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To: Policy and Resources Cabinet Committee – 14 January 2026

Subject: Strategic Overview of Kent County Council's Peppercorn Lease Estate.

Classification: Unrestricted

Electoral Division: All - Countywide

Summary:

This report is a strategic overview of the portfolios of property held freehold by Kent County Council (KCC) and leased to tenants on peppercorn leases.

The report explains what peppercorn leases are and why KCC holds them, clarification of what is included under the definition of “peppercorn leases”, including their statutory context and a high-level analysis of each portfolio. It also outlines the governance framework that ensures transparency and compliance with public authority legal duties and best practice management.

Recommendation(s):

The Policy and Resources Cabinet Committee is asked to NOTE this report.

1. Introduction

- 1.1 The Policy and Resources Cabinet Committee requested that a strategic overview of the portfolio be presented to the committee, to give increased understanding as to why KCC has a peppercorn lease portfolio and in particular, how peppercorn leases are managed in order that cost, risk and their proper use are assured.
- 1.2 A peppercorn lease is a type of lease agreement where the rent is set at a very nominal amount, traditionally one peppercorn per year, rather than a market-based rent. The term “peppercorn” is symbolic and usually means the tenant pays virtually nothing. In contract law, a lease must have some form of consideration to be valid, and a peppercorn will satisfy this requirement.
- 1.3 KCC holds over 350 freehold properties which it lets out for “peppercorns.” Often this mechanism is used to derive value from a service perspective relating to the delivery of the Council’s function. Many of the examples where KCC has peppercorn lease arrangements in place relate to statutory or service arrangements or in some cases to historical property transactions which are held over from legacy arrangements (see below).

2. Statutory Context

- 2.1 In some of these cases, tenancies might already be in place on peppercorn leases and were acquired through legacy arrangements. An example of this would be Farm Leases distributed from the London Residuary Body (LRU) on long leases (originally set up to exert control around the M25), or windmills (legacy assets acquired to protect Kent's Heritage and Character). The rationale of the peppercorn lease in such cases is that of control.
- 2.2 KCC can also form peppercorn lease arrangements where instead of disposing of the freehold titles, it lets the property instead on a peppercorn lease. There are a number of reasons for doing so, for example:
- *An open market disposal where KCC wishes to retain/exercise control.* The property is sold as a "virtual freehold" under a peppercorn lease, and a capital value. Free development of the site may be the reason for the lease for example. This may include "ground lease" type uses.
 - *KCC is subject to certain statutory processes of disposal where the law requires a property to transfer under a prescribed peppercorn lease arrangement.* Academies are often transferred under this arrangement, restricting the use and onward disposal of the site under the Academies Act 2010.
 - *KCC may also consider "value" in transferring occupation of its assets within a commissioned contract to mitigate against administrative and legal costs.* This approach is common practice, though opportunity cost and maintaining the process within the Local Government statutory framework are the key considerations here.
 - *As part of a scheme where external funding may be a component along with external service groups.* KCC may consider a peppercorn rent as part of a project or scheme and the "value" created to the tenant in the transfer may be used as match funding. KCC would have to consider that a proposal meets service or policy criteria and may exercise greater control within the lease terms.
 - *Lastly and occasionally, it may consider "meanwhile uses" for surplus property to mitigate against holding costs and risk.* These are often short term and from time to time used to mitigate holding costs whilst the asset is either held for reuse or disposal.
- 2.3 Whatever the proposal is in respect of leasehold disposals, KCC like all local authorities are bound by Section 123 of the Local Government Act 1972. This duty is to obtain 'best consideration', including granting leases where the term is more than seven years. A peppercorn rent may represent less than best consideration in financial terms, but not always, for example where it has also received a capital sum (representing the value of rent foregone); the overall "package", even including the lease terms apply in the evaluation of "best consideration".
- 2.4 Exceptions here include where the Authority is providing the lease via a statutory instrument such as the Academies Act, or where the General Disposal Consent (England) 2003 is utilised to justify a policy or social return, that the Authority is keen to support.
- 2.5 Some peppercorn leases have been in place for decades, inherited from other government bodies or introduced to meet statutory requirements, such as

Heritage Assets, like Windmills, which KCC acquired in the 1950's as owner of last resort. This is a textbook illustration of KCC's role as employing it as strategic tool for service delivery and community resilience.

- 2.6 Where statutory instruments can not be relied upon (e.g. where the undervalue is above £2m), KCC might apply with an appropriate case to the Secretary of State. This process is robust with set criteria that must be adhered to.
- 2.7 Management of Peppercorn leases varies according to lease terms which arise from the route purpose the lease was applied. The lease terms define KCC (landlord's) responsibilities and the tenants. Management of these is by practical observance and enforcement. For example, where it is clear that a tenant has breached its terms, KCC will take appropriate action as landlord.
- 2.8 The portfolios are kept under review to determine whether they are still appropriate to hold.
- 2.9 Some assets where there may be a realisable benefit to KCC through disposal of its freehold, subject to the lease in place, have been considered for release.
- 2.10 KCC applies a formal governance process to ensure peppercorn leases are only granted, or sold, when fully justified and compliant with legal and policy requirements, in line with KCC's constitution.

3. Peppercorn Lease Portfolio Overview

- 3.1 KCC has just over 350 peppercorn leases granted from its freehold estate. These amount to c.23% of the leasehold portfolio. The data is represented as follows:

Category	Number	Comment
Tenancy Agreements	1,571	KCC manages 1,571 agreements in total
Peppercorn Leases	357	Total number of Peppercorn leases

- 3.2 Most of KCC's peppercorns are required for a statutory purpose (Academies Act 2010) under a prescribed form of lease, presently accounting for 54% of the peppercorn lease portfolio. KCC cannot refuse an academy lease where a school elects to become an academy, though KCC does limit the demise transfer to accord with the area of the asset used strictly for education purposes.

Peppercorn Leases Only	Number	Comment
Academy Peppercorn Leases	192	Required by statute under the Academies Act 2010
Non-Academy Peppercorn Leases	165	These support a wide range of community, social care, and regeneration initiatives (See table below)

- 3.3 The peppercorn portfolio's tenants broadly comprise of mainly the following groups:

User Group	Who They Are	Reason for the Peppercorn Lease
Policy Tenants	Charities, Parishes or District Councils, or individuals aligned with KCC Policies or service delivery aims.	The lease supports or enhances KCC's policies and/or service offer and where there might otherwise be market failure. The peppercorns may also be to support a match funding arrangement (e.g. Lottery)
Commissioned Tenants	Organisations delivering services on behalf of KCC (e.g. care providers, youth services, Waste, highways)	To enable service delivery without rental cost burden and where this is a cost benefit to the contract.
Commercial Tenants	Businesses or external organisations	Rarely used; typically, where public benefit outweighs commercial gain, or more likely, where the rent was rolled up and a capital payment made at the lease outset.
3rd Parties	Independent groups not directly commissioned by KCC	Often for community or environmental projects where KCC has a strategic involvement or legacy arrangement.
Primary/Secondary School	Academies or schools	Required by law when transferring school land to academies
Special School	SEN or alternative provision schools	To support inclusive education access and where KCC has identified its desire to locate in the accommodation.
Agricultural Tenant	Farmers or land stewards	For land conservation or community farming initiatives. Most farms are let on long leases and were a legacy from the London Residuary Body (LRB) under statute.

3.4 The remaining “non statutory” peppercorns are broken down broadly as set out below:

Type	Number	Comment
Long leaseholds for community outdoor or similar recreation (Strategic)	22	Mainly parks, woodlands etc. Mainly let to Districts, Parishes or trusts. These leases have little value.
Service focused either via a commissioning contract or joint service delivery with other providers.	11	These benefit KCC's service such as Multi Agency Service Hubs assets, Waste Sites under a commissioned contract etc. A service works closely with joint delivery or the set-up costs of market leases etc. can be ploughed back into frontline delivery.
Heritage Legacy assets	8	These are only a handful of transferred assets with leases set up prior to the 1972 Local Government Reorganisation. We could also count assets transferred from the London Residuary Body (LRB) but instead have counted them as leases granted at a premium (there are another 5 of these).
Kings Hill specific Leases	5	Let for community uses etc. under the Kings Hill Development Agreement and in mitigation of s106 as assets with a community focus (since the development agreement was focused on delivering a new community).
Community, Economic Regeneration, Funding arrangements, non-statutory educational and misc.	38	These leases are miscellaneous and have arisen following the delivery of schemes and programmes where the rationale is tied to a programme. These leases may provide returns such as match funding. Mostly historic with very few let in recent years. The leases can typically be restrictive in nature reflecting the minimal transfer of value required.

3.5 Of the 165 Non-Academy Peppercorn Leases KCC has granted a number of these subject to a Premium:

Category	Number	Comment
Non-Peppercorn Leases granted for a Premium	81	This means that while the ongoing rent is nominal (typically £1 per year), the tenant paid a lump sum at the start of the lease. Creative Quarter, some flats and farms are

		examples.
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- 3.6 Premiums generally arise where KCC grants long leases for housing or ground leases. These arrangements provide the lessee with long-term security and development rights, while KCC retains the freehold interest.
- 3.7 Although these transactions operate as effective disposals for practical purposes, given the length of the lease, they are structured so that KCC retains the reversionary interest in the asset at the end of the lease term. This ensures the property ultimately returns to KCC ownership.
- 3.8 The premium represents an upfront capital payment that reflects the value of granting such long-term rights. It is typically used to offset the opportunity cost of offering concessionary rents or to fund capital improvements. This approach balances KCC's commitment to community and social value with the need to recover a proportionate financial return on high-value or long-term arrangements.
- 3.9 Note that Utility leases could also apply here (e.g. for sub-stations which are 48 in number but not counted) but have been excluded from the report. Utility companies sometimes require nearby land to increase utility capacity. These leases are focused on the delivery of such and therefore require minimal management.

4. Financial Implications

- 4.1. Peppercorn leases can be used in certain circumstances. They reduce potential revenue streams and may tie up high-value assets in long-term leases. Compliance with statutory duties under the Local Government Act 1972 and the General Disposal Consent 2003, is essential. This ensures that concessions are legally justified when they promote social, economic, or environmental well-being.
- 4.2. Although rents are nominal, leases impact KCC's financial reporting because assets must be valued and recognised under IFRS 16 accounting standards. Peppercorn leases are treated as non-business for VAT purposes, meaning no VAT is charged, although recovery of VAT on related costs remains possible.
- 4.3. KCC's governance framework ensures transparency and accountability, confirming that concessions represent best value for taxpayers while delivering statutory obligations and social value with any non-statutory lease (e.g. academy conversion) over 20 years requiring a key decision.

5. Legal implications

- 5.1. KCC cannot simply grant a peppercorn lease without following strict legal and governance requirements. The law requires councils to obtain "best consideration" (essentially, market value) when disposing of land or granting long leases. A peppercorn rent is far below market value, so special rules apply.
- 5.2. Under the Local Government Act 1972, KCC must normally seek full value. However, the General Disposal Consent (England) 2003 allows councils to grant leases at less than market value without government approval if two

conditions are met:

- a) The arrangement promotes economic, social, or environmental well-being.
- b) The undervalue does not exceed £2 million.

5.3. This means every peppercorn lease must have a clear, documented reason showing public benefit that outweighs the financial loss in accordance with KCC's governance processes.

5.4. There are also accounting requirements under IFRS 16, which require these leases to be recorded at market value on the balance sheet, even though the rent is nominal. This affects internal reporting but does not change the principle that these leases prioritise public benefit over income.

6. Equalities implications

6.1. This paper is for information only. No decision is required, and therefore an Equalities Impact Assessment (EQIA) is not necessary.

7. Data Protection Implications

7.1. Not Applicable

8. Conclusion

8.1. Peppercorn leases remain an important mechanism for KCC in certain circumstances because they deliver significant benefits and support key policy objectives:

- i) **Enabling Service Delivery:** They make it possible for schools, care providers, and community organisations to operate in suitable premises without unsustainable rental costs where there is a clear benefit to KCC service delivery.
- ii) **Meeting Statutory Duties:** Certain leases, such as those for academies, a peppercorn rent refers to a legally nominal rent, often zero, for which local authorities lease school land and buildings to a new academy trust on a long-term (typically 125-year) lease. This is a requirement under the Academies Act 2010 for publicly funded schools converting to academy status and serves to make the transfer legally valid without imposing a financial burden.
- iii) **Retaining Ownership and Control:** These leases allow KCC to maintain freehold ownership while enabling public benefit, safeguarding long-term strategic interests.

Recommendation(s):

The Policy and Resources Cabinet Committee is asked to NOTE this report.

9. Background documents

- 9.1. [Academies Act 2010](https://www.legislation.gov.uk/ukpga/2010/32/contents)
<https://www.legislation.gov.uk/ukpga/2010/32/contents>

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