



REPORT OF:	Head of Property
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TO:	EXECUTIVE
DATE:	25 th January 2018
EXECUTIVE MEMBER:	COUNCILLOR NATALIE BRAMHALL

KEY DECISION REQUIRED:	YES
WARD (S) AFFECTED:	Horley Central

SUBJECT:	UNIT 1 RUSSELL SQUARE (55-57 VICTORIA ROAD)
RECOMMENDATIONS: (i) that the Head of Property is authorised to dispose of Unit 1 Russell Square (55-57 Victoria Road) Horley to Surrey County Council by way of a 999 year ground lease at a peppercorn rent and subject to a premium as set out in the Exempt report in Part 2 of the agenda. (ii) The Head of Property, in consultation with the Executive Member for Property & Acquisitions, be authorised to agree the final terms of the lease.	
REASONS FOR RECOMMENDATIONS: In consideration of granting a long lease at a peppercorn rent, Surrey County Council (SCC) will pay RBBC a significant premium and fit this vacant unit to provide a new library that will improve services for Horley's growing population and assist in the town centre's regeneration.	
EXECUTIVE SUMMARY: This report seeks authority to grant a long leasehold interest of Unit 1 Russell Square, located at 55-57 Victoria Road, Horley to SCC for the purposes of creating a new library. The letting of the premises will help SCC to provide improved and more accessible resources and support the town's growing population. Specifically, the library will contribute and provide new community uses in the town, alongside retail, social and leisure uses, supporting the town centre's regeneration. The premium payable for the lease is equivalent to the capitalised value of the market rent and will release a substantial receipt that can be reinvested to meet RBBC's 5 Year plan priorities. As the agreed premium is in excess of the £500,000 disposals threshold set out in Part 3(b) of the Officer Scheme of delegation, Executive authority is therefore required for the disposal.	

Executive has authority to approve the above recommendations.
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STATUTORY POWERS

1. The Council has power under Section 123 Local Government Act 1972 to dispose of these premises. (In this context, “dispose” includes both a sale of the Council’s freehold interest and the grant of a lease on the terms proposed in the report.) Section 123 stipulates that a local authority may dispose of land as it chooses, but the consent of the Secretary of State at the Department for Communities and Local Government is required, if it is intended to dispose of land at a consideration less than the best that can be reasonably obtained. The recommendation in the report is that the premises shall be sold at the best consideration that is reasonably obtainable and accordingly the consent of the Secretary of State will not be required under the provisions of Section 123 Local Government Act 1972.
2. Section 2 of the Local Government Act 2000 gives local authorities the powers to do anything in the furtherance of the economic, social or environmental wellbeing of its area. The exercise of that power is specifically linked, in section 4 of the Act, to works required in furtherance of community and corporate plan objectives.
3. The County Council has a statutory duty under the Public Libraries and Museums Act 1964 ‘to provide a comprehensive and efficient library service for all persons’ in the area that want to make use of it (section 7). In considering how best to deliver the statutory duty, the Council is responsible for meeting local needs within available resources in a way which is appropriate to the needs of the local community.

BACKGROUND

Horley Town Centre

4. RBBC has designated Horley town centre as a priority area for regeneration, in both the adopted Local Plan and Core Strategy.
5. RBBC aims to improve the vitality, vibrancy and competitiveness of the town centre, so that it can meet the needs of its current population and the increased demand that will be generated from new housing, as part of the Horley Master Plan.
6. Working with our partners, RBBC is helping to bring about change in a number of ways.
7. One of the key areas of focus is the redevelopment of sites to bring about major new development that will help to diversify the town centre offer.
8. A number of key flagship mixed use schemes are helping to provide modern commercial floor space that will attract new investment, including new shops, services and restaurants, as well as new homes at the heart of the town centre.
9. At the same time RBBC and SCC are also investing to improve services to our local residents, as part of policy commitments made in the Horley Master Plan. This includes improvements to youth, library and day care facilities within the town centre.

New library requirement

10. The existing library was constructed in the 1950s and is located on the edge of the town centre. The current condition of the premises and its location is deemed to be unsuitable to meet the needs of Horley's growing population.
11. The Borough Council has long recognised the need for improved library provision in the town. The Horley Master Plan supports the provision of a new library within a more central location in the town centre to provide enhanced accessibility for local residents by all modes of travel.
12. A new modern library will be able to provide an enhanced range of services for existing and future Horley residents. Locating the library in a central location will also act to attract 'linked trips' to the town centre, contributing to the Council's wider regeneration activities in the town.
13. The provision of a new library is also a long term commitment of the County Council. SCC wishes to provide a modern new library within a convenient town centre location to provide a comprehensive range of services to the town's growing population. SCC wishes to improve the services it provides by providing a dynamic environment that will provide dedicated spaces for a range of functions, for children, leisure study, business, creative and cultural activities as well as for guidance and information.
14. RBBC has been working with SCC over many years to try and identify a suitable location for the provision of the new library. Agreement has now been reached between the parties that the new library should be located in Russell Square, which is well located within the town centre and close to the station.

Russell Square

15. The Russell Square development is situated on the site of the former Newman House building, which RBBC acquired in 2006, as part of its work to facilitate town centre regeneration.
16. Following the demolition of the building Executive agreed in 2012 to sell the freehold interest of the site to Thames Valley Housing Association (TVHA) for the development of a flagship mixed use scheme comprising affordable homes and new commercial floor space.
17. On completion of the scheme in 2015, as a condition of the sale agreement, the ground floor commercial space was transferred to RBBC on a 999 year lease for a £1 premium at a peppercorn rent.
18. This commercial space comprises four units. Two of these units, numbers 3 and 4, have been let to A3 restaurant operators on 10 year leases at a full market rent and are trading as Costa Coffee and 51 Degree North. The remaining single unit, number 2, continues to be marketed by RBBC's agents again at a market rent.
19. Unit 1 is a double unit and occupies a prominent corner location.
20. SCC has been in discussions with RBBC over the last 18 months about taking this unit for the purposes of providing a new library.

The Lease

21. Due to the significant investment that SCC wishes to make and their long term commitment to providing a library, the County Council wishes to pay an upfront premium and a peppercorn rent for a long lease of the premises, rather than paying a market rent on a shorter lease.
22. The heads of terms for the lease have been agreed in principle by SCC's Cabinet, as well as the necessary funding for its fit out, subject to RBBC's Executive approval.
23. It is proposed that RBBC will enter into a lease with SCC for a term of 999 years. The key terms of the lease are proposed to be:
 1. Rent – a peppercorn rent per year.
 2. Repair – SCC to keep the property in a state of good and substantial repair and decoration at all times.
 3. Outgoings – SCC to be responsible for all outgoings in respect of the property.
 4. Alterations – SCC is not to make any internal or external structural or non structural alterations to the property without the Council's and Thames Valley Housing Association Limited's consent. SCC is to carry out all works permitted by the lease in a good and workmanlike manner with good quality materials in accordance with all relevant standards.
 5. Statutory obligations and health and safety – SCC is to comply with all legislation affecting the property and is to ensure that the property and everything contained in it is kept safe and without risk to health and safety.
 6. Use – the property is to be used only as a public library within use class D1 of the Town and Country (Use Classes Order) 1987.
 7. Dealings – SCC is permitted to share possession or occupation or to assign, transfer or underlet the whole or part of the property without needing consent.
 8. Headlease – SCC not to do anything in contravention or breach of the covenants on the part of the Council in the Headlease.
24. SCC will pay a premium. This premium has been agreed based on the external advice of a retail property expert as to the capitalised rental value of the premises on the terms proposed.
25. Planning consent has been granted for the change of use of the premises to D1 community use and for the display of relevant advertisements.
26. It is considered that securing SCC as an anchor tenant for a new library will help generate interest in the remaining vacant unit.

OPTIONS

27. Option 1: Complete the lease with SCC (recommended)

This is the recommended option for a number of reasons:

- A new library is a policy commitment of the Horley Master Plan

- The library will provide improved and more accessible services to the town's growing population.
- The new library will help to improve community facilities in the town centre, and maximise the opportunity for linked trips, contributing to its regeneration.
- The consideration payable for the long lease represents market value for the leasehold interest.
- The capital receipt that will be received can be reinvested by RBBC in corporate plan projects.
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- The new library will help to make the adjacent unit more attractive for letting.

28. Option 2: Continue to market the unit to secure a commercial letting at a market rent (not recommended)

Units 1 and 2 have been vacant and to let since completion of Russell Square in June 2015. Despite active marketing by a local agent, Cradick & Co, interest in these units has been limited. As RBBC is liable for business rates, service charge and standing charges for utilities, there are considerable costs incurred in holding vacant units. Accordingly this is not the preferred option.

29. Option 3 – Do nothing – this is not the recommended option for the reasons set out above

LEGAL IMPLICATIONS

30. Section 123 of the Local Government Act 1972 requires that any disposal should be on the best terms that can reasonably be obtained. Based on the advice from the Council's Head of Property, the disposal on the terms outlined in the report would appear to satisfy that requirement.
31. The terms of the lease have been agreed by both Councils' legal teams.
32. Under the terms of RBBC's current headlease, dated 8 July 2015 and made between Thames Valley Housing Association Limited (1) and the Council (2) it is not necessary to obtain the freeholder's agreement to the letting.
33. As part of the legal process, planning permission has been obtained for the change of use from retail, A1 to community use, D1 under the Town and Country (Use Classes Order) 1987.

FINANCIAL IMPLICATIONS

34. RBBC will receive a capital receipt on the granting of the lease and this consideration is equivalent to the capitalised value of a market rent as outlined in the exempt part of the Executive's agenda (Part 2 Report).
35. SCC as the long leaseholder will be responsible for a service charge attributable to the commercial unit in addition to business rates and utility costs.
36. RBBC will not incur further unrecoverable costs once the unit is let.
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EQUALITIES IMPLICATIONS

37. SCC undertook a full equalities impact assessment which informed their Cabinet approval. This demonstrated the positive impact that a new library would have on all users including children, older people and people with disabilities.

COMMUNICATION IMPLICATIONS

38. Once the lease is completed and the plans for the library are available, this will be communicated with various stakeholders including the Horley Regeneration Forum and the Horley Town Centre Management Group, news releases and online.

RISK MANAGEMENT CONSIDERATIONS

39. The risks of proceeding with the recommended option are considered to be low. SCC's Cabinet has given approval to enter into a lease for the unit and has agreed this and the fit out costs. Planning permission has been granted for the change of use, and other approvals are in place. There could be a risk of lack of capacity in SCC to deliver the project through to completion, however this is considered to be low.
40. The risk of not proceeding with the recommended option is that there is likely to be a further extended period of vacancy for both units resulting in additional void costs for RBBC.

CONSULTATION

41. Borough ward members and Horley Town Council have been consulted and to date no concerns have been expressed.
42. The County Council's Cabinet have been fully informed and the local divisional members have been consulted and are all in support of the proposals.
43. There has been statutory consultation through the planning process with regard to the change of use.
44. Stakeholders through the Horley Regeneration Forum and Horley Town Management Group will be consulted about the plans as they progress.

POLICY FRAMEWORK

45. The letting meets the objectives and priorities of RBBC's five year plan, the adopted Core Strategy (2014), the Local Plan (2005) and the Horley Town Centre Regeneration SPD (2006).
46. Policy CS7 of the Adopted Core Strategy clearly states that the multi-purpose role of town and local centres will be maintained and improved. These centres will accommodate most of the borough's new retail, social, community and leisure uses (including culture/tourism) at a scale appropriate to their role.
47. The letting also meets the objectives of RBBC's 5 year plan 2015-20, particularly to increase the value and income derived from, RBBC's property and assets.

Background Papers:

Reigate and Banstead Adopted Local Plan (2005)
Reigate and Banstead Horley Town Centre Regeneration SPD (2006)
Reigate and Banstead Core Strategy (2014)
Reigate and Banstead Our 5 year plan 2015-2020
Surrey County Council Proposed New Library for Horley Cabinet papers (May 2016)