

Slough Borough Council

REPORT TO: Cabinet

DATE: 21st September 2022

SUBJECT: Disposal of Council Assets in Wolverhampton, Bradford, Gosport and Basingstoke .

PORTFOLIO: Councillor Rob Anderson
Lead Member for Financial Oversight and Council Assets

CHIEF OFFICER: Richard West, Executive Director Place and Community
Steven Mair, Executive Director Finance and Commercial (s151)

CONTACT OFFICER: Fin Garvey, Group Manager – Place Delivery
Peter Worth, Finance Lead Technical Advisor

WARD(S): All

KEY DECISION: YES

EXEMPT: Public with exempt appendices under paragraph 3 of Schedule 12A Local Government Act 1972 – Information relating to the financial or business affairs of the Council

DECISION SUBJECT TO CALL IN: YES

APPENDICES: Confidential Appendices:
1 – Commissioners report on the context and purchase records for the four assets recommended for disposal
2 – Avison Young Disposal Report (30 August 2022) recommending disposal of Wickes, Wolverhampton and Euroway, Bradford, Odeon, Basingstoke and Waitrose, Gosport
3 –Heads of Terms for Wickes, Wolverhampton
4 –Heads of Terms Euroway, Bradford
5 –Heads of Terms Odeon, Basingstoke
6 –Heads of Terms Waitrose, Gosport
7 - Independent valuation reports for the Wickes, Wolverhampton, Euroway, Bradford, Odeon, Basingstoke and Waitrose, Gosport sites

1. Summary and Recommendations

- 1.1. This report is the first of a number of reports to seek approval for the disposal of property/land assets. The report includes four recommendations to dispose of assets located outside the borough.
- 1.2. The proposed asset sales have been subject to a due diligence process and reflect the best consideration reasonably obtainable for the disposal of the assets in accordance with section 123 of the Local Government Act 1972. The asset sales will generate both:
 - a) net savings to the revenue budget; and
 - b) capital receipts which will be applied to reduce borrowing and the Council's Minimum Revenue Provision (MRP).

Recommendations:

- 1.3. Cabinet is recommended to:
 - a) Agree to the disposal of the Wickes, Wolverhampton asset and to delegate authority to the Executive Director of Property and Housing, in consultation with the Lead Member for Financial Oversight and Council Assets and the Executive Director of Finance and Commercial, to enter into the contract and other legal documentation in connection with the disposal in accordance with the Heads of Terms appended at Appendix 3.
 - b) Agree to the disposal of the Euroway Bradford asset and to delegate authority to the Executive Director of Property and Housing, in consultation with the Lead Member for Financial Oversight and Council Assets and the Executive Director of Finance and Commercial, to enter into the contract and other legal documentation in connection with the disposal in accordance with the Heads of Terms appended at Appendix 4.
 - c) Agree to the disposal of the Odeon, Basingstoke asset and to delegate authority to the Executive Director of Property and Housing, in consultation with the Lead Member for Financial Oversight and Council Assets and the Executive Director of Finance and Commercial, to enter into the contract and other legal associated documentation in connection with the disposal in accordance with the Heads of Terms appended at Appendix 5.
 - d) Agree to the disposal of the Waitrose, Gosport asset and to delegate authority to the Executive Director of Property and Housing, in consultation with the Lead Member for Financial Oversight and Council Assets and the Executive Director of Finance and Commercial, to enter into the contract and any associated documentation in connection with the disposal in accordance with the Heads of Terms appended at Appendix 6.

Reason:

- 1.4. The early disposal of the out of Borough assets is a key element of the Council's new Corporate Plan, which includes a strategic priority to be "a Council that lives within its means, balances the budget and delivers best value for taxpayers and service users." Agreement to the recommendations in this report will contribute to the reduction in the Council's future financial commitments, generate disposal receipts at the earliest opportunity and reduce the Council's borrowing and MRP. The proposed asset sales have been subject to a due diligence process and reflect best

consideration for the disposal of the assets in accordance with section 123 of the Local Government Act 1972.

- 1.5. The disposal of these assets will enable the Council to simplify the property portfolio and enable the Council to focus on its core activities and services.

Commissioners Review

“Confidential Appendix 1 set out the original justification for purchasing these sites. It notes assumptions about taking income in perpetuity when the lease is coming towards its end and it is unclear what professional valuation advice was provided to support the recommendations. It is hard to see why the Council, in the light of this information, could have decided that these investments were a good and appropriate use of public money. Commissioners will discuss with the External Auditors whether this matter should be formally referred to them for investigation and report.

The disposals themselves are essential to meet the financial recovery goals and are best value in the market today. The recommendations are strongly supported.”

2. Report

Introduction and Context

Context

- 2.1. On 21 June 2021, Cabinet approved the Asset Disposal Programme which outlined the principles and process for disposing of surplus General Fund land and property assets to reduce borrowing costs. The report highlighted that the Council would seek to dispose of surplus assets to support the following objectives:
- Provide capital receipts to contribute to the 2022/23 budget through reducing MRP and borrowing costs; and
 - Provide capital receipts to meet Capitalisation Directive commitments and align with the Medium-Term Financial Strategy (MTFS) to reduce overall borrowing costs.
- 2.2. The Asset Disposal Programme approved in June 2021 set out the following sequential steps for disposing of assets:
- Identify assets for disposal
 - HB Public Law to produce detailed Reports on Title for each asset identified for disposal
 - Asset valuation – obtain up to date independent valuations to provide a benchmark for assessing best consideration,
 - Methods of disposal - take advice on the most advantageous method of disposal
 - Officer Delegation – authorise the Executive Director (Place), subject to proper legal/valuation of advice to dispose of assets up to £1m in value after consultation with the S151 and Monitoring Officers.
- 2.3. In the context of the four asset disposals in this report:
- Avison Young (AY) have been appointed as external property advisors to assist with the identification of assets for disposal, marketing and advice on disposal methods;
 - HB Public Law have produced detailed Reports on Title for all four assets;

- Up to date independent valuations have been provided by the Council's RICS registered valuers Wilks, Head and Eve LLP;
 - AY have advised on the most advantageous method of disposal – in this case informal treaty;
 - As the values are over £1million for each site, approval is being sought from Cabinet to dispose of the four assets.
- 2.4. On 20 September 2021 Cabinet approved a Debt Repayment Strategy authorising officers to procure the support of an external organisation to assist the Council with a programme of asset disposals to generate capital receipts over the next five years.
- 2.5. As part of the Council's budget setting process for 2022/23, the Council approved a Treasury Management Strategy (TMS) for the period 2022/23 to 2026/27 on 10 March 2022. A key element of the TMS is the need to reduce borrowing to bring the Council back onto a more sustainable financial footing.
- 2.6. The TMS includes a target to generate capital receipts from asset disposals of £50m in 2022/23 with an aspiration to realise £100m of receipts by 31st March 2023. This forms part of an overall target to generate between £400m and £600m by 31 March 2027 set out in the Debt Repayment Strategy.

Asset Review

- 2.7. Following a detailed procurement exercise, Avison Young (AY) were appointed to support the delivery of the Asset Disposal Programme in March 2022. The appointment included advising on an asset disposal strategy and marketing of assets for disposal in a way that would secure the best consideration reasonably obtainable. As the out of borough assets were purchased as part of an investment portfolio and were not used for operational or service delivery, these were prioritised for disposal.

Out of Borough Assets

- 2.8. The Council holds four out of borough properties which were acquired solely for investment return, namely:
- Wickes, Wolverhampton;
 - Euroway, Bradford;
 - Waitrose, Gosport; and
 - Odeon, Basingstoke.
- 2.9. All of these assets have Heads of Terms agreed with preferred bidders and will be ready to complete subject to approval of Cabinet.
- 2.10. The AY report included in Confidential Appendix 2 describes the marketing process undertaken for the out of borough assets in detail but the general process and process for each site is summarised below.

Marketing

- 2.11. All four assets have been marketed by AY via a standard process involving:
- placing half page colour advertisements in the Estates Gazette. The Estates Gazette is an industry trusted source of real estate intelligence with 16,500 paying subscribers and a readership of about 120,000;

- advertising on the Estates Gazette Property Link website, which receives about 400,000 visitors per month;
 - sending a mailshot to AY's extensive contact list;
 - providing a bespoke marketing brochure for each asset which has been circulated to all interested parties on request;
 - providing interested parties with a detailed technical pack including tenancy information, title information and environmental reports;
 - providing and hosting site several site viewings.
- 2.12. In addition to the above advertising, AY have circulated the information to individuals and organisations who have contacted the Council direct or who have previously expressed interest in properties of a similar nature.
- 2.13. AY have maintained a log of enquiries throughout the process and reported back to the Council at least weekly on marketing progress and feedback from interested parties.
- 2.14. In marketing the assets, AY have used their specialist teams and target markets based on their specialist knowledge and their insight into the various property sectors.
- 2.15. The above approach is designed to maximise the level of interest in the assets being marketed both locally, regionally and nationally. It is unlikely that another marketing process would garner additional interest or higher bids.

Valuations

- 2.16. The four assets were acquired for a total of £31.8m in the period 2017-2019.
- 2.17. The assets are held as investment assets in the Council's balance sheet and are revalued annually at fair value in line with accounting standards. Fair value measures the "highest and best" value in the most advantageous market for an asset (i.e. this method of valuation includes considering alternative uses for the asset as well as its current use).
- 2.18. The assets were valued at 31 March 2022 and the valuations have been updated in September to reflect current market conditions by the Council's independent valuers, Wilks Head and Eve LLP. This shows a £5.2m fall in the total asset value from the £31.8m acquisition price to £26.6m. The current valuation report from Wilks, Head and Eve LLP is at Confidential Appendix 7.
- 2.19. The fall in value is a risk of property investment. Two of the assets have largely maintained their values but the Odeon, Basingstoke and Waitrose, Gosport have fallen in value by £5.3m in total. Asset values change over time for a variety of reasons, including market conditions. There is a risk to the Council in retaining assets which may further diminish in value in the future. AY has provided professional advice on the market conditions and has recommended disposal of all four assets. Each asset is considered in turn below.

Odeon

- 2.20. The property
- The property is located on a leisure park within Basingstoke. It is owned by the Council on a long lease with 93 years unexpired and is constrained in terms of car parking. Its current use is as a cinema and competes in the local area with another cinema.

- The leisure park has been the subject of redevelopment discussions for a number of years however due to viability issues, there are no current plans for re-development.

2.21. The market

- Both the investment market and specifically the cinema/ leisure market is subject to a number of headwinds in terms of a sluggish return to cinema post-Covid, increasing interest rates and inflationary pressures which has led to reductions in pricing and appetite. This has been seen very publicly in the case of Cineworld where shares have halved following the chain filing for Chapter 11 bankruptcy protection in the US.

2.22. The tenants

- The property is currently tenanted and was marketed with the benefit of a technical pack that included existing tenancy information.

2.23. Marketing process

- The asset was marketed with a technical pack that included tenancy information, title information and an environmental report. The property was formally launched to market on 18 June 2022 with a half page advert in the Estates Gazette. A marketing mailshot was sent out on 23 June 2022 to an extensive contact list held by AY. A bespoke marketing brochure was produced and circulated to all parties upon request. 13 expressions of interest were received. An inspection was arranged on 21 July 2022. Interest in the market was limited by site constraints, including the lack of car parking, the leasehold interest, the age of the building and the profitability of a cinema in that location.
- Two formal bids were received.

2.24. Alternative options for the site

- Sale to the freeholder – the freeholder has stated publicly that it has no interest in purchasing the leasehold interest.
- Re-development – the Council only owns the leasehold, which limits this option.
- Lease extension or re-negotiation – this was explored but is not recommended.
- Remarket upon vacant possession in September 2026 – given the current market for cinemas and the recent news that Cineworld are filing for bankruptcy, it may take a significantly longer period of time for the market to improve and to make this of interest to a wider group of investors.

2.25. Preferred bidder

- The preferred bidder is Bidder B due to providing the higher financial receipt and AY were provided with a track record by their agent which gives confidence to the bid. In addition, there are no material conditions on the offer.

Waitrose, Gosport

2.26. The property

- The property is a two storey building located in a mainly residential area of Gosport, Hampshire located on the High Street, currently used as a

supermarket. There are three other larger competitor supermarkets within 1 mile.

2.27. The market

- The market for the supermarket in this area of Gosport has fallen and interested parties were aware that Waitrose had not traded well from the site, and thought that Waitrose would not re-gear their lease.

2.28. The tenants

- The property is currently tenanted. Whilst the current tenants, Waitrose, have a strong tenancy covenant, they have indicated that they do not intend to extend the tenancy when it terminates in 2025, and there is little discernible appetite for the site from other supermarket chains or property developers.

2.29. Marketing process

- The asset was marketed with a technical pack that included tenancy information, title information and an environmental report. The property was formally launched to market on 18 June 2022 with a half page advert in the Estates Gazette. A marketing mailshot was sent out on 24 June 2022 to an extensive contact list held by AY. A bespoke marketing brochure was produced and circulated to all parties upon request. 19 expressions of interest were received.
- AY had many requests to inspect the property, but all parties were happy to inspect as a customer and did not require back of house access. Across the marketing period it is understood that at least 4 parties inspected the property and site.
- No bids were received by the bid deadline of 2 August 2022.
- Two parties indicated that they would likely make an offer, but not on a best bids scenario. Further conversation with the prospective bidders resulted in only one bid being submitted – the other party explained that they did not have capacity to carry out due diligence due to lack of resources.

2.30. Alternative options for the site

- Residential re-development – part of the marketing included a briefing note outlining the scope for residential redevelopment but the spoke in construction costs and the comparatively low value of residential property in the Gosport area make this financially unviable. Given that the property was marketed widely any interest in residential redevelopment would have been identified but there was no interest from any residential developers.
- Lease extension or re-negotiation – discussions with the tenants identify that there is no scope for any type of lease negotiation, and this has impacted significantly on the valuation of the property since the Council purchase.
- Remarket upon vacant possession in July 2025 – it may be possible to negotiate a dilapidations settlement at the lease end, although this would depend on the condition of the property at that point and is not thought to be a significant amount. Due to the current configuration AY advise that any incoming retailer would only be interested in taking the ground floor space, which would limit any likely future capital receipt to an amount which is significantly lower than the current offer.

2.31. Preferred bidder

- The preferred bidder is Bidder A due to providing the only bid and AY were provided with a track record by their agent which gives confidence to the bid. In addition, there are no material conditions on the offer.

21 Roydsdale Way, Bradford

2.32. The property

- The property is an industrial unit located on the outskirts of Bradford, West Yorkshire used as a logistics hub on a light industrial park located with good access to the M62.

2.33. The market

- The market for industrial units has remained buoyant post-Brexit and throughout the Covid lockdown.

2.34. The tenants

- The property is currently tenanted and was marketed with the benefit of a technical pack that included existing tenancy information.

2.35. Marketing process

- The asset was marketed with a technical pack that included tenancy information, title information and an environmental report. The property was formally launched to market on 11 June 2022 with a half page advert in the Estates Gazette. A marketing mailshot was sent out at the same time to an extensive contact list held by AY. A bespoke marketing brochure was produced and circulated to all parties upon request. 34 expressions of interest were received.
- Two inspection days were arranged on 16 and 21 June 2022. 4 parties booked to view the property over these two days, but there were numerous parties who inspected externally on other days.
- The asset was well received by the market with many credible parties contacting AY and requesting more information regarding the sale.
- Three formal bids were received.

2.36. Preferred bidder

- The preferred bidder is Bidder C due to providing the higher financial receipt. AY have confirmed that the bidder is high profile and an active investor in the UK logistics market with strong financial backing, which gives confidence to the bid. In addition, there are no material conditions on the offer.

Wickes, Wolverhampton

2.37. The property

- The property is a prime retail warehouse investment opportunity located in the administrative centre of Wolverhampton in the West Midlands.

2.38. The market

- The market for retail warehousing units has remained buoyant post-Brexit and throughout the Covid lockdown.
- The warehouse is the only DIY warehouse in the city of Wolverhampton.

2.39. The tenants

- The property is tenanted and was marketed with the benefit of a technical pack that included existing tenancy information.
- Wickes have a strong tenancy covenant.

2.40. Marketing process

- The asset was marketed with a technical pack that included tenancy information, title information and an environmental report. The property was formally launched to market on 11 June 2022 with a half page advert in the Estates Gazette. A marketing mailshot was sent out 10 June 2022 to an extensive contact list held by AY. A bespoke marketing brochure was produced and circulated to all parties upon request. 18 expressions of interest were received.
- Two inspection days were arranged on 28 and 30 June 2022. 2 parties booked to view the property over these two days, but there were numerous parties who inspected externally on other days.
- The asset was well received by the market with many credible parties contacting AY and requesting more information regarding the sale.
- Two formal bids were received by the bid deadline of 7 July 2022. Following the bid deadline, the two bidders were invited to make best and final offers by 13 July 2022.

2.41. Preferred bidder

- The preferred bidder is Bidder D due to providing the higher financial receipt and AY were provided with a track record by their agent which gives confidence to the bid. In addition, there are no material conditions on the offer.

Options considered

- 2.42. Option A - To retain all or some of the out of borough investment assets. Whilst this would retain the rental income stream, the costs of servicing the debt outweigh the income generated and AY advise that there is no certainty that the asset values for the two assets that have dropped in value would recover in the medium-term
- 2.43. Option B - To agree to delegate authority to the Executive Director (Place and Community), in consultation with the appropriate lead member and the S151 Officer, to dispose of the four proposed assets on the basis of the agreed Heads of Terms and subject to legal and valuation advice. This option produces a capital receipt which will support the Council's corporate priorities.
- 2.44. **Option B is recommended** to Cabinet for approval.

3. Implications of the Recommendation

Financial implications

- 3.1. The detailed financial implications from disposing of the four assets are reported in Confidential Appendix 2 where more comprehensive comments are set out relating to each of the sites. In summary, there will be a net revenue saving of £0.644m from the reduction in borrowing costs less the loss of rental income as shown below:

£000s	
Rental income foregone	(2,117)
LESS	
MRP reduction	1,645
Interest reduction	1,116
Net saving/(cost) to the Council	644

- 3.2. As reported above the values of the assets have fallen by £5.2m since acquisition but the total offers exceed the current valuations by £1.3m. i.e. a net loss of £3.9m, as shown below:

	Acquisition cost £m	Current valuation £m
Acquisition cost/Valuation	31.8	26.6
Valuation/Offer	26.6	27.9
Gain/(Loss)	(5.2)	1.3

- 3.3. The net loss of £3.9m is written off to the Capital Adjustment Account in the Council's balance sheet. This will continue to incur a MRP charge of around £0.195m which is already reflected in the £1.645m MRP reduction above.

4. Legal implications

- 4.1. Pursuant to section 123 of the Local Government Act 1972 ("Section 123 LGA 1972"), the Council has the power to dispose of land in any manner it wishes, subject to certain provisions. The Council has a statutory duty to obtain the best price reasonably obtainable, subject to certain exemptions. Section 123(2) permits a disposal at less than the best price reasonably obtainable with the consent of the Secretary of State.
- 4.2. When considering the duty under section 123 LGA 1972, what is reasonable in any particular case depends entirely on the facts of the transaction.
- 4.3. Case law has determined that whilst there is no absolute requirement to market the land or obtain an independent valuation, if valuation evidence is obtained, it should be up to date and that there should not have been any material and significant changes in circumstances since it was obtained. In addition, obtaining proper professional advice throughout the process on how to maximise its receipts is a material consideration and the Council should limit itself to taking account of those elements of a transaction which are of commercial or monetary value and should disregard irrelevant factors such as "job creation" when assessing whether it is obtaining the best consideration reasonably obtainable. The deliverability or credibility of a bid are commercial factors which are relevant to an assessment.
- 4.4. The Council has employed Avison Young ("AY") as specialist property advisors to advise on an asset disposal strategy and to market and dispose of the assets identified for disposal.
- 4.5. Following a marketing exercise on the open market reported by AY in exempt Appendix 2, the agreed offer prices for the Wickes, Wolverhampton, and the Euroway, Bradford exceed the latest valuations as at 31 March 2022 carried out by Wilks Head and Eve LLP. AY have confirmed that the best and final offer sale prices for both assets received by AY following a competitive disposal process by AY exceed both the valuation carried out on 31 March 2022 and exceed the original acquisition cost and this reflects best consideration in accordance with Section 123 LGA 1972.

4.6. Following a marketing exercise on the open market reported by AY in exempt Appendix 2, the agreed offer prices for the Odeon, Basingstoke and Waitrose, Gosport assets are below the latest valuations as at 31 March 2022 updated to September 2022 carried out by Wilks Head and Eve LLP. However, the offers received are collectively £1.2m below the latest valuations, which are on the basis of the best and highest bid in the most advantageous market conditions. Bearing this in mind and acting in their capacity as specialist property advisors to the Council and having undertaken a comprehensive marketing exercise, AY have advised that the best and final offer sale prices for both assets received by AY following a competitive disposal process reflects, in its opinion, the best consideration that can reasonably be obtained in accordance with Section 123 LGA 1972.

5. Risk management implications

5.1. The recommendations required from Cabinet, as outlined in this report, are intended to improve the Council's financial position, by realising capital receipts which can then be used to repay Council borrowing from the existing high level and reduce debt servicing charges in the form of interest and minimum revenue provision (MRP) If the recommendations are not approved this will delay the Council being able to return to a financially sustainable position. – specific risks are summarised below:

Risk	Summary	Mitigations
Financial	Delay in realising capital receipts from assets sales will delay the Council's financial recovery	Cabinet to approve officers to proceed with the sales
Governance	Failure to obtain best consideration from the disposals could expose the Council to risk of legal challenge	The Council has employed external property advisors to manage and competitively market the properties, having access to wider markets than officers locally and has obtained up to date valuations for the sites for comparison purposes.
Legal	Failure to ensure legal title/deeds etc which could delay or halt sale Delay to contract negotiations	Legal title reports obtained for all disposals Bi-weekly monitoring of asset disposals by commissioners and officers
Governance	Failure to establish robust governance arrangements could expose the Council to risk of impropriety and legal challenge	The Council has established sound governance arrangements for asset disposals to ensure that the Council

		achieves best consideration from asset disposals
Reputational	Unable to agree a way forward causing delay to asset disposals and failure to deliver capital receipts within the timescales set out in the Debt Reduction/Asset Disposal Strategy	Governance, project management and decision-making operate effectively to deliver asset disposals on time and best consideration for the Council.

6. Environmental implications

6.1. No environmental implications have been identified as a direct result of this report.

7. Equality implications

7.1. None of the assets are used for operational or service delivery, neither are they located in Slough. There are no identified equality implications with the disposal of these sites. By reducing the level of Council borrowing, the Council will reduce its MRP, which will reduce the level of savings required from services, albeit significant savings will continue to be needed. This is likely to have a positive impact on protected groups who are more likely to utilise the services of the Council.

8. Procurement implications

8.1. The appointment of Avison Young as the Council's external property advisors was secured in compliance with:

- The Public Contracts Regulations 2015
- Council Contract Procedure Rules, and
- Expenditure Control Panel requirements.

9. Workforce implications

9.1. No workforce implications have been identified as a direct result of this report.

10. Property implications

10.1. This report will directly impact on the Council's property holdings. Full details will be provided via progress reports to Cabinet.

11. Background Papers

11.1. None