objectives are set out in Cardiff's Corporate Plan 2020 -23.
33. When exercising its functions, the Council is required to take all reasonable steps to meet its wellbeing objectives. This means that the decision makers should consider how the proposed decision will contribute towards meeting the wellbeing objectives and must be satisfied that all reasonable steps have been taken to meet those objectives.
34. The wellbeing duty also requires the Council to act in accordance with a 'sustainable development principle'. This principle requires the Council to act in a way which seeks to ensure that the needs of the present are met without compromising the ability of future generations to meet their own needs. Put simply, this means that Council decision makers must take account of the impact of their decisions on people living their lives in Wales in the future. In doing so, the Council must:
 - Look to the long term
 - Focus on prevention by understanding the root causes of problems
 - Deliver an integrated approach to achieving the 7 national well-being goals
 - Work in collaboration with others to find shared sustainable solutions
 - Involve people from all sections of the community in the decisions which affect them

The decision maker must be satisfied that the proposed decision accords with the principles above; and due regard must be given to the Statutory Guidance issued by the Welsh Ministers, which is accessible on line using the link below: <http://gov.wales/topics/people-and-communities/people/future-generations-act/statutory-guidance/?lang=en>

35. Policy and Budget Framework

The decision maker must be satisfied that the proposal is within the Policy and Budget Framework, if it is not then the matter must be referred to Council.

Property Implications

36. The report covers the specifics of this transaction in detail. At a strategic level, it is noted that the Council is disposing of a property asset which has a long term but uncertain income stream and a freehold reversion in the distant future. As set out, the Council also has a need for Capital Receipts under existing Cabinet approved targets.

37. By selling to Linc now, the proposed transaction delivers an immediate marriage value premium to the market value of the existing income based interest and therefore it is considered advantageous to sell at this point and raise a significant sum towards the Capital Receipts targets.

HR Implications

38. There are no HR Implications.

RECOMMENDATIONS

Cabinet is recommended to agree that the Council disposes of its freehold interest in land at St Mellons, Cardiff, to Linc Cymru Housing Association, on the basis of the terms agreed.

SENIOR RESPONSIBLE OFFICER	Neil Hanratty Director of Economic Development
	14 January 2022

The following appendices are attached:

- Appendix A - Redline Plan
- Confidential Appendix B - Heads of Terms
- Confidential Appendix C - Valuation Report