

SLOUGH BOROUGH COUNCIL

REPORT TO: Place Scrutiny

DATE: 28th September 2021

SUBJECT: Asset Disposal

CHIEF OFFICER: Stephen Gibson, Executive Director, Place

CONTACT OFFICER: Dean Tyler, Associate Director, Place, Strategy and Infrastructure

WARD(S): All

PORTFOLIO: Cllr James Swindlehurst, Leader of the Council and Cabinet member for Financial Governance, Economic Development & Council Plans

Cllr Pavitar K. Mann, Cabinet member for Housing, Highways, Planning & Place

KEY DECISION: YES/NO

EXEMPT: YES/NO

DECISION SUBJECT TO CALL IN: YES/NO

APPENDICES: None

1 Summary and Recommendations

1.1 The purpose of this report is:

- To inform Place Scrutiny on the asset disposal strategy presented to Cabinet, within the Debt Repayment Strategy Cabinet Report, on the 20th September 2021.

Recommendations:

1.2 At the Cabinet meeting held on 20th September 2021, Cabinet was requested to agree that:

- Officers conduct a procurement exercise in line with the Public Contracts Regulations 2015, to obtain the support of external organisations that can assist the Council with a programme of asset disposals to generate capital receipts.

1.3 Cabinet was also requested to agree that:

- Income generated from asset disposals will be used in the first instance to finance any Capitalisation Directions received from the Government, and that

- Additional sale proceeds thereafter will be used to repay existing external debt.

Reason:

- 1.4 The Council currently has much higher levels of borrowing and debt charges than most other similar-sized authorities. This position is not sustainable. An orderly programme of asset disposals will improve the Council's financial position by realising capital receipts which can be used firstly to finance any Capitalisation Directions that may be received from the Government and secondly to repay existing external debt.
- 1.5 This course of action will reduce both interest costs and Minimum Revenue Provision (MRP) set-aside charged to revenue budgets. Asset disposals will also relieve pressure on revenue budgets by reducing property repairs, maintenance and utility costs.
- 1.6 A comprehensive asset disposal programme would:
- Assess current market opportunities
 - Complete option appraisals across the Council's portfolio of land and buildings
 - Prioritise assets for revaluation and marketing
 - Proactively identify and negotiate with potential investors and purchasers
 - Liaise with the Council's own valuers and legal representatives
 - Dispose of assets within identified timescales; and
 - Achieve best value for the Council.
- 1.7 Whilst Council officers have sufficient capacity and expertise to manage such an asset disposal programme overall, officers are seeking to obtain the assistance of external organisations with specialist skills who can support successful asset disposals within required timescales.

2 Report

2.1.1 At Cabinet 20th September 2021, Cabinet was asked to approve:

- Commence a proactive, but orderly disposal process to generate capital receipts which will be used firstly to finance any Capitalisation Directions received and secondly to repay existing external borrowing and
- Conduct a procurement exercise in line with the Public Contracts Regulations 2015, to obtain the support of external organisations who can assist the Council with an ambitious programme of asset disposals over the next five years.

2.2 Assets identified for disposal

2.2.1 The Council owns approximately 6,700 property assets (land and buildings) with a total value of £1.2bn. A summary analysis is provided below:

Table 1 – Council-owned land and buildings at 1 August 2021

Category		Estimated Value	No. of Assets
		£m	No.
1	Investment Assets and land awaiting redevelopment	250	55
2	Assets not currently used in delivering services	20	25
3	General Fund Assets	380	375
4	HRA Assets	550	6,000
	Total	£1,200	6,455

2.2.2 It is suggested that all these assets are subject to an option appraisal based on:

- current running costs e.g. repairs, maintenance and utilities
- current use and potential for re-purposing
- contribution to Council priorities
- where relevant, current investment returns
- any restrictions on disposal
- expected pre-sale costs e.g dilapidations and marketing
- identified disposal opportunities
- expected sales proceeds.

2.2.3 Marketing efforts can then be prioritised accordingly, within the overall objective of:

- realising disposal proceeds of £200m within two years ie by 1 April 2024
- using this first tranche of capital receipts to finance any Capitalisation Directions received from the Government
- realising further disposal proceeds of between £200m and £400m within the following three years ie by 1 April 2027
- using these disposal proceeds to repay existing debt.

2.2.4 Members will be advised of option appraisal outcomes in due course. In addition, all property disposals will be subject to formal officer or member approval in accordance with the Council's Constitution and Scheme of Delegation before any binding sale contracts are entered into. Currently these requirements state that:

- all assets valued above £1m will be subject to Cabinet approval.
- assets with a value of £1m or less can be disposed of via delegated authority by the Executive Director of Place, in consultation with the s151 Officer and appropriate Lead Member.

2.3 Use of external consultants – Proposed Approach

2.3.1 A disposal programme of this size will be complex and will require detailed and specialist knowledge of both local and national property markets – especially for complex/high value assets. Options available are as follows:

- Option 1 - Use internal resources to develop and implement the disposal strategy
- Option 2 – Use internal resources to manage the process but appoint external specialists to deal with the operational aspects of disposal.

2.3.2 The Cabinet Report recommended that Option 2 was pursued and that the Council seeks external support from organisations with a successful track record of developing and implementing asset strategies and disposals across a range of asset types, values, and geography.

2.3.3 The specialist's key tasks would include:

- Analysis of local market needs
- Option appraisal for all land and buildings currently owned by the Council
- Advising on how best to dispose of Council assets in a way that that delivers expected levels of capital receipts but still represents value for money
- Arranging condition and site surveys
- Advertising land and property for sale
- Proactively identifying and contacting potential purchasers
- Completing due diligence work on prospective purchasers
- Identifying where appropriate potential sub-lease or sale and lease-back arrangements
- Negotiating sale prices, terms and conditions on the Council's behalf
- Undertaking value for money assessments
- Appointing and liaising with legal advisers, valuers etc.
- Liaising with Council officers and reporting to senior management team and elected members as appropriate.

2.3.4 Procurement of these services will be carried out in compliance with:

- the Public Contracts Regulations 2015, including potential use of suitable compliant frameworks
- Council procurement policies, and
- Expenditure Control Panel requirements.

3 Implications & Recommendations

3.1 Financial implications

3.1.1 Impact on debt charges:

- As at 31 August 2021, the Council's total external borrowing was £760m and its debt charges for 2021/22 are expected to total circa £30m, rising to circa £38m if the current capital programme is implemented as planned. This represents 31% of the Council's net revenue budget respectively (although capital spending plans are currently under review).
- The Council is expecting to receive a Capitalisation Direction from the Government in 2021/22 which, unless financed from capital receipts, will increase external borrowing and debt charges even further in future years
- If capital receipts of £200m can be realised by 1 April 2024, and these receipts are used to fund any Capitalisation Directions received, further increases to debt charges could be avoided
- If additional capital receipts of between £200m and £400m can be realised by 1 April 2027, and these additional receipts are also used to repay existing loan

debt, interest charges should reduce to between £33m and £23m per annum for 2027/28 and future years i.e. between 27% and 19% of the current net revenue budget respectively.

- 3.1.2 This is still significantly higher than the average level of debt charges for unitary authorities, which currently stands at around 15%, but represents a more sustainable position for the Council going forwards.
 - 3.1.3 Disposal costs – fees paid to external consultants will be determined as part of the procurement process, which will evaluate (amongst other things):
 - total fees payable as a percentage of asset sale price
 - incentivisation arrangements, and
 - impact (if any) on revenue budgets.
 - 3.1.4 Other revenue implications – in recent years net rental income from investment properties has not covered the combined cost of operating expenses, debt charges and the (generally adverse) change in market value of these properties. If the Council disposed of its investment properties it would experience, based on current information, a net reduction in revenue costs.
- 3.2 Legal implications
- 3.2.1 Local authorities must follow a strict legal framework in relation to disposal of land and property. Under the Local Government Act 1972, it has a statutory duty to sell land at the best price reasonably obtainable, unless it has the express consent of the Secretary of State. A “disposal” includes the sale of the freehold, granting a lease, assigning a lease and/or granting an easement. Entering into option agreements or sale and leaseback contracts are also be deemed to be disposals.
 - 3.2.2 In addition to the general provisions contained in the 1972 Act, open space is subject to further procedural requirements, including a requirement to advertise. Open space includes land laid out as a public garden, used for the purposes of public recreation or disused burial grounds.
 - 3.2.3 The power to dispose of land under the 1972 Act does not apply to any land or property that is being held in trust. Land that has been used as a school or for specific education purposes also has a specific status and there are legal restrictions governing the disposal of playing fields.
 - 3.2.4 For land held within the HRA, local authorities have the power to dispose of land under s.32 of the Housing Act 1985. Secretary of State consent is often required, but there are some general consents that can be relied upon, for example if land or property is being disposed of to provide affordable housing. There are also obligations to consult tenants on certain housing management issues.
 - 3.2.5 In addition to the statutory framework controlling the ability to dispose of land, local authorities are public bodies and must follow a fair process in relation to decision-making. This must include taking account of:
 - all relevant information and financial implications
 - specific and overarching statutory duties and responsibilities

- the duty to act reasonably and to make decisions in line with Council policies which have been properly approved.

3.2.6 Where land or property is used to deliver services, the Council must take a decision on changing or maintaining its existing service provision before disposing of assets that are used to provide these services.

3.3 Risk management implications

3.3.1 No key risks have been identified as a direct result of this report, however:

- Failure to reduce external loan debt could comprise the Council's ability to produce a balanced revenue budget or to provide current levels of Council services in future years, and
- Successful delivery of the proposed Debt Repayment Strategy requires the Council to dispose of a significant number of assets within a relatively short time. This is unlikely to be achieved without external support.

3.3.2 The work streams resulting from this report are all subject to future Cabinet Reports which will fully consider risks and risk mitigation for any specific actions agreed.

3.4 Environmental implications

3.4.1 No environmental Implications have been identified as a direct result of this report. The work streams resulting from this report are subject to future Cabinet Reports which will fully consider all environmental implications.

3.5 Equality implications

3.5.1 No Equality Impact Assessment (EIA) has been carried out at this stage. The work streams resulting from this report are subject to future Cabinet Reports which will fully consider equality implications for residents, communities, partners and stakeholders.

3.6 Procurement implications

3.6.1 Expressions of Interest for external support consultants will proceed in compliance with:

- the Public Contracts Regulations 2015,
- Council procurement policies, and
- Expenditure Control Panel requirements.

3.6.2 The Public Contracts Regulations 2015 (PCR) apply to contracts for services (public services contracts) above £189,330. Therefore, the procurement of external resource to develop and implement an asset disposal strategy for the Council must be carried out in compliance with the PCR.

3.6.3 The contract must be advertised and procured in compliance with the rules and procedures set out in the PCR, which include calling off from a lawfully procured public framework agreement.

3.6.4 Before commencing a procurement procedure, the Council can conduct market consultations with a view to preparing the procurement and informing organisations of their procurement plans and requirements, including seeking or accepting advice from independent experts or authorities or from market participants. This advice can be used in the planning and conduct of the procurement procedure if it does not have the effect of distorting competition and does not result in a violation of the principles of non-discrimination and transparency.

3.7 Workforce implications

3.7.1 No Workforce Implications have been identified as a direct result of this report. The work streams resulting from this report and subject to future Cabinet Reports will fully consider workforce implications.

4. Background Papers

Cabinet Report – Debt Management/Asset Disposal Strategy, 20th September 2021

Cabinet Report – Proposed Asset Disposal Programme, 21st June 2021