Slough Borough Council

REPORT TO:	Cabinet Committee – Asset Disposals
DATE:	13th October 2022
SUBJECT:	Recommendations of the Cabinet Committee - Asset Disposals Strategy
PORTFOLIO:	Lead Member for Financial Oversight & 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):	None
KEY DECISION:	YES
EXEMPT:	Public with exempt Appendices 2 and 3 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:	Appendix 1 – Asset Disposal Strategy Appendix 2 - Confidential Asset Review Report from Avison Young Appendix 3 – Confidential Asset Pricing & Recommendations from Avison Young Appendix 4 –Phase I List of Assets proposed for marketing and disposal in current financial year Appendix 5 –Asset Disposals Programme Budget

1. Summary and Recommendations

1.1. This report is seeking the Committee to recommend to Cabinet approval of an Asset Disposal Strategy further to previous reports on the Council's approach to disposal of assets in order to obtain capital receipts to reduce its debt. The Asset Disposal Strategy set out at Appendix 1 will ensure best use of Council property assets and, where identified for disposal, that best consideration is achieved. Further to detailed analysis of the Council's asset register, Avison Young has prepared an Asset Review report that provides the underpinning data, analysis and structure for the proposed Asset Disposals Strategy.

Recommendations:

1.2. To recommend to Cabinet to:

a) Agree the Asset Disposals Strategy set out at Appendix 1.

b) Approve the declaration of the assets listed in Appendix 4 as surplus and to delegate authority to the Executive Director of Housing and Property, in consultation with the appropriate lead member and the Executive Director of Finance and Commercial, to market these assets for disposal, subject to:

i. The removal of 2 Victoria Street and 34 Herschel Street from the list of assets declared surplus.

c) Delegate authority to the Executive Director of Housing and Property, in consultation with the Lead Member for Financial Oversight & Council Assets and the Lead Member for Housing & Planning, to determine whether 2 Victoria Street and 34 Herschel Street should be declared surplus and to commence marketing.

d) Approve the proposed Asset Disposals Programme budget.

Reason:

1.3. 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 Minimum Revenue Provision (MRP). The proposed asset sales will be 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.

1.4. The disposal strategy supports the priority of the new Corporate Plan for "a Council that lives within its means, balances the budget and delivers best value for taxpayers and service users."

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

1.6. *"The adoption of this strategy and its delivery at sufficient pace are an essential component of the journey back to financial stability. Cabinet had demonstrated to it, at its last meeting, how accelerated disposals have a major beneficial impact on the Council's overall financial position. There are substantial external environment risks inherent in this programme as forecasting likely values to be achieved will depend on a stable overall economy. It is therefore strongly recommended that the Council aggressively pursue the process of freeing additional assets for disposal and bring them forward as quickly as possible to guard against shortfalls in achievement and building a cushion against future financial shocks.*

1.7. *Alongside this it is important that the Council set out a clear operating model which will seek to minimise the use of fixed assets, the cost of which are a first charge on all budgets."*

2. Report – Council's Asset Disposal Strategy

Introduction and Context

Context

2.1. Following a detailed procurement exercise, Avison Young (AY) were appointed to support the delivery of the Asset Disposal Programme in March 2022. The appointment comprises two phases:

- Phase 1 - To develop and report back on an asset disposal strategy for the Council; and
- Phase 2 – to market and dispose of assets identified under Phase 1.

2.2. The Phase 1 report provides the foundation for the Asset Management Strategy being presented in this paper. This strategy supports the requirements of the Treasure Management Strategy [TMS] and sets out the guidance and governance necessary to enable the disposals programme to progress at pace while a more detailed Asset Management Plan [AMP] is being developed. This AMP will be completed in the 22/23 financial year and will ensure the best use of the Council's assets and will complement the Corporate Plan (22-25) (Improvement and Recovery).

2.3. The Council requires a formal approach to the management of its assets and, in particular, their disposal where identified as either surplus or no longer key to the delivery of services. The strategy proposes a structured and controlled methodology to ensure that any asset disposals do not cause longer-term operational difficulties or fail to achieve the best return for the Council.

2.4. The proposed Strategy will allow the Council to consider and approve disposals, in advance of the adoption of the AMP.

Wider policy considerations

2.5. To ensure that the best outcome is achieved from disposals, these will consider:

- Holding cost of surplus assets if retained for longer term use or sale
- Running costs for under-utilised assets and how these can be reduced
- Service requirements across the Council to ensure an asset is not sold if it could provide a cost effective solution for another service area
- Potential benefits from delaying a disposal
- Loss of revenue from any income producing assets
- Impact on the local area from holding assets empty for prolonged periods
- Additional benefits from regeneration

2.6. The structuring of the Assets Disposals Programme is designed to bring forward the less constrained/simplest assets for disposal. This will be delivered through the following four phases:

I. Vacant small/ medium development sites and investment properties out of borough,

II. Income producing assets,

III. Assets currently utilised for service delivery, including office accommodation

IV. HRA Retail assets and, finally

V. the Stock Transfer of housing (if approved)

Governance

2.7. The Council recognises that good governance is a key component of this strategy, so it is essential that all decisions to dispose of an asset must follow a defined process. Principally, all matters regarding the disposal of assets will be firstly considered by the Asset Disposals Cabinet Committee with recommendations as appropriate being made to Cabinet. Full details of the governance processes are set out in the Strategy at Appendix 1.

2.8. **Asset to be declared surplus**

The assets listed in Appendix 3 are now being submitted for Cabinet approval to market.

Council Property Portfolio Review

2.9. The Council's property holdings are diverse in size, type, condition and value.

2.10. The Council's properties are valued annually by the Council's appointed registered valuers, Wilkes, Head and Eve ('WHE') LLP in accordance with accounting standards and RICS valuation standards.

2.11. As at 31 March 2021 the Council's property portfolio was valued at £1.3bn comprising:

- c. £750m non-residential assets and
- c. £550m of residential assets; and

is summarised in the following table.

Asset category	Valuation £m	Valuation basis
Council dwellings	551	Existing Use Value - Social Housing
Other land and buildings	418	Non-specialised assets - Existing Use Value Specialised Assets - Depreciated Replacement Cost
Investment property	163	Fair Value
Plant, vehicles and equipment	15	Depreciated Historic Cost
Infrastructure	118	Depreciated Historic Cost
Assets under Construction	22	Depreciated Historic Cost
Surplus Assets	10	Fair Value
Community Assets	10	Depreciated Historic Cost
Total	**1307**	

2.12. This asset register has formed the basis for the work undertaken by Avison Young.

Potential Asset Sales

2.13. AY have identified a total of 108 readily saleable assets which could potentially generate £335m of capital receipts from the Council's property portfolio. Excluding HRA (council dwellings) and receipts from SUR assets.

2.14. The table below sets out the potential level of capital receipt that could reasonably be expected to be delivered aligned to current market conditions over the next four years based on the Disposal Strategy.

	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	Total £m
Potential receipts based on AY Disposal Strategy	108	83	53	20	71	**335**

2.15. It should be highlighted that the property market conditions are extremely uncertain due to current macro economic factors which are unlikely to improve for some considerable time. This could result in significant volatility and therefore sales receipts could vary from those forecast, especially should there be any delay in taking assets to market.

2.16. To mitigate the market volatility risk officers will identify ‘surplus’ assets for approval for disposal as soon as possible subject to expert advice and review by the Cabinet Committee.

2.17. Alongside the review of the general fund property assets, AY have also been asked to provide a potential capital value if the Council were to pursue a large-scale voluntary transfer (LSVT) of its housing portfolio. This work is continuing to better understand what value might be realisable within the housing stock and how it could potentially contribute towards debt recovery targets. Options of partial stock transfer will also be explored. No formal decision has been made to pursue LSVT.

2.18. AY have been instructed to provide an indication of what capital receipts could be generated for the Council through selling its assets and in certain cases this has led to a significant difference from the ‘asset value’ held by the Council. For example in the case of assets such as a leisure centre, the cost of replacement can be far in excess of the price this asset is likely to reach were it brought to market.

2.19. AY have categorised the asset portfolio as follows:

- Assets which cannot be disposed of usually because they are inalienable assets such as highways infrastructure
- Those which are saleable subject to legal processes and
- Assets which are readily saleable.

2.20. The Asset Disposals Strategy will not only focus on the surplus properties but will also consider the Council’s wider property requirements so that other opportunities for consolidation and disposal or for a more viable alternative use can be considered.

Progress

2.21. Cabinet approved the following early tranche of assets for disposal on 21 September 2022:

- Wickes, Wolverhampton;
- Euroway, Bradford;
- Waitrose, Gosport;
- Odeon, Basingstoke.

2.22. The above assets were approved for disposal ahead of the Asset Disposal Strategy as these assets would always need to be disposed of. In addition, high value assets within the Borough have also been marketed and will be reported to Cabinet for disposal decisions in Autumn 2022.

2.23. In the light of the progress made to date in identifying and marketing assets for disposal, the forecast of capital receipts has been updated and the forecast at 21 September is set out below for both asset disposals under the AY contract and those being managed in-house in respect of Slough Urban Renewal. This shows forecast total capital receipts over the period 2022/23 to 2027/28 of £424m.

	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m	Total £m
Avison Young	121	85	54	43	46	35	384
SUR sites	22	8	10				40
Total	**143**	**93**	**64**	**43**	**46**	**35**	**424**

Resource Requirements to Implement this Strategy

2.24. The Asset Disposals Programme will require a separate budget and resource to be set up to allow the correct process to be followed and undertaken in a timely manner. The budget will provide for works, specialist advice, and if appropriate, planning consent to be obtained.

2.25. Any capital expenditure to allow for the relocation of staff, both for the physical move and any new facilities will be required and a suitable budget should be established for asset rationalisation work as part of the strategy.

2.26. Regulation 23(h) of The Local Authorities (Capital Finance and Accounting)(England) Regulations 2003, as amended by Regulation 4(c) of The Local Authorities (Capital Finance and Accounting)(England) Regulations 2010 permits local authorities to fund the costs of disposing of General Fund assets from the capital receipt up to a maximum of 4% of the capital receipt.

2.27. The total budget for the proposed asset disposal programme is £8.2m over the six-year period 2022/23 to 2027/28, of which £6.5m will be met from the capital receipts with the remainder being a charge to revenue. The budget is summarised below and detail is set out in Appendix 4.

Cost to be met from:	2022/23 £000s	2023/24 £000s	2024/25 £000s	2025/26 £000s	2026/27 £000s	2027/28 £000s	Total £000s
Revenue	526	326	277	252	168	163	1,711
Capital Receipts	2,015	1,390	1,120	865	580	525	6,495
Total	**2,541**	**1,716**	**1,397**	**1,117**	**748**	**688**	**8,206**
Estimated Capital Receipts	143,000	93,000	64,000	43,000	46,000	35,000	424,000
Net capital receipts	**140,985**	**91,610**	**62,880**	**42,135**	**45,420**	**34,475**	**417,505**
Costs met from capital receipts as %	**1.41%**	**1.49%**	**1.75%**	**2.01%**	**1.26%**	**1.50%**	**1.53%**

2.28. As can be seen the costs of disposal which can be from capital receipts average at 1.53% which is well below the 4% maximum.

Options considered

2.29. Option A - To progress the assets disposals programme without the benefit of an overriding asset disposals strategy which could lead to missed opportunities, premature decision-making, reduced capital receipts or loss of important revenue generating assets.

2.30. Option B - To agree the proposed Asset Disposals Strategy set out at Appendix 1.

2.31. **Option B is recommended** to Cabinet for approval.

3. Implications of the Recommendation

Financial implications

3.1. The Capitalisation Direction was updated in September 2022 and reduced from £479m to 2027/28 to £367m to 2027/28 of which £355m is to be funded from capital receipts.

3.2. The Asset Disposal Strategy together with the sales of the SUR sites are estimated to generate total capital receipts of £424m gross and £418m net of disposal costs by 2027/28. The net total is £63m greater than the sum needed to fund the Capitalisation Direction.

3.3. Approving the Asset Disposal Strategy to generate this quantum of capital receipts will allow the Council to return to a financially sustainable position by 2027/28 by using the capital receipts to:

- reduce borrowing to c. £250m which will reduce interest to £7.5m split £4m General Fund and £3.5m HRA; and
- reduce MRP to £6.5m.

3.4. This will bring total debt charges as a proportion of net revenue budget to 7.7% which is affordable and will represent a 70% reduction from 2022/23.

3.5. The total cost of administering the asset disposal programme is estimated to be £8.2m over the six-year period 2022/23 to 2027/28 of which £6.5m can be met from capital receipts and at 1.53% is well within the maximum permitted to be charged to capital receipts. The balance of £1.7m of costs will be met from within existing Place Directorate budgets.

4. Legal implications

The Council has statutory powers to dispose of land, including under:

- Section 123 of The Local Government Act 1972;
- Housing Act 1985;
- Section 233 of the Town and Country Planning Act 1990;
- Local Authorities (Land) Act 1963;
- Housing and Planning Act 2016; and
- Localism Act 2011.

4.1. When disposing of land, the Council has a duty to obtain best consideration under section 123 LGA 1972, not less than the best that can be reasonably obtained. What is reasonable in any particular case depends entirely on the facts of the transaction. Although there is no absolute requirement to market the land being disposed of, or to obtain an independent valuation, in order to comply with the best consideration duty, the Council should obtain independent professional valuation advice, as a failure to take proper advice can constitute a breach of section 123 LGA 1972.

4.2. It is for the authority to demonstrate that it has achieved best consideration; if best consideration is not obtained, Secretary of State approval will be required. A local authority may dispose of land at less than best consideration where the Secretary of State has given permission to do so or under the Local Government Act 1972: General Disposal Consent (England) 2003 in circumstances where the local authority considers the disposal is likely to contribute to the social, economic or environment wellbeing in its area and the undervalue does not exceed £2 million.

4.3. No disposal terms should be settled without assessing the r legislative requirements arising as a result of the manner in which the relevant land is held (e.g. open space, allotment land, HRA land etc) and concluding any appropriate legal and financial due diligence. Each site will need to be considered on a case by case basis in the form of a report on title, which shall advise on any restrictions or impediments to the disposal of the land.

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. AY will be aware of the Council's statutory duty to achieve best value pursuant to section 123 LGA 1972 when carrying out marketing exercises and agreeing offers in respect of the disposals.

4.5. In relation to the SUR assets, the Council's existing joint venture (JV) obligations are governed by legal documents, including the SUR Partnership Agreement (PA), the NWQ PA and the individual site Option Agreements. The Council must comply with all relevant legal and governance requirements under the JV arrangements to enable the disposal of SUR assets to take place

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 adopting an asset disposals strategy which is targeting the realisation of 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 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. Accelerate the disposals process to limit exposure to future market decline.
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 market the properties, having access to wider markets than officers locally.
Legal	Delay to contract negotiations	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. No equality implications have been identified as a direct result of this report.

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

None