

**REPORT TO:** Executive Board

**DATE:** 15 October 2020

**REPORTING OFFICER:** Strategic Director –  
Enterprise, Community and Resources

**PORTFOLIO:** Resources

**SUBJECT:** Policy For Managing Rental Arrears for Council  
Owned Property

**WARD(S)** Borough-wide

**1.0 PURPOSE OF THE REPORT**

1.1 The purpose of this report is to set out a policy and some options for how the Council manages rent arrears on its property (land and buildings).

**2.0 RECOMMENDATION: That the Board approves option 5 outlined in section 3.7 of the report.**

**3.0 SUPPORTING INFORMATION**

3.1 COVID-19 has presented significant challenges for the Council as a Landlord, but the Council also acknowledges the impact that the pandemic has had on its tenants. As soon as the 'lockdown' was announced, the Council adopted a pragmatic approach to the management of rents and immediately introduced a three-month rental holiday for the vast majority of its tenants. This included market traders.

3.2 However, for the vast majority of its tenants, the rent holiday that the Council provided, ended in June 2020 and the Council continues to face challenges in respect of the payment of rents. It is estimated that 73% of our tenants are paying in full, 27% of tenants are in arrears.

3.3 The Council is also mindful of the fact that some of our tenants provide a wider community service to the residents of the borough. At the same time, the Council wishes to maintain an open and honest dialogue with its tenants, and where possible it has signposted them to funding packages provided by government, or has sought to be flexible in working with tenants to manage arrears. Unfortunately, despite the Council's best efforts, some of our tenants have gone out of business.

- 3.4 The effects of COVID-19 will have a long-lasting negative effect on the borough's economy; this will have a bearing on the income of most of our tenants, and in turn, the income of the Council.
- 3.5 As a result, MT/Executive Board is now asked to consider a number of options that are aimed at enabling the Council to formulate a longer-term policy on how it manages its (income generating) property portfolio.

3.6 The potential options are as follows:

- 3.7 1. The Council adopts a purely commercial approach when engaging with its tenants; it seeks to charge full rent, and vigorously pursues any arrears on payments, potentially resulting in legal action for those tenants that do not keep up with payments.

The advantage of adopting this approach would be that the Council's strategy is clear and, therefore, both tenant and property owner will understand each other's respective roles and responsibilities. This could lead to potentially less officer time being required to renegotiate rents and lease/licence arrangements.

There would be the advantage to the tenant in that it would remove any uncertainty regarding how the Council would pursue rent arrears. This could help the organisation or the business to reach a quicker decision on its future operations.

However, a 'one model fits all' approach does not take into account that the individual circumstances of tenants may be different, and, similarly, for the reasons outlined above, the relationship between the Council and the organisation may be more complex than that of a landlord/tenant.

2. Do Nothing - the Council adopts a 'laissez-faire' approach and does not seek to manage any potential arrears allowing 'the market to prevail'. The Council would repossess a property at the point an organisation would cease operating. The advantage of this approach is that the Council offers the maximum flexibility to its tenants. On the other hand, this would make it difficult to forecast with any certainty, projected income levels. A concern for the Council would be that tenants may feel less inclined to pay rents, if they do not anticipate that the Council would pursue their arrears
3. The Council introduces incentives such as a temporary, or even a permanent reduced rents policy. One advantage of this option sees the Council taking a proactive approach to supporting its tenants. A major disadvantage of this approach

is that there would be significant costs to the Council. For example, the three-month rental holiday that the Council agreed resulted in the loss of income estimated to be £220,000. A 10% reduction on all rents would cost the Council £88,000 per year. However, it could be the lifeline that some tenants need and in the longer-term keeping an organisation or business operating could safeguard a future revenue stream. It could also reduce any building maintenance costs that the Council would have on an empty building.

4. Another option could be that the Council adopts a 'case by case' approach in the way in which it works with its tenants. This approach provides a more bespoke approach to how the Council works with tenants to reduce debt arrears. However, it is more open to challenge, as it is difficult to maintain a level of consistency. Furthermore, it could result in a subjective, rather than a commercial decision being taken.
5. This option – the preferred option would propose a combination of option 3 and 4. The Council would provide temporary and permanent reduced rent options, but they would be capped at three months and 10% respectively. Businesses and organisations would need to demonstrate that they had been significantly adversely affected by COVID-19.

The procedures and requirements that the Council introduced to manage its Discretionary Grant Fund for Businesses would be applied.

#### 4.0 **POLICY IMPLICATIONS**

- 4.1 The report proposes a future policy for how the Council would manage the rents for its tenants

It is possible that Businesses will already be receiving some form of support through Government funded business rate relief, small businesses, retail, hospitality. Therefore, the Council would need to consider the appropriateness of a rent exemption to be applied alongside this

Business could also potentially apply for discretionary rate relief funded by the Council. Consequently, there would need to be a cross reference between systems before an award is made.

Using similar principles that were applied to the Discretionary Grants Fund, evidence of hardship would be required before an award is made. For example, information regarding turnover, and cost forecasts would be required.

## 5.0 **FINANCIAL IMPLICATIONS**

- 5.1 If the policy outlined in section 3 of the report were to be adopted, then in the short-term a 10% reduction in rental income could cost the Council approximately £88,000 in lost revenue. This figure could be higher if the Council chose not to intervene and subsequently relied on 'market forces' to determine its future rental income yield.

There would be a requirement to identify how such a reduction would be funded, whether this is through budget contingency or a one-off reserve pot, would need further discussion

On the other hand, not having such a policy may lead to further costs/ loss of income to the Council (security, utilities, and business rates).

## 6.0 **IMPLICATIONS FOR THE COUNCIL'S PRIORITIES**

- 6.1 The implications for the Council's policies relate to the level of income that property rentals provide and how this is reinvested in supporting Council services.

## 7.0 **RISK ANALYSIS**

- 7.1 There are no further risks, other than the financial risks outlined in section 5.

## 8.0 **EQUALITY AND DIVERSITY ISSUES**

- 8.1 There are no equality and diversity issues identified.

## 9.0 **LIST OF BACKGROUND PAPERS UNDER SECTION 100D OF THE LOCAL GOVERNMENT ACT 1972**

- 9.1 None within the meaning of the Act.