



# Title of report: South Bank Close and Ivy Close Lease Arrangements

**Decision maker: Cabinet Member Community Services and Assets**

**Decision date: 30 September 2026**

**Report by: Cabinet member community services and assets**

## **Classification**

Open

## **Decision type**

Key

This is a key decision because it is likely to result in the council incurring expenditure which is, or the making of savings which are, significant having regard to the council's budget for the service or function concerned. A threshold of £500,000 is regarded as significant.

Notice has been served in accordance with Part 3, Section 9 (Publicity in Connection with Key Decisions) of the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012.

## **Wards affected**

Eign Hill;

## **Purpose**

To seek approval to progress arrangements for the surrender of Midland Heart's leasehold interest in council owned properties at South Bank Close and Ivy Close and to procure a new lease holder and housing management provider to ensure continuity of accommodation and support for residents.

## **Recommendation(s)**

**That:**

- a) **Approval is given for the surrender of Midland Heart's leasehold interest in properties at South Bank Close and Ivy Close subject to the completion of all required legal, property and financial checks;**
- b) **That officers are authorised to progress an open procurement process in line with the Council's Contract Procedure Rules to identify a suitable new provider to take a long lease and deliver landlord and housing management responsibilities for the schemes; and**

- c) That all operational decisions in relation to delivery of recommendations (a) and (b) are delegated to the Corporate Director Community Wellbeing in consultation with Property Services.**

### **Alternative options**

1. Negotiate continuation of the existing lease with variations; this has not been recommended as Midland Heart have made it clear that they wish to surrender the leasehold interest because the properties are geographically distant from their operating area and no longer align with their core business priorities.
2. Council temporarily takes back landlord responsibility; this has not been recommended as the Council do not have a housing management function and there would be possible Housing Benefit implications issues arising from this approach.

### **Key considerations**

3. Herefordshire Council owns the South Bank Close and Ivy Close properties in Hereford. The properties are currently subject to long lease arrangements with Midland Heart, granted in 2008 and 2012. Midland Heart has requested to surrender its leasehold interest because the properties are geographically distant from its operating area and no longer align with its core business priorities. The day-to-day housing management of these properties is currently being undertaken by Stonewater on behalf of Midland Heart.
4. The Council's objective is to ensure that any surrender is managed in a controlled way and that a new provider is procured to maintain continuity for residents, protect the Council's property interests and secure a sustainable long-term housing management arrangement.
5. Legal services have confirmed that leases that include the requirement for housing management and nominations need to be tendered as these are services to the Council.
6. The proposed procurement will seek a suitably qualified charity, housing association, registered provider or other eligible not-for-profit organisation able to take a long lease and deliver landlord, tenancy, repairs, compliance, resident engagement, rent, service charge and enhanced housing management responsibilities. The care and support delivered on site is separate from this lease opportunity and will continue to be managed through the relevant care commissioning arrangements.
7. Interim schedules of dilapidations have been prepared for both Ivy Close and Southbank Close, these have been shared with Midland Heart. These schedules identify works required under the existing lease obligations. The intention is that the property condition position is resolved before surrender so that the incoming provider has clear information and appropriate assurance on the condition of the assets. Once the dilapidations figure is agreed, the Council will need to move promptly to procure a replacement provider.
8. The Council proposes to run a competitive above threshold procurement process for a concession-style lease and housing management opportunity. The successful provider will generate income through rent, eligible service charges and Housing Benefit where applicable, rather than through a direct management fee paid by the Council. The procurement documentation may require the incoming provider to undertake the works detailed in the agreed dilapidations schedule, with payment made to the provider of the settled dilapidations figure for that purpose, although this has yet to be confirmed and depends on whether Midland Heart wish to undertake any repairs to the buildings. Dilapidation matters must be resolved or clearly allocated before surrender and before a new lease is completed. Once the settled figure is agreed, the Council will progress procurement promptly to reduce exposure to further deterioration risk.

9. The anticipated lease term is approximately 25 years, subject to governance approval, legal completion, surrender arrangements, valuation advice and any required consent.
10. The working timetable assumes governance approval in October 2026, the procurement process commencing around mid-November 2026 and mobilisation towards 1 April 2027. This timetable will need to remain flexible to reflect legal completion, provider interest, Secretary of State consent where required, property works, data transfer and resident communication requirements.
11. The transition between lease holders will be planned carefully to avoid disruption to vulnerable residents, their families, advocates and care providers.
12. The procurement and lease will make clear that the incoming provider may be required to undertake the works detailed in the agreed dilapidations schedule and that payment of the settled dilapidations figure will be made to the provider for this purpose.
13. The new provider will be responsible for landlord and housing management functions only. Care and support provision must remain clearly separate to avoid regulatory, safeguarding and Housing Benefit risks.
14. The procurement will test bidders' ability to operate a compliant supported accommodation model, including transparent rent, service charge and enhanced housing management evidence.
15. The incoming provider will be required to have a robust mobilisation plan covering resident communication, data sharing agreement, tenancy or occupancy arrangements, repairs handover, Housing Benefit evidence, safeguarding routes and partnership working.

### **Community impact**

16. This proposal supports the continued use of South Bank Close and Ivy Close as accommodation for vulnerable adults with eligible care and support needs. Securing a suitable new lease provider will help maintain stable accommodation, promote continuity of housing management, and reduce the risk of disruption for residents and their wider support networks.
17. The procurement will require bidders to explain how they will engage with residents, families, advocates, the Council, Adult Social Care, the care provider and local partners. The successful provider will be expected to support safe, person-centred housing management, accessible communication, complaints handling, safeguarding escalation and effective working with the care provider.

### **Environmental impact**

18. Herefordshire Council provides and purchases a wide range of services for the people of Herefordshire. Together with partner organisations in the private, public and voluntary sectors we share a strong commitment to improving our environmental sustainability, achieving carbon neutrality and to protect and enhance Herefordshire's outstanding natural environment.
19. The proposed change of provider is not expected to have significant adverse environmental impacts. The procurement and lease requirements should encourage effective asset management, planned maintenance, energy efficiency, responsible repairs, waste minimisation and compliance with statutory property standards. Potential providers will be asked to set out how they will manage the properties sustainably over the lease term, including planned preventative maintenance, lifecycle replacement, responsible procurement of materials and minimising disruption during works

## Equality duty

20. The Public Sector Equality Duty requires the Council to consider how it can positively contribute to the advancement of equality and good relations and demonstrate that it is paying 'due regard' in our decision making in the design of policies and in the delivery of services.
21. Due to the scope of this decision and its potential impact on certain protected characteristics, an Equality Impact Assessment (EIA) is attached as an appendix to this report.
22. The residents of South Bank and Ivy Close will include people with protected characteristics, including disability, age and other relevant characteristics. The transition must therefore be managed in a way that is accessible, proportionate and sensitive to individual needs.
23. The procurement documentation will require potential new providers to demonstrate how they will make reasonable adjustments, communicate in accessible formats, involve residents and advocates, manage safeguarding concerns, support tenancy sustainment and work with the care provider to understand individual needs.

## Resource implications

24. The procurement is expected to be structured so that the Council does not pay a direct housing management fee to the provider. The provider's income will be generated through rent, eligible service charges and Housing Benefit where residents are eligible. The current working estimate of the opportunity is approximately £6 million over the proposed 25-year lease term, but this must be treated as indicative until rent, service charge, enhanced housing management, void assumptions, valuation advice and lease terms are confirmed.
25. A Red Book valuation and robust procurement value assessment will be completed to inform the procurement process to ensure the Council can evidence the estimated value and comply with governance and the requirements of the Contract Procedure Rules. The current tender value assessment has taken into consideration the full potential income stream over the anticipated lease term, including rent, eligible service charges, enhanced housing management income, annual uplift assumptions and void assumptions.
26. Dilapidation works or settlement arrangements will be clarified with Midland Heart before completion of the agreement to surrender. Where a dilapidations settlement is agreed, the procurement and lease may provide for the incoming provider to undertake the works identified in the agreed schedule, with the settled figure paid to the provider for that purpose. This gives the Council flexibility in its approach to the dilapidation works.
27. There will be legal fees associated with this decision; but this is a business-as-usual costs for property services. The change of lease holder should not have any direct or ongoing cost implications to the Council.

## Legal implications

28. There are legal rules that apply to the grant of the two new long leases over the two buildings.
29. The Council has the power to dispose of land for best consideration pursuant to section 123 of the Local Government Act 1972. 'Disposal' includes the lease of land and buildings. An open procurement. 'Best consideration' is monetary value. Given the properties are to be used as social housing it is possible the new provider is unwilling or unable to offer the full market rent that would be achievable if let for a commercial purpose. RICS Red Book valuations will need to be undertaken to assess the market value of the new proposed leases.

30. If the annual rent payable by the new provider to the Council under the new leases is less than best consideration then the Council may be able to rely on the 'Local Government Act 1972 general disposal consent (England) 2003' which states a Council can dispose of a property at undervalue if it "will help it to secure the promotion or improvement of the economic, social or environmental well-being of its area" and provision of social housing would appear to satisfy that requirement. However, the consent for a "disposal at less than best consideration is subject to the condition that the undervalue does not exceed £2,000,000 (two million pounds)". Therefore, if the value of the undervalue is greater than £2m then consent of the Secretary of State will be needed to the disposal of the properties by lease.
31. As it was required when the leases were previously let, it is also likely Secretary of State consent will be needed pursuant to s.25 Local Government Act 1988 if the leases are granted for less than best consideration because the undervalue will represent the provision of financial assistance to the provider.
32. The Council has a general power to acquire land and interests in land – ss.120 & 270 Local Government Act 1972. The surrender of the existing leases will technically be an acquisition.
33. As is the intention of officers, the current management company, Stonewater, will need to be expressly a party to the arrangements for surrender of the lease and transition to ensure there are no third-party claims from them over the properties and to cover off TUPE risks. The Council will need to enter into an agreement to surrender and contract to end Stonewater's involvement before commencing re-procurement.
34. The procurement process will be conducted in accordance with the Procurement Act 2023 and the Council's Contract Procedure Rules.
35. The relevant legal provisions for this decision can be found in the council's constitution, [www.herefordshire.gov.uk/constitution](http://www.herefordshire.gov.uk/constitution).

## Risk management

36. There are a number of risks associated with this decision. These are set out with mitigations in the table below:

| Risk / opportunity                                                                                                                                                                                           | Mitigation                                                                                                                                                                                                                                   |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Delay to surrender or lease completion leading to uncertainty for residents, providers and operational teams.                                                                                                | A clear timetable has been drawn up including surrender trigger points, actions required and lead officers.                                                                                                                                  |
| Dilapidations not resolved before transfer, reducing provider appetite, increased cost, disagreement over liabilities or delay to mobilisation.                                                              | Conclude review of the interim schedules, agree works or settlement with Midland Heart, and include clear property condition information in tender and lease documentation.                                                                  |
| Further deterioration after the dilapidations figure is agreed leading to potential additional cost exposure for the Council if procurement or mobilisation is delayed after the settlement figure is fixed. | Progress procurement as soon as possible once the settled figure is agreed, include the agreed works schedule in the tender documentation, and require the incoming provider to undertake the works using the settled dilapidations payment. |

|                                                |                                                                                                                                                                                                                            |
|------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Limited provider market                        | Some soft market testing has already been undertaken. This indicates positive interest in the opportunity.                                                                                                                 |
| Unclear separation between housing and care    | Define landlord, housing management and care responsibilities in lease, procurement and operational interface documents.                                                                                                   |
| Data sharing or mobilisation failure           | A DPIA has been completed and an Information Sharing Agreement will be put in place to ensure a secure, proportionate data transfer process.                                                                               |
| TUPE or staffing uncertainty                   | Confirmation is being sought as to whether any staff or service arrangements are affected before procurement documents are finalised. If there are TUPE implications, these will be reflected in the tender documentation. |
| Secretary of State consent or governance delay | Build approval assumptions into the timetable, seek advice early and require bid validity periods that reflect the approval process.                                                                                       |
| Resident disruption during transition          | Prepare an accessible communication and engagement plan, involve families and advocates where appropriate, and ensure the incoming provider has a robust mobilisation plan.                                                |

37. Risks will be managed at a service level.

## Consultees

38. Negotiations between the Council and Midland Heart have been undertaken over the last twelve months in order to move the request to rescind the lease towards a conclusion. These negotiations have involved legal services, property services, adult social care commissioners, commercial services and strategic housing.
39. The Cabinet Member adults, health and wellbeing and the Cabinet Member community services and assets have been briefed, and the ward member has also been informed of the proposed changes.
40. A communications plan will be drafted to keep residents and their families informed of the changes once formally agreed. It should be noted that the procurement process for the new lease provider should not cause disruption to the day to day care and support that residents receive as this is provided under separate contract arrangements.
41. A political group consultation was held on the 1<sup>st</sup> October 2026. The following comments and feedback were received in relation to this decision:
- a) Reassurance was sought and provided that tenants will not be disrupted, with emphasis on maintaining continuity of housing, care arrangements, and safeguarding during transition. The care arrangements are separate from the lease and housing management functions. A communications plan will be developed to ensure tenants and their families are kept informed.
  - b) Members requested clarity on how rent, service charges, and housing benefit flows work between council, provider, and tenants, and what the council's financial position is. It was clarified

that the income model sits with the leaseholder: rent, service charges, and enhanced housing benefit are collected and used by the managing provider to fund the service.

c. Questions were raised about whether Midland Heart has fully met repairing obligations under the lease and how any dilapidation costs will be resolved or negotiated. Reassurance was given that the dilapidations schedule indicates that this has been the case.

d. Members asked if there was a market for these services; Officers confirmed that some soft market testing had been completed which indicated that there is interest in this opportunity.

## **Appendices**

1. EIA – Equality Impact Assessment
2. DPIA – Data Protection Impact Assessment

## **Background papers**

None

## **Glossary of terms, abbreviations and acronyms used in this report**

- EIA – Equality Impact Assessment
- DPIA – Data Protection Impact Assessment