Slough Borough Council

Report To:	**Cabinet Committee (Asset Disposals)**
Date:	12 September 2024
Subject:	Property Capital Programme Review
Lead Member:	Councillor Chahal, Deputy Leader of the Council – Finance, Council Assets and Transformation
Chief Officer:	Pat Hayes – Executive Director (Regeneration, Housing & Environment) Annabel Scholes Executive Director Finance & Commercial
Contact Officer:	Peter Hopkins – Director of Property and Assets
Ward(s):	All
Key Decision:	NO
Exempt:	NO
Decision Subject To Call In:	No, noting report only
Appendices:	Appendix A – Assets Sold - Phase 1

1. Summary and Recommendations

This report sets out the progress made, and issues encountered in delivering the first phase (Phase I) of the Asset Disposal Programme from 2021.

The report outlines the methodology utilised for the internal assessment of likely capital receipt, and the criteria used in establishing a RAG status as set out in section 2.16 of this report.

It should be noted that the information within this report is at this point in time and that each asset will be periodically reviewed and assessed on its suitability to be put forward for the inclusion on the disposals programme.

This report sets out what previous disposals has been achieved and highlights the current methodology and assessment underway to revise the future capital receipt programme.

Recommendations:

1.1. Cabinet Committee are asked to note:

a) That the value of the remaining property estate within the General Fund has changed since 2021 due to a number of external factors such as market conditions and interest rates borrowing. This causes a challenge in achieving the existing financial targets.

b) That a similar exercise is being undertaken on the Housing Revenue Account (HRA) Assets and an update report will be brought back to Asset Cabinet during Quarter 4 of 2024/25.

c) The progress that has been made in delivering General Fund Phase I of the Asset Disposal Programme and the issues that have impacted on this.

d) That following a planned new valuation of the General Fund portfolio a revised overarching future Capital Disposal programme will be presented to Cabinet for approval during Quarter 2024/25.

e) The information in this report is current as of this report but is subject to change due to fluctuations in the council's finances, the property market, and the implementation of key property initiatives and strategies that relate to the emerging new Targeted Operating Model and the future Medium Term Financial Strategy.

Reason:

1.2. Cabinet in September 2021 noted that following a report carried out by the councils procured external property advisors that post an initial evaluation the council had circa £600m of disposable assets, a subsequent budget report for 2023/24 assumed asset sales of £400m would be delivered by 31 March 2024 with future sales of £200m following.

1.3. The council currently owns and is responsible for multiple buildings that serve as back offices, front-facing facilities, community spaces, or are vacant. Approving a new more refreshed General Fund Capital Receipt target will enable the council to have greater visibility and reliability of proposed receipt generation.

1.4. The review has identified a number of challenges such as impairment values, i.e. the current value of some assets is significantly below the carrying value in the council accounts. while other assets make a significant revenue contribution which outweighs the financial benefit of sale.

1.5. Some assets have not been valued externally for a number of years and an updated value is required.

1.6. A new commission of independent asset valuations of the Councils General Fund Portfolio needs to be undertaken to validate the current asset values held by the council. The existing arrangement has been long standing and predominately undertaken as a desk top value only. It is felt necessary to commission a new set of valuers that can independently assess asset values and undertake site visits and reports rather than a pure desk top assessment. This work would then provide a high level of confidence to the council in determining the actual estate valuation.

1.7. At this stage there should be no impact on any current or immediately planned approved disposals in the pipeline as separate valuations can be obtained if required if the current book values appear to out of step with the Red Book Valuations that are commissioned prior to any final decision to market a site for disposal. A report will come back to Cabinet Committee following the procurement to advise on the outcome.

1.8. The initial assessment of the valuations will focus on the retained Investment and Operational Portfolio initially and then on the remaining assets held for community use. This work is expected to be commissioned by the end of November and completed by the end of March 2025.

1.9. The property market remains in a challenging position across a number of asset classes particularly office and retail though residential and B8 (industrial) commercial remain strong. The appointment of external consultants will help professionally undertake an assessment of the councils property portfolio and work across the whole of the market to facilitate the ability to move those assets currently marked as red and amber to amber and green status.

1.10. The assessment review above will also take into the use of assets that could provide wider community use and provide additional value around social, economic and environmental values.

Commissioner Review

"The asset disposal programme is of significant importance to the Council's financial recovery, and an integral part of the approved financial strategy and 'minded to' Capitalisation Direction. There are substantial risks inherent in this programme as forecasting likely values to be achieved will depend on a stable overall economy, local market conditions, the estate required to effectively deliver the Council's future operating model and a Medium-Term Financial Strategy that can be balanced without exceptional financial support. Where the Council's capital financing requirement is increased as a result of the capitalisation of expenditure under a Capitalisation Direction, any further borrowing must be borrowed from the Public Works Loan Board at a premium of 1% on the interest rate above the rate the loan would otherwise be subject to.

To inform member decision-making in developing the revised asset disposal strategy and medium-term net asset disposal target for 2024/25 and beyond, it is strongly recommended that the Council ensures sufficient resources are available to promptly undertake the valuations and due diligence required, and bring forward as quickly as possible, a report with all relevant information and options available to the Council."

2. Report

Introduction

2.1 Members are aware the Council received a formal direction from Secretary of State for Levelling Up, Housing and Community in December 2021 (updated in September 2022) made under s.15(5) and (6) of the Local Government Act 1999, including a direction that prescribed functions are to be exercised by Commissioners; and the appointment of Commissioners from 1 December 2021.

2.2 A key component of the Directions is the need for the Council to demonstrate it is able to achieve financial sustainability.

2.3 Asset disposals to date have been a core element in the drive towards financial sustainability. Having a clear financial target in place for the programme, together with plans to deliver to that target, would help to provide some assurance on the Council's recovery.

Options Considered

2.4 Do nothing, carry on with the aim to deliver the Capital income target of £400m-£600m. Given the requirement to seek a fresh appraisal of the portfolio the Council might dispose of assets that might be better used to support front line service delivery or where the loss of income or impairment outweighs the benefit of disposal at this time. **Not recommended**.

2.5 The Council can seek to optimise the value remaining withing the General Fund property asset portfolio, by the establishment of an updated portfolio valuation, leading to a new estates strategy that will embed the creation of a community asset transfer strategy, and robust corporate landlord model, whilst working with services to ensure they can continue to deliver to residents in suitable and accessible buildings and by the periodic re-assessment of each property asset.

Recommended.

Background

2.6 A report was brought to Cabinet on 21 June 2021 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.
- Provide capital receipts to meet Capitalisation Directive commitments and align with the Medium-Term Financial Strategy (MTFS)
- To reduce overall borrowing costs.

2.7 On 17 October 2022 Cabinet approved an Asset Disposal Strategy informed by advice from its procured commercial property advisors. The agreement of the strategy was to contribute to the reduction in the Council's financial commitments, generate disposal receipts at the earliest opportunity and reduce the Council's borrowing and Minimum Revenue Provision (MRP).

2.8 The first focus area for the Asset Disposal Programme, was an initial review of the Council's asset base. The purpose being to provide assessments of market values, along with an orderly disposal strategy that enabled the Council to realise potential capital receipts that could firstly be utilised to finance any Capitalisation Directions, and secondly to repay existing external debt.

2.9 The decisions in that paper were based on a council asset value of £1.3bn comprising:

C. £750m non – residential assets and

C £550m of HRA residential assets,

And summarised in the following table 1.

Asset Category	Valuation £m	Valuation Basis
Council Dwellings (HRA)	551	Existing Use Value
Other land & Buildings	418	Nonspecialised assets – Existing Use Value & Specialised Assets – Depreciated Replacement Cost
Investment Property	163	Fair Value
Plant, Vehicle & equipment	15	Depreciated Historic Cost
Infrastructure (ie Bridges etc)	118	Depreciated Historic Cost
Assets Under Construction	22	Depreciated Historic Cost
Surplus Assets	10	Fair Value
Community Assets	10	Depreciated Historic Cost
Total	1,307	

2.10 From the £1.3bn asset valuation, it was identified that the property portfolio could deliver £400-£600m of capital receipts. In coming to this target, an optimistic approach was taken, both to what could be achieved by way of development on each asset, as well as the strength of market and economic conditions at the time and the expectation that the market would remain stable and prices would possibly continue to increase.

2.11 It is possible that due to turnover of staff within the organisation during the time of the external review that the correct analysis of the then total property costs were not accurate, which may have been a contributing factor to the current situation.

2.12 The Property disposal programme was then split into to two phases. Phase I contained assets that Cabinet provided authority to launch to market having been declared 'surplus'. The Second phase being assets that required further due diligence before they could be declared surplus.

2.13 These were generally assets that have been held for 'financial' reasons (i.e. 'Investment' assets whose aim is to generate revenue returns) or assets that have been held for 'development' reasons (e.g. to support regeneration objectives and/or increase housing numbers). These assets are spread across both the General Fund and Housing Revenue Account.

2.14 Disposals to date achieved within Phase I as at 31st July 2024 created a net benefit to the General Fund of £175m. (Appendix A). There is additional value to still be realised through assets that are currently within the disposals process for this financial year.

2.15 The remaining investment assets have been retained due to the impairment values being larger than the capital receipt that would be generated from disposal and would cause a financial detriment to the council.

<u>Internal Review of Property Assets</u>

2.16 Historically the council had relied on Net Book Value (NBV) as a guide to the value of an asset. The NBV is the recording of the value of an asset on a company's accounting record and takes in to account original purchase price and expectation of market movement. Given that most book valuations were out of date or inconsistent in implementing the disposal strategy AY's valuations were utilised.

2.17 In determining the NBVs, the council provided asset specific information to the valuer, which at times was inaccurate or not available. As a result, as part of the due diligence process in the disposal of an asset, the weighting of the NBV should only form part of the assessment and not wholly be relied upon.

2.18 To support recommendations for disposals as part of the assessment toolkit going forward "Red Book "valuations will be used, alongside the AADF (Asset Appraisal and Disposal Framework) model, internal assessment and NBV. .

2.19 Officers from Property and Finance have reviewed each asset and produced an expected capital receipt using their expertise of the estate and a methodology consisting of a review of local and recent sales comparables and/or by way of capitalisation of the commercial rental income.

2.20 Officers have then allocated a RAG rating against each asset that was based on the Assets operational status, known service need, constraints on site, or the requirement to review as part of the planned wider estates strategy.

2.21 The assessment of the assets also included the Councils prudential borrowing, outstanding balance, income and revenue income/ expenditure. The assessment at this time does not include future Planned Programme Maintenance assessments as this area of activity has not been undertaken since the issuing of the Section 114 notice.

2.22 A RAG rating for each asset was assigned based on current use, be that operational, community or income producing and any borrowing or other metric that impacts against the asset value,

- **Red:**

Property Assessment:

- Consists of Investment Assets, operational buildings, community leased buildings, and sites that have technical constraints. These sites would not be able to be sold within the next 12 months and will be reviewed in line with the Target Operating Model, the implementation of the Corporate Landlord function and future Community Asset Transfer strategy, to assess the ability and suitability to move to Amber or Green.

Finance:

- The asset is carrying an outstanding balance higher than could be achieve by sale and/or the income generated over the residual life of the asset, resulting negatively financially and would not be in the interest of the council to dispose.

- **Amber:**

Property Assessment:

- Assets that are in the pipeline and have the ability to be put on the market within the next 12 months. These Assets currently have technical constraints and/or are occupied but with a plan in place to enable disposals.

Finance:

- Assets that could be disposed of subject to a further review of the likely capital receipt and on the basis that the achievable receipt delivers best value to the council.

- **Green:**

Property Assessment:

- Assets that are either currently on the market for disposal or have the ability to be put on the market within the next 6 months.

Finance:

- Sites that could be disposed of and have no negative impact on the council's financial position.

2.23 For the council to have a high level of confidence of the internal assessment, an audit needs to be undertaken by a third party, to assess and agree/challenge the assumptions used.

2.24 By carrying out the audit and establishing an agreed position, work can be undertaken to assess and release further assets for disposal.

2.25 Establishing the number and value (£) of assets that could potentially be sold is a key element in setting the financial target for the programme. However, it is not the only consideration, the Council also has to consider other factors such as the delivery of statutory services and ensuring accessibility of services to residents.

Implications of the Recommendation

3. Financial implications

3.1 In September 2021 the Council agreed a Debt Repayment Strategy, recognising it was holding unaffordable level of debt, which was predicated on an orderly programme of asset disposals which could be used "firstly to finance any Capitalisation Directions that may be received from the Government and secondly to repay existing external debt." The aim of this course of action was to reduce both interest costs and Minimum Revenue Provision (MRP) charged to revenue budgets.

3.2 The objective of the strategy was to realise £200m of disposal by March 2024, with further disposals of between £200m and £400m by end of March 2027. A total of some £400m of disposals has been assumed in the Treasury Management and Medium-Term Financial Strategies up-to and including the 2024/25 Budget.

3.3 3.1.3 Net General Fund disposals (i.e. after cost of sales) to date since 2022 total £175million. The assumption has been that, in accordance with the principles set out in the Debt Reduction Strategy that those receipts would be utilised primarily to finance the Capitalisation Directions (for which our current assumption is £298.6m to end of March 2024). The position is being reviewed in the context of assets being disposed of for which debt was still outstanding. It should be noted that the financing of capitalisation directions from capital receipts is financially advantageous in the medium term than financing of debt on fixed assets because MRP is spread over a much shorter period.

3.4 Officers have been conducting a detailed evaluation of the future programme as set out in paragraphs 2.15 to 2.21 above. In addition a review of a number of investment assets, which were assumed in the disposals programme - if disposed of at this juncture would render significantly higher impairment costs than is likely to be achieved in the current market. That would mean a significant net cost to the Council's Income and Expenditure Account. The Council continues to face a very significant financial challenge and so continuing with their sale would not be practicable.

3.5 Completion of the review is essential in order that the Treasury Management Strategy (TMS) and Medium-Term Financial Strategy (MTFS) can be refreshed with a realistic programme of asset disposals. It is anticipated that the TMS will be refreshed by the end of September and the MTFS by November 2024. Changes to the deliverability of the programme impact upon the Council's cashflow assumptions, the trajectory of debt reduction and consequential revenue implications arising from the cost of financing that debt (both interest and MRP), plus any net operational costs.

3.6 **Legal implications**

3.7 The Council has duties in relation to securing best consideration and achieving best value in delivery of its services. This includes ensuring the members are presented with all relevant information to inform decision-making, including background and historic information on acquisitions. There should be an opportunity to identify any lessons to be learned in relation to historic decisions, including the quality of information to inform the decision, the risk analysis and options appraisal and the availability of specialist advice.

3.8 When making decisions on operational assets, the Council must first review the services and identify alternatives to service delivery to determine whether the asset is surplus to requirements. This will require consideration of alternative options for a particular asset, as well as alternative options for delivery without reliance on buildings or use of alternative buildings. These decisions may need to be informed by public consultation.

3.9 To enable any future sale of assets, having first declared that the assets are surplus to requirements, the Council has a statutory duty under section 123 of the Local Government Act 1972 to obtain the best consideration reasonably obtainable. It is for the authority to demonstrate that it has achieved best consideration; if best consideration is not obtained, Secretary of State approval is required, although there are some general consents that can be relied upon, including where the disposal will contribute to the social, economic or environment wellbeing in its area and the under-value is below £2m. Decisions to dispose of assets which are below best consideration, unless required to fulfil a statutory obligation, are reserved to Cabinet. Decisions to dispose of any asset at £1m or more are also reserved to Cabinet.

3.10 Certain assets have specific constraints or usage which restricts the Council's options or requires a specific process to inform any decision. For instance land may be held in trust, be classed as open space, be held in the HRA or be deemed education land. It is important to ensure a site constraints report is prepared taking account of current usage, land records and historic decision-making.

3.3 Risk management implications

3.3.1 The table below sets out the key risks:

Risk	Summary	Mitigations
Market / Economy	Challenging market conditions having an impact on the values that can be achieved	Continue to receive and react to market intelligence. Review all assets periodically to assess valuation changes
Abortive Sales	Sales aborted where the best market offer could not be supported by the organisation	Ensure confidence and strategy in place to take assets to the market at the right time and to target the right bidders
Programme Target	The current financial target is unachievable	Re-establishing a realistic target and continual monitoring of what can be achieved
Skills / Capability	Programme outcomes limited by the capacity and capability of resources	Restructure of property department and assessment of workforce and skills that will be required

3.4 Environmental implications

3.11 Re-shaping and re-purposing the Operational portfolio provides opportunities to improve the environmental performance of the retained estate.

3.5 Equality implications

3.12 The Council has a duty contained in section 149 of the Equality Act to have due regard to the need to:

(a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;

(b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;

(c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

The protected characteristics are:

- age
- disability;
- gender reassignment;
- pregnancy and maternity;
- race;
- religion or belief;
- sex;
- sexual orientation.

3.13 The broad purpose of this duty is to integrate considerations of equality into day-to-day business and to keep them under review in decision making, the design of policies and the delivery of services. When considering the use of operational assets and potential community assets, the Council should consider the current or potential users of the service and whether individuals with a particular protected characteristic are more likely to be impacted.

3.14 *Workforce implications*

3.15 A reshaping of the operational portfolio will have some impact on SBC staff. It could change their work location and/or their working patterns. The full impact of this cannot yet be assessed.

3.16 *Property implications*

3.17 The Estate Strategy and Asset Disposal Programme are key to establishing the future size, nature and management arrangements for the future retained property portfolio.

4. Background Papers

Asset Disposal Strategy - Cabinet June 2021
Debt Repayment / Asset Disposal Strategy - Cabinet - September 2021
Asset Disposal Strategy Cabinet October 2022