

<b>DECISION-MAKER:</b>	CABINET COUNCIL
<b>SUBJECT:</b>	<b>ASSET DEVELOPMENT AND DISPOSAL PROGRAMME</b>
<b>DATE OF DECISION:</b>	<b>19<sup>TH</sup> MARCH 2024 (CABINET) 20<sup>th</sup> MARCH 2024 (COUNCIL)</b>
<b>REPORT OF:</b>	<b>COUNCILLOR BOGLE CABINET MEMBER FOR ECONOMIC DEVELOPMENT</b>

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<b>STATEMENT OF CONFIDENTIALITY</b>
<p>Appendix 1, 2, 3 and 4 of this report contains information deemed to be exempt from general publication based on Category 3 (information relating to the financial or business affairs of any particular person (including the Authority holding the information)) of paragraph 10.4 of the Council's Access to Information Procedure Rules. In applying the public interest test this information has been deemed exempt from the publication due to commercial sensitivity. It is not considered to be in the public interest to disclose this information as it would reveal information which would put the Council at a commercial disadvantage.</p>
<b>BRIEF SUMMARY</b>
<p>The council has launched its Asset Development and Disposal Programme (ADDP), an important programme over the next 3-5 years (focused on properties within the council's general fund) with the following vision and purpose: "Driving Southampton's growth through the retention, development or disposal of the council's corporate, operational and investment portfolio, whilst delivering capital receipts."</p>
<p>Alongside the securing of capital receipts to achieve financial sustainability, ADDP will seek to achieve wider financial and economic benefits from the disposal and development of council-owned assets. This includes increasing council tax and business rates revenue, as well as reductions in building maintenance and utilities costs. The benefits from this programme will make a significant contribution to the delivery of the council's ongoing budget savings. However, the programme is not solely about financial benefit, it is also an opportunity to be more proactive about the management of council assets and support regeneration and economic development in line with the aspirations of the Renaissance Board and master-planning delivery framework.</p>

<b>RECOMMENDATIONS TO CABINET:</b>		
	(i)	To consider the principles of Aecom's report (Appendix 1) when determining recommendations ii to iv below on the retention, development and disposal of council-owned assets across the council's corporate and operational portfolio.
	(ii)	To approve the Asset Development and Disposal Programme and progression of the corporate and operational properties recommended for disposal/ development as detailed in Appendix 2 of this report).
	(iii)	To approve the Asset Development and Disposal Programme and progression of investment properties for disposal and regeneration (as outlined in Appendix 3 of this report).
	(iv)	To delegate authority to the Executive Director Growth and Prosperity, following consultation with the Cabinet Member for Economic Development, the Cabinet Member for Finance and Change, the Executive Director Corporate Services, and the Director of Legal and Governance, to progress and implement asset disposal and asset development and regeneration opportunities within the scope of the ADD Programme (as outlined in Appendix 2 and Table 1 & 2 of Appendix 3).
<b>RECOMMENDATIONS TO COUNCIL:</b>		
	(i)	Council to approve the overall Asset Development and Disposal programme and disposal of assets (as detailed in Appendix 2 and 3) which includes assets with a combined value at over £5M.
<b>REASONS FOR REPORT RECOMMENDATIONS</b>		
1.	The purpose of this report is to introduce the council's ADDP. To outline the recommendations relating to disposal and development of corporate and operational assets (Appendix 2). Additionally, to outline recommendations for the disposal and regeneration of properties within the council's investment portfolio (Appendix 3). The rationale for disposal and development of sites is outlined in Appendix 1.	
2.	The report also seeks approval for delegated powers be given to officers following consultation with relevant cabinet members to progress discrete asset disposals and asset development and regeneration opportunities within the scope of the ADDP. Appendix 4 provides an outline of the type of information that will be gathered to make robust decisions under delegated powers.	
<b>ALTERNATIVE OPTIONS CONSIDERED AND REJECTED</b>		
3.	<b>Option 1. Do nothing:</b> The council has a sizeable asset portfolio containing c.330 corporate and operational properties, as well as other investment and commercial properties. Assets within the General Fund incur significant maintenance and operational costs, including energy and business rates. If the council does not act and look to dispose of a proportion of these assets, and redevelop and regenerate sites across the city, there is a risk that properties many fall into disrepair. There is a risk the council is therefore unable to fund the future investment required to meet its	

	<p>ongoing liabilities. Doing nothing will also fail to meet the council’s capital receipts target and ensure the financial benefit and stability of the council.</p> <p><b>Option 2: Bring each property individually to Cabinet/ Council for approval once finalised.</b> The current approach for disposal of council-owned properties is for reports on individual assets to be considered (and recommendations made) to Cabinet or Council, depending primarily on value. This approach would benefit from revision when consideration is being given to progressing a significant number of disposals in a in a 1-2 year timeframe. Discrete properties are identified in Phase 1 and therefore delegated authority is sought within this report to action. Members will be kept updated regarding both those discrete disposals and wider property matters as appropriate.</p> <p><b>Option 3: Explore alternative options that do not involve disposal of assets.</b> One of the key outcomes of the ADDP is securing £85M in capital receipts to benefit the future financial stability of the council and fund the Capitalisation Direction, approved by the Government as part of the Council’s application for Exceptional Financial Support (EFS). The only realistic opportunity to realise this capital benefit is through property disposal. It should also be highlighted that maintaining the council’s property portfolio incurs substantial costs in terms of maintenance/repairs and rates. Disposing of these assets will help to reduce long-term revenue implications and create savings.</p>
<p><b>DETAIL (Including consultation carried out)</b></p>	
<p>4.</p>	<p>The ambition for ADDP is to develop and implement proposals to retain, dispose and develop council assets for the long-term benefit and growth of the city and for the financial benefit and stability of the council. This is a complex programme and the correct resourcing of council officers and consultants is required to realise programme outcomes and benefits.</p>
<p>5.</p>	<p>The ADDP is aiming to achieve a significant reduction in the council’s corporate and operational assets (properties we occupy or deliver a service from) to reduce operating costs and achieve the capital receipt target of £85M. The council will be undergoing future transformation and with a slimmer organisation there will be a need for fewer council owned properties. Disposal of assets will inevitably mean some council services will be relocated and migration of staff from these buildings to the Civic Centre is the preference at this time. This property is currently underutilised and can accommodate approximately 450 additional staff working from this location. However, some internal reorganisation of working areas may be necessary to accommodate additional numbers.</p>
<p>6.</p>	<p>The council owns an extensive range of freehold and leasehold properties across the city. Its corporate and operational portfolio includes over 330 assets in total. Ranging from office accommodation and depots, leisure centres, museums, heritage and tourism assets (including medieval town walls, historic vaults and monuments), libraries, car parks and adult social care facilities to Family Hubs, early years facilities, schools and cemeteries. The total value of the corporate and operational portfolio as at the 31<sup>st</sup> March 2023 as stated in the Statement of Accounts was £256M (excluding schools). This is an accounting book value and not necessarily representative of the value of an asset in an open market sale, particularly when considerations around planning or inherent statutory legislation exist</p>

	e.g. historic building/ archaeological designations that may constrain development.
7.	The council also possesses a varied investment property portfolio. These buildings include shops and retail units, industrial units/ warehouses, pubs, hotels, offices, student accommodation and parcels of land. As at 31 <sup>st</sup> March 2023 as stated in the Statement of Accounts the value of these circa 200 assets was £106M.
8.	<p>The ADDP is split into 4 projects, the purpose of each project and its outputs is summarised below.</p> <ol style="list-style-type: none"> <li>1. <b>Asset data and information</b> - ensuring all asset management data is up to date and robust to enable effective and informed decisions on the future of council assets.</li> <li>2. <b>Corporate and operational assets review</b> – consultants (Aecom) commissioned to carry out a review of the council’s corporate and operational portfolio and produce high level recommendations by the end of February 2024 on assets to be retained, developed, or disposed. Aecom were required to recommend where investment in buildings is needed. They were also asked to identify where staff could be relocated to the Civic Centre or appropriate alternative council-owned sites if assets were to be disposed of. Aecom will also be updating the Service Asset Management Plans following on from initial workshops, to be reviewed and initially agreed by each service area.</li> <li>3. <b>Asset disposal</b> - If the recommendation from project 2 is to dispose of an operational/ corporate asset, or investment asset, there is then a need to identify the most appropriate route for disposal (Affordable Homes Framework, open market, auction etc) to achieve best consideration reasonably obtainable. The work required for a decision report is outlined in Appendix 4 and then if approved there is then a need to progress the disposal to completion.</li> <li>4. <b>Asset development and regeneration</b> – This will be a commission to review the council’s investment portfolio sites identified as opportunities for development / regeneration as outlined in Appendix 3 (Table 2) and production of a regeneration and development strategy for these locations. Then to progress the development of assets through relevant development routes (over 3-5 years).</li> </ol> <p>Consultation on the future disposal of council-owned sites will be carried out where appropriate. Proposals for disposal of assets used by the public will be subject to Equality and Safety Impact Assessments (ESIA) and potential mitigation measures under the Equalities Act 2010.</p>
9.	One of the early ADDP commissions involved the appointment of Aecom to give the council a set of recommendations, by the end of February 2024, on approximately 200 properties within the corporate and operational portfolio advising on the retention, development, or disposal of these assets. An extract of Aecom’s report can be found at Appendix 1 and this outlines the methodology and approach taken in their assessment of council assets. It should be noted Aecom’s report does not explore all assets. The exclusions are listed in their report and include schools, housing, sports pitches, recreation grounds, parks, community centres and properties within the council’s investment portfolio. Aecom have also been tasked with updating

	service asset management strategies. These documents were developed between 2021 and 2023.
10.	Aecom's report recommends further feasibility work and detailed studies to be undertaken in relation to a number of assets in order for the council to reach future decisions on retention, development or disposal.
11.	Their review is the first stage of the ADDP which the council has used as a basis to define a recommended list of corporate and operational buildings that should be considered for disposal or development (outlined in Appendix 2). This paper focuses on disposal and development opportunities that have the support of council services.
12.	Whilst Aecom's report has focused on reviewing properties in the corporate and operational portfolio, a separate exercise has taken place evaluating buildings in the council's investment portfolio and a high-level set of recommendations has been produced in relation to these buildings (see Appendix 3). This document outlines investment properties to be considered for disposal (Table 1), along with those properties with significant regeneration and growth potential (Table 2) which should be progressed at this time. An assumption has been made that the sites identified for regeneration will be capable of securing an uplift in value and a capital receipt.
13.	The sites identified in Appendix 3 (Table 2) are sites that have the greatest capacity to generate regeneration in the city and maximise the opportunity for growth, support master planning and the work of the Renaissance Board, including generation of capital receipts, council tax and business rates. Finance officers have implemented a methodology to determine the financial benefits of disposal versus retention of council-owned properties.
14.	This financial methodology enables a comparison of whether it is better to dispose of an income generating asset and realise the capital receipt now or continue to hold the asset and receive the income over the life of the building. The analysis assumes the capital receipt will be used instead of borrowing to fund the capital programme. This enables a comparison to be made on whether, over the life of the building, the saving on borrowing is greater than the estimated rental income and residual value of the building. As the analysis is based on cashflows over, generally, 25 years, the methodology incorporates a net present value (NPV) analysis of the future income and the residual value of the asset compared to the savings on borrowing. This analysis uses a discount factor to present the future cash flows as a value as at today. The model includes the net position of the income received over a 25-year period plus the residual value of the asset, less potential savings on borrowing costs, along with any capital refurbishment costs (if they are expected to be required to the building within the period). Investment properties are generally let on a full repairing lease basis, so most repairs and maintenance costs are expected to be funded by the leaseholder. The NPV analysis discounts future cash flows to the present value based on the premise that the value of the future cash flows decrease over time due to the time value of money. The discount rate used is based on the cost of borrowing of £80k per £1m which works out at around 6.2%.
15.	Under the ADDP, additional feasibility work will be required to ensure that disposal of assets meet statutory requirements around best consideration

	reasonably obtainable. The council will undertake robust valuation work on each site and secure the necessary expertise to investigate and recommend the most appropriate route for disposal of buildings. A decision report will be produced for each asset recommended for disposal containing key information in readiness for approval. Further details can be found in Appendix 4.
16.	The council is looking to procure a strategic partner to define opportunities for asset development and regeneration across Southampton in line with its master planning ambitions. This commission will be a critical activity within the ADDP.
<b>RESOURCE IMPLICATIONS</b>	
<b><u>Capital/Revenue</u></b>	
17.	A programme budget of £0.54M for 2023/24 was approved in-year as part of the wider Transformation programme by the Chief Executive under delegated urgent decision powers, funded by existing capital receipts, as part of the flexible use of capital receipts strategy. The purpose of the budget is to procure the necessary skills and expertise required to progress the disposal and development of assets. The direct costs of disposal (estate agents, legal, surveyors etc) can be financed from the receipt generated, capped at 4% of the capital receipt.
18.	The programme budget for 2024/25 and beyond was included for approval at the council's recent budget setting meeting in March. The funding of the ADDP, and wider transformation activity undertaken across the council over the next three years will be dependent on securing additional capital receipts.
19.	<p>Income that meets the definition of capital receipts (proceeds from sale of property, plant and equipment over £10,000) is reserved for capital investment or the reduction of debt.</p> <p>An application has been made to Government seeking Exceptional Financial Support (EFS) to help balance the budget for 2024/25 and provide for other costs and potential liabilities. Government has now confirmed that it is minded to support the council by providing an EFS facility. A ministerial statement on 29 February 2024 confirmed this for Southampton City Council, and for 18 other local authorities.</p> <p>The EFS is in the form of a 'Capitalisation Direction'. Capitalisation is how the Government permits local authorities to treat revenue costs as capital expenditure. It is a relaxation of the rules that requires revenue costs to be met from revenue resources only and that councils should not "borrow" to fund revenue expenditure. EFS is only available in 2024/25 to give the council time to develop further savings and transformation plans to reduce the structural budget deficits in future years.</p> <p>The EFS will allow the council to use up to £121.58M of capital resources to fund revenue expenditure and other potential liabilities. The council is not obliged to use the full value of the EFS, and this should be seen as a facility to use rather than permission to spend. EFS is not additional funding and it must be repaid either through capital receipts or borrowing.</p>

	<p>The use of the EFS facility should therefore be kept to the minimum necessary.</p> <p>Any use of EFS will require the generation of capital receipts to create the necessary funding or will need to be funded by new borrowing. Any new borrowing will attract a premium of 1% on the prevailing Public Works Loan Board (PWLB) rates and removes the entitlement for the council to borrow using certain rates, so will be closer to 1.2% above the rate we would have borrowed at. The repayments will add to the financial pressures the Council faces.</p>
20.	<p>Currently rental income from properties in the council's investment portfolio is included as income in the renamed Growth &amp; Prosperity Directorate revenue budget. The disposal of any income generating asset will need an accompanying business case to demonstrate that the benefit of the capital receipt being utilised to avoid borrowing costs, outweighs any reduction in revenue income. This will be used to inform disposals decisions and the delegations set out in this report. The potential loss of revenue income from the disposal of investment property has been considered as part of future financial planning, however the Growth &amp; Prosperity Directorate cash limited budget level will need to be adjusted to offset the loss of the income generated by disposed assets.</p>
21.	<p>The CIPFA Prudential Code for Capital Finance in Local Authorities was updated in 2021. One of the key updates was regarding investments for service purposes. The Council as a net borrower, due to the size of the current capital programme, is now required to consider an exit strategy from all investments before borrowing is taken. An assessment needs to be made as to whether the investment is being held for regeneration or other service purposes or primarily for financial return. 'Primarily for financial return' means that the main reason why the investment was entered into, or is now being held, is to earn money.</p>
22.	<p>The direct financial benefits from ADDP will be the capital receipts generated and revenue savings from having a reduced operational estate. These savings will be fully costed and incorporated into the Medium Term Financial Strategy as the detailed disposal programme is developed. The indirect financial benefits will include potential future increases in council tax and business rates receipts where sites are redeveloped, and how they support the growth and prosperity and alignment to the city vision and master plan. The programme has targeted financial outcomes and dedicated specialist resource is required to deliver this high value programme at pace. Activity already undertaken through the Aecom commission and by securing a team of other professional roles, either directly employed, or secured through framework providers, will enable the ongoing delivery of the programme.</p>
<b><u>Property/Other</u></b>	
23.	<p>The council has an obligation to comply with S123 Local Government Act 1972 to secure best consideration reasonably obtainable on any disposal. It is critical that valuations are secured across all sites recommended for disposal or development. This is a significant programme which will instigate a requirement for large-scale disposals requiring resource and expertise beyond the staffing levels within the council's current Valuations</p>

	and Estates team. Properties of interest included in this report are those owned freehold or leasehold by the council.
<b>LEGAL IMPLICATIONS</b>	
<b><u>Statutory power to undertake proposals in the report:</u></b>	
24.	In addition to general powers under the Localism Act 2011, as previously outlined, the council has an obligation to comply with S123 Local Government Act 1972. Where best consideration is less than £2,000,000 below the market valuation then authorisation for transfer can be granted by the council providing the transfer contributes to the promotion/ improvement of economic well-being, promotion/ improvement of social well-being or the promotion/ improvement of environmental well-being.
25.	Where best consideration is greater than £2,000,000 below market valuation then a request to the Secretary of State for authorisation must be obtained. If such situations arise, they will be managed on a case-by-case basis after consultation with appropriate members.
<b><u>Other Legal Implications:</u></b>	
26.	The council has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and best value.
27.	Under s.111 of the Local Government Act 1972 the council has the power to do anything incidental to the exercising of any of its functions. The general power of competence under section 1 of the Localism Act 2011 gives local authorities a broad range of powers "to do anything that individuals generally may do" subject to limits within other legislation and there are no adverse limits on the proposed scheme under the current legislation.
28.	Proposals for disposal of assets used by the public will be subject to Equality Impact Assessments and potential mitigation measures under the Equalities Act 2010 and detailed impact assessments will be required for each individual disposal proposal.
<b>RISK MANAGEMENT IMPLICATIONS</b>	
29.	<p>There will be a robust risk management approach in relation to this programme through the development and ongoing review of the programme RAID log (risks, assumptions, issues, and dependencies) and thorough risk plans developed for individual buildings.</p> <p>The significant risks within the programme include:</p> <ol style="list-style-type: none"> <li><b>1. Securing the required budget to fund the ADDP and future transformation activity in 2024/25.</b> Risk will be mitigated by securing a capital receipt from the sale of a council asset before the end of the current financial year.</li> <li><b>2. Correct resources are procured without delays to enable asset development and disposal work to progress at pace to meet programme outcomes.</b> This risk will be mitigated by ensuring the council can procure through frameworks to enable necessary resourcing (legal, valuations, disposals, surveying, procurement</li> </ol>



	<p>expertise etc). Resource requirements will be continuously reviewed/monitored by the Programme Manager.</p> <p>3. <b>Correct programme governance, including securing programme delegations to achieve robust/ swift decision making, is supported.</b> The required delegations will be sought through consultation with elected members as outlined in this paper.</p> <p>4. <b>The council will achieve best consideration from disposal of its assets.</b> The council will procure the correct level of qualified surveying resources to ensure statutory obligations are achieved around best consideration.</p> <p>5. <b>Decisions are made supporting the long-term regeneration and future growth of the city, balanced against the need to achieve an £85M disposals target.</b> Securing a strategic partner to assess the opportunity for development and regeneration of sites, and production of a strategy, which aligns with the council's broader master planning ambitions will be key activity within the programme.</p>
30.	Any disposal of assets within the programme needs to be carefully planned and executed. The preparation stage is important, requiring an assessment of each building and its profile. Various factors need to be considered including the current use, condition, statutory compliances, and planning status. It will also be important to undertake a current market appraisal with valuation of each property. Detail outlining some of the information that will be included in a report to seek approval to take a particular route to dispose of a building can be found in Appendix 4.
<b>POLICY FRAMEWORK IMPLICATIONS</b>	
31.	The proposal in this report reflects the Council's Corporate Plan 2022-2030 and aspirations around a 'prosperous city'. It also supports the council's Local Development Plan (2013-2026) and Southampton City Council Housing Strategy (2016-2025).

<b>KEY DECISION?</b>	<b>Yes (for Cabinet decisions)</b>
<b>WARDS/COMMUNITIES AFFECTED:</b>	Potentially all
<u>SUPPORTING DOCUMENTATION</u>	
<b>Appendices</b>	
1.	Extract of Aecom's asset optimisation report (confidential)
2.	Detailed list of corporate and operational properties for disposal under the ADDP (confidential)
3.	Detailed list of investment and commercial properties for disposal and regeneration under the ADDP (confidential)
4.	An indication of the content of decision reports required for property disposal (confidential)

**Documents In Members' Rooms**

1.	Not applicable
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<b>Equality Impact Assessment</b>		
<b>Do the implications/subject of the report require an Equality and Safety Impact Assessment (ESIA) to be carried out.</b>		<b>Yes</b>
<b>Data Protection Impact Assessment</b>		
<b>Do the implications/subject of the report require a Data Protection Impact Assessment (DPIA) to be carried out.</b>		<b>No</b>
<b>Other Background Documents</b>		
<b>Other Background documents available for inspection at:</b>		
<b>Title of Background Paper(s)</b>	<b>Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)</b>	
<b>1.</b>	<b>Aecom report</b>	