

To Purchase the Multi-Storey Car Parks

Cabinet	31 January 2017
Report Author	Matthew Hill, Head of Asset Management
Portfolio Holder	Cllr Townend, Cabinet Member for Financial Services & Estates
Status	For Decision
Classification:	Unrestricted
Key Decision	No
Reasons for Key	N/A
Ward:	Margate Central and Central Harbour

Executive Summary:

Both leases for the multi-storey car parks have approximately 57 years remaining with no tenant's options to break the lease at any time. TDC are therefore committed to continue to pay rents, insurance and to carry out repairs and maintenance until 2073. TDC do however have the options to purchase the lease for 12 times the rental and the first options falls on 28th July 2017 for Mill Lane Car Park and for 28th July 2020 for Leopold Street car park.

Recommendation(s):

That Cabinet recommends that Council gives approval to buy out the leases for both car parks.

CORPORATE IMPLICATIONS

Financial and Value for Money

The rents currently payable are subject to upward only reviews every 7 years for Mill Lane and every 5 years for Leopold Street linked to constructions costs. In the 35 years to the last review in 2010 the rent for Mill Lane increased more than 5 fold and in the 40 years to the last review in 2015 the rent for Leopold Street has increased more than 6 fold. There is no reason to believe that the rents will not continue to rise at such rates over the remaining term of the leases and may increase even more as we come out of the recent recession and the building industry picks up resulting in higher construction costs.

With borrowing rates currently low it would seem to make sense to exercise the upcoming options to purchase in order to reduce revenue costs. The purchase costs (depending on interest rates) could be paid off at a fixed annual amount over 50 years. This would give fixed costs over the period of the loan rather than increasing rents over the remaining 57 years of the lease terms.

On a conservative estimate, as the purchase price will be based on the reviewed rent as at 28/07/2017, it is anticipated that the actual purchase price will be in the region of £3 million for Mill Lane Car Park and £3 million for Leopold Street Car Park as at 28/08/2020.

Legal	<p>There is no one statutory power which provides for the Council to acquire land however section 12 of the Local Government Act 2003 provides a general power to invest and is applicable in most circumstances. In addition to the statutory provisions, there remains the Council's fiduciary requirement in relation to value for money and best price and the Council would need to exercise due diligence in completing any purchase.</p> <p>The freehold purchase mechanism contained within the leases will need to be reviewed by the Legal Dept.</p> <p>In making any decision, the Council must give due regard to section 149 of the Equality Act 2010.</p>								
Corporate	<p>If we could continue to pay the rent over the remaining 57 years without taking into account the rent reviews for both car parks the estimated cost is just over £23 million. This scheme fits in with the council's corporate priorities and values of delivering value for money and promoting inward investment.</p>								
Equalities Act 2010 & Public Sector Equality Duty	<p>Members are reminded of the requirement, under the Public Sector Equality Duty (section 149 of the Equality Act 2010) to have due regard to the aims of the Duty at the time the decision is taken. The aims of the Duty are: (i) eliminate unlawful discrimination, harassment, victimisation and other conduct prohibited by the Act, (ii) advance equality of opportunity between people who share a protected characteristic and people who do not share it, and (iii) foster good relations between people who share a protected characteristic and people who do not share it.</p> <p>Protected characteristics: age, gender, disability, race, sexual orientation, gender reassignment, religion or belief and pregnancy & maternity. Only aim (i) of the Duty applies to Marriage & civil partnership.</p> <table border="1" data-bbox="432 1167 1401 1406"> <tr> <td colspan="2">Please indicate which aim is relevant to the report.</td> </tr> <tr> <td>Eliminate unlawful discrimination, harassment, victimisation and other conduct prohibited by the Act,</td> <td></td> </tr> <tr> <td>Advance equality of opportunity between people who share a protected characteristic and people who do not share it</td> <td></td> </tr> <tr> <td>Foster good relations between people who share a protected characteristic and people who do not share it.</td> <td></td> </tr> </table> <p>There are currently no equalities issues identified for this proposal.</p>	Please indicate which aim is relevant to the report.		Eliminate unlawful discrimination, harassment, victimisation and other conduct prohibited by the Act,		Advance equality of opportunity between people who share a protected characteristic and people who do not share it		Foster good relations between people who share a protected characteristic and people who do not share it.	
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CORPORATE PRIORITIES (tick those relevant)✓	
A clean and welcoming Environment	
Promoting inward investment and job creation	✓
Supporting neighbourhoods	

CORPORATE VALUES (tick those relevant)✓	
Delivering value for money	✓
Supporting the Workforce	
Promoting open communications	

1.0 Introduction and Background

- 1.1 As part of the financing arrangements for the construction of Thanet's multi storey car parks in the 1970's the council owned sites at Mill Lane and Leopold Street were leased to a finance company. The finance company funded the construction of the car parks and then leased them back to the council thereby recouping their investment in the form of rents.

- 1.2 Both of the multi-storey car parks have been leased to the council since 1977. Both leases for the multi-storey car parks have approximately 57 years remaining with no tenant's options to break the lease at any time. TDC are therefore committed to continue to pay rents, insurance and to carry out repairs and maintenance until 2073.
- 1.3 TDC does however have the options to purchase the lease for 12 times the rental and the first options falls on 28th July 2017 for Mill Lane Car Park and for 28th July 2020 for Leopold Street car park. Each option period lasts for 12 months and written notice to exercise the option can be served at any time during that period with the sale then completing within 6 weeks of the notice. The options will then be available at every subsequent rent review date.
- 1.4 The rents currently payable are subject to upward only reviews every 7 years for Mill Lane and every 5 years for Leopold Street. In the 35 years to the last review in 2010 the rent for Mill Lane increased more than 5 fold and in the 40 years to the last review in 2015 the rent for Leopold Street has increased more than 6 fold.
- 1.5 The rents are linked to construction costs. There is no reason to believe that the rents will not continue to rise at such rates over the remaining term of the leases and may increase even more as we come out of the recent recession and the building industry picks up resulting in higher construction costs.
- 1.6 With borrowing rates currently low it would seem to make sense to exercise the upcoming option to purchase in order to reduce revenue costs. The purchase costs (depending on interest rates) could be paid off at a fixed annual amount over 50 years. This would give fixed costs over the period of any loan rather than increasing rents over the remaining 57 years of the lease.
- 1.7 Purchasing would also then give TDC full control to deal with the assets in the future in whichever way they choose without restriction.
- 1.8 On a conservative estimate, as the purchase price will be based on the reviewed rent as at 28 July 2017, it is anticipate that the actual purchase price will be in the region of £3 Million for each car park.

2.0 The Current Situation

- 2.1 We are currently paying rent of just over £200k for Leopold Street and just over £205k for Mill Lane. With the leases continuing leases we will pay approximately £11,438,726 for Mill Lane and £10,550,818 for Leopold Street not taking into account future rent increases.
- 2.2 Three types of loans are available to the council which are an annuity loan, an EIP loan or a maturity loan.
- 2.3 Annuity Method: Under this method, the total annual loans charges remain constant throughout the lifetime of the debt since the make-up of repayment and interest always add up to the same annual amount. Within this same annual amount, the mix of repayment and interest changes each year. In the first year, the amount of debt repaid is quite small and this gradually increases, whilst interest costs are higher in the early years and gradually reduce. The effect of this is to end-load the debt repayment to the later years of the loan.
- 2.4 EIP Method: Under this method the debt is repaid by equal instalments of principal over a pre-determined period of time. For example, a debt of £3million with a life of 50 years will be repaid at the rate of £60,000 per annum together with interest calculated on the amount of debt outstanding at the commencement of the financial year. The annual

interest charge will reduce as the loan is repaid and consequently the level of loan changes (i.e. debt repayment plus interest) are highest in the first year and reduced year-on-year as the debt is repaid.

- 2.5 Maturity Method: Under this method, an interest-only loan, a loan where the borrower only pays the interest due, poses a slight exception to this general rule. When the interest-only loan matures, there will be a balance due at loan maturity. The amount of the loan must either be refinanced or paid off.
- 2.6 Worked out on current interest rates taking out a loan over 50 years the repayments and savings would approximately be as follows:-

Type of Loan	Annual loan repayments would be	Mill Lane Savings	Leopold Street Savings
EIP	£150,000 reducing each year	£6,166,226	£5,278,318
Maturity	£150,000	£3,938,726	£3,050,818
Annuity	£116,222	£5,627,554	£4,739,646

- 2.7 Current annual payments with possible annual savings if a loan is taken out are as follows:-

Location	Current Annual Payment	Possible Annual Saving
Mill Lane	£204,309.24	£54,309.24
Leopold Street	£200,496.96	£50,496.96

3.0 Options

- 3.1 1) Do nothing and pay the rents that will rise until the leases expire.
- 2) Take advantage of the option to purchase and obtain a loan with a low interest rate over a period of 50 years to reduce revenue costs and keep the payments consistent.

4.0 Next Steps

- 4.1 To inform the Landlord by written notice after the 28 July 2017 that we exercise the option to purchase Mill Lane Multi-Storey car park.
- 4.2 For finance to investigate which loan option is the best for the council to take up to purchase the car park.
- 4.3 For council to give approval to take out the loan and purchase the car park within 6 weeks of the notice to purchase the car park.
- 4.4 For council to agree the surrender of the Landlord's that is currently in place for the land that the car park is on.

Contact Officer:	Matthew Hill, Head of Asset Management
Reporting to:	Tim Howes, Director of Corporate Governance & Monitoring Officer

Annex List

None	N/A
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Background Papers

Title	Details of where to access copy
None	N/A

Corporate Consultation

Finance	Matthew Sanham, Corporate Finance Manager
Legal	Dawn Cole Senior, Legal Officer