



CABINET

Subject Heading:

**HAINAULT GOLF COURSE-LEASE
SURRENDER AND RENEWAL**

Cabinet Member:

Councillor Roger Ramsey

SLT Lead:

Jane West, Chief Operating Officer

Report Author and contact details:

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Policy context:

The Council's Asset Management Plan

Financial summary:

The lease renewal will secure a long term income stream for the Culture and Leisure services department.

Is this a Key Decision?

Yes

Expenditure or saving (including anticipated income) of £500,000 or more

When should this matter be reviewed?

Not Applicable

Reviewing OSC:

Overview & Scrutiny Board

The subject matter of this report deals with the following Council Objectives

Communities making Havering
Places making Havering
Opportunities making Havering
Connections making Havering

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SUMMARY

Hainault Golf Course is jointly owned freehold by the London Borough of Redbridge (LBR), London Borough of Havering (LBH) and Essex County Council (ECC). The London Borough of Redbridge is the majority landowner and leads the management of the relationship with the tenant who occupies under terms of a lease dated 20th September 2001 for a 25 year term from 21st May 1999.

After the site's original tenant entered administration in January 2010, the lease was assigned to Hainault Golf Club Ltd (HGCL) who have continued to operate the course. They have also made modest capital investments to improve the facilities and increase the levels of use.

The golf market is highly competitive and traditionally operates on relatively narrow margins. Since taking on the lease, Hainault Golf Club Ltd has not traded profitably and its owner has intervened to subsidise the company. This has led the company to approach the Councils to seek to renegotiate the terms of the existing lease which still has five years to run and enter into a new lease pursuant to the renegotiated terms. The primary changes sought are a reduction in the headline rent, an extension of the term, the provision of greater security of tenure, and the dropping of the requirement for a personal guarantee from the owner of Hainault Golf Club Ltd.

This report outlines the background to this matter; analyses the proposal and ultimately seeks authority to accept the surrender of the existing lease and simultaneous grant of a new lease on mutually agreeable terms.

Confidential/exempt information is contained in the exempt Appendix 1 by virtue of the provisions of schedule 12A paragraph 3 to the local government Act 1972 as amended by the Local Government (Access to Information) Act 1985 as it details information relating to the financial or business affairs of any particular person (including the authority holding that information).

RECOMMENDATIONS

That Cabinet:

- (a) **Agree in principle, subject to (c) below**, to accept the surrender of the existing lease of Hainault Golf Course, Romford Road, Hainault, in consideration of a payment by the lessee of a surrender premium together with the payment of any rent arrears outstanding at the date of surrender.

- (b) **Agree in principle**, to grant a new lease of Hainault Golf Course for a term of 25 years to Hainault Golf Club Limited, as outlined in the main Heads of Terms attached to and forming part of Exempt Appendix 1 to this report subject to (c) below.
- (c) **Authorise**, for the purposes of (a), and (b) above and in accordance with section 122(2A) Local Government Act 1972, that notices are placed in a local newspaper circulating in the area for two consecutive weeks expressing an intention to dispose of the land and following the completion of the process, **Authorise** the Director of Asset Management following consultation with the Cabinet member for Finance and Property to consider any objections before the disposal is made.
- (d) **Authorise** the Director Asset Management in consultation with the Director of Legal & Governance, to take all necessary action to complete a surrender and re-grant of a new lease substantially on the terms set out in the main Heads of Terms attached to and forming part of Exempt Appendix 1 to this Report subject to (a), (b) and (c) above.

REPORT DETAIL

- 1 Hainault Golf Course (the course) is set in approximately 294 acres of land and comprises two 18-hole golf courses forming the upper and lower courses, a 25-bay floodlit driving range, modern clubhouse and a range of ancillary buildings. The Course is primarily operated as a public pay and play golf course.
- 2 The freehold of the course is jointly owned by the London Borough of Redbridge (LBR), London Borough of Havering (LBH) and Essex County Council (ECC). The London Borough of Redbridge is the majority landowner and is responsible for managing the relationship with the tenant.
- 3 The course was let pursuant to a lease dated 20 September 2001 between LBR, LBH and ECC (as freeholders) and Essex Golf Centre Limited for a term of 25 years from 21st May 1999. The security of tenure provisions, under Sections 24-28 of the Landlord & Tenant Act 1954, which include a statutory right to renew a lease when it expires, were excluded from the lease. The lease set an annual rent which was indexed through reference to the RPI inflation rate. In addition, the lease required the payment of a 'turnover rent' equivalent to 2% of the business's annual turnover.
- 4 Income from the course is apportioned between the three Councils as landlord based on land ownership/ number of holes owned by each Council. Redbridge owns 27 holes and receives 75% of the rent, Havering owns 7 holes and receives 19.45% and Essex County Council owns 2 holes and receives 5.55%.

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- 5 In January 2010 poor trading conditions forced Essex Golf Centre Limited into administration. The current operator, Hainault Golf Club Limited (HGCL), acquired the lease and business from the administrators on 20th October 2010. HGCL had no history of running a golf club and so, in agreeing the terms of the transfer of the lease, the three Councils (as joint landlords) sought and obtained a substantial rent deposit (equivalent to 18 months of the rent payable in 2010) and a personal guarantee from the owner of HGCL.
- 6 Since taking on the lease in 2010, HGCL has undertaken a range of improvements to the course to improve its offering and has been proactive in reducing course fees and introducing incentives and other measures in an attempt to retain the membership and attract new players. Despite these efforts, the company has failed to trade profitably and its owner has had to personally subsidise it to keep it solvent.
- 7 The golf market is highly competitive and operates on relatively narrow margins. Market conditions have deteriorated in recent years with the increased provision of 'pay and play' facilities. Since acquiring the lease, HGCL has traded at a significant loss coupled with periodic rent arrears which still remain. The controlling shareholder of HGCL, has subsidised the company to date and is a guarantor of its liabilities.
- 8 In 2018, the shareholder became extremely uncomfortable with continuing to support the company at a passing rent they considered to be significantly higher than the market rent. A valuation report instructed by LBR supported the tenant's assertion.
9. On the strength of the valuation advice and the real risk of the tenant defaulting, LBR have renegotiated the surrender and renewal of the lease on more sustainable terms to secure the income stream and future investment in the golf course facilities.
- 10 The primary changes sought are a reduction in the headline rent, an extension of the term, the provision of greater security of tenure, and the dropping of the requirement for a personal guarantee from the owner of Hainault Golf Club Ltd. Details of the terms are set out in exempt appendix 1 attached to this report

REASONS AND OPTIONS

Reasons for the decision:

11. The new lease terms will secure a long term income stream for the Council, unlock investment in the golf course, increase accessibility and secure the long term viability of HGCL.

Other options considered:

12. The Council could choose not to accept the proposed surrender and renewal of the lease. This will present the real risk of tenant default and there is no guarantee that the Council will successfully pursue the tenant to recover rent and enforce all terms under the lease.
13. In the event of default and in the context of the current golf environment, external valuation advice has confirmed that the Councils as Landlord would need to accept a substantial reduction in achievable rent, a rent free period and other capital incentives may need to be offered in order to attract a new golf operator to the course, who is willing to take on and invest in the golf courses, buildings and facilities for the longer term.
14. Given the certainty associated with the quantitative and qualitative benefits of the proposal against the uncertainty and risks associated with a decision to reject it, such a decision cannot be recommended.

IMPLICATIONS AND RISKS

Financial implications and risks:

The finance comments are included in the Exempt part of the report.

Legal implications and risks:

Section 19 of the Local government (Miscellaneous Provisions) Act 1976 A local authority may provide, inside or outside its area, such recreational facilities as it thinks fit. The provision of golf courses are included the power provided by the section.

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The council has the power under section 123 of the Local Government Act 1972 to dispose of land in any manner that it wishes, save that it is not permitted to dispose of land, otherwise than by a lease of less than 7 years, at less than the best consideration that can reasonably be obtained, without the consent of the Secretary of State.

The council's property advisers have confirmed in this report that the surrender of the existing lease and the re-grant to the current tenant of a new lease on the current tenant the main Heads of Terms attached to and forming part of Exempt Appendix 1 to this Report satisfies the best consideration requirement. The title information to the land is also to be inspected as part of the process.

The council also has under section 1 of the Localism Act 2011, the power to do anything that individuals may generally do (the power of general competence) and the power under section 111 of the Local Government Act 1972 to do anything which is calculated to facilitate or is conducive of incidental to the discharge of its functions.

Section 122(2A) LGA 1972 require that before disposing of any land consisting of or forming part of open space the Council must advertise the proposed disposal in two consecutive editions of a local newspaper and consider any objections received in response.

Human Resources implications and risks:

There are no Human Resources implications or risks arising directly that impact on Havering Council's workforce

Equalities implications and risks:

Given that the transaction relates to a lease surrender and simultaneous lease renewal, there are no equalities implications

BACKGROUND PAPERS

None