

DECISION-MAKER:	CABINET COUNCIL
SUBJECT:	ASSET DEVELOPMENT AND DISPOSAL PROGRAMME – Phase 2
DATE OF DECISION:	17TH DECEMBER 2024 (CABINET) 26th FEBRUARY 2025 (COUNCIL)
REPORT OF:	COUNCILLOR BOGLE CABINET MEMBER FOR ECONOMIC DEVELOPMENT

<u>CONTACT DETAILS</u>			
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STATEMENT OF CONFIDENTIALITY
<p>Appendix 1 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>
BRIEF SUMMARY
<p>The Council approved the Asset Development and Disposals Programme (ADDP) at Cabinet on the 19th March 2024 and Council on the 20th March 2024. This is an important and transformational programme for the authority, that will deliver asset development and disposal opportunities over the next 5 years. The programme aims to support the council's growth agenda, alongside realising capital receipts to support the financial position of the council. This programme's focuses on "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>This report focuses on the next phase of assets to be disposed of (phase 2) and seeks approval to a recommended list. The list has been drawn up following work analysing assets that are suitable for disposal using the following criteria:</p> <ol style="list-style-type: none"> They are no longer required for operational delivery; The net present value of disposal is positive; The asset is not required for regeneration purposes.

The net book value of the 32 assets being proposed for disposal is over £5M. The report also recommends 6 assets for development purposes.

RECOMMENDATIONS TO CABINET:

	(i)	To approve the Phase 2 assets recommended for disposal, development or regeneration within the Asset Development and Disposal Programme as detailed in Appendix 1.
	(ii)	To delegate authority to the Executive Director Growth and Prosperity, to progress and implement asset disposal, development and regeneration opportunities within the scope of the ADDP Programme (as outlined in Appendix 1). This decision will be taken following the required consultation with the relevant members and statutory officers.

RECOMMENDATIONS TO COUNCIL:

	(i)	To approve Phase 2 of the Asset Development and Disposal programme (as detailed in the confidential Appendix 1) which includes assets with a combined value at over £5m.
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REASONS FOR REPORT RECOMMENDATIONS

1.	<p>The assets recommended for disposal or development in Phase 2 of ADDP, as outlined in the confidential appendix are being recommended for approval following extensive engagement with relevant services to align with their transformational initiatives, localised service assets review and early market assessments, consultation with officers and relevant members to build on the intelligence gathered within the past 18 months and select the most appropriate set of assets.</p> <p>The receipts from these disposals are required to help fund the council's transformation programme and exceptional finance support requirement.</p> <p>The rationalisation of the council's asset portfolio will also reduce the future repairs and maintenance liabilities reducing the requirement for further capital and revenue funding.</p> <p>Lastly and perhaps more importantly it also releases assets that can support the city's regeneration, supported by the work of the Renaissance Board.</p>
2.	<p>The report also seeks approval for delegated powers to officers following consultation with relevant Cabinet Members to progress discrete asset disposals and asset development or regeneration opportunities within the scope of the ADDP. A thorough decision making, and governance process is in place under delegated powers as outlined within the March 2024 Cabinet Report, (recommendation (iv)). The delegated power process will ensure the council can take advantage of the market offers and ensure a speedy, yet robust and transparent decision-making process.</p>

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

3.	<p>Option 1. Do nothing:</p> <p>The council maintains a sizeable asset portfolio containing c.330 corporate and operational properties, and further 200 investment and commercial properties. Assets within the General Fund incur substantial maintenance and operational costs, including energy, insurance and</p>
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	<p>business rates. If the council does not act now and aim to reshape or condense its portfolio of assets by either disposing of inefficient or ageing assets or redevelop and regenerate sites across the city, there is a risk that properties may fall into disrepair due to lack of adequate investment. There is also a risk that the council will therefore be unable to meet its future investment requirements to address its ongoing maintenance liabilities for an oversized and ageing portfolio.</p> <p>Over time these liabilities are likely to compound and would require continued significant financial investment, that would not be sustainable over the long-term. Doing nothing will also fail to meet the council’s capital receipts targets to ensure the financial benefits and fiscal stability of the Council.</p> <p>Option 2: Gain individual disposal approval of assets from Cabinet/ Council.</p> <p>This approach is not sustainable when considering the volume of assets in scope for disposals or development within a phased programme such as this.</p> <p>Option 3: Disposal of assets identified in phased approach.</p> <p>In March 2024 Council approved an ADDP including Phase 1 asset list. This programme is now underway with disposal or development proposals being progressed under delegated authority, as stated in that report. Phase 2 is proposed in this report. Undertaking the disposals in this phased manner allows for a planned and manageable approach in undertaking a wholesale review of the council’s assets.</p> <p>Option 4: To propose an alternative list of assets</p> <p>All assets are being reviewed in a phased manner. The phase outlined in this report is the next tranche of assets to be assessed. Savills have now been engaged and a marketing programme is in place offering market assessments for each disposal and exploring the right marketing strategy, through to completion of sale or proposing assets suitable for development schemes as appropriate. To amend the list at this stage would cause delays in securing the capital receipts.</p> <p>Therefore, the recommended course of action is to proceed with Option 3.</p>
DETAIL (Including consultation carried out)	
4.	<p>ADDP is a complex programme which has great significance to the council’s transformation agenda. The ambition of this programme is to develop a capability by which the authority can assess and determine whether to retain, develop or dispose of council property assets. This will create the optimum mix of assets class types and right-size portfolio that responds to the long-term needs of the organisation. This portfolio will be able to stimulate growth in the city and generate financial benefits that contributes to the fiscal stability of the council.</p>

	<p>One of the most significant outcomes of the ADDP is to realise multimillion pounds worth of capital receipts, to benefit the future financial stability of the council by funding any use of the capitalisation direction the government is minded to issue as part of the council's Exceptional Financial Support (EFS).</p>
5.	<p>The council's transformation initiative has a clear vision for a streamlined and sustainable organisation, operating from a reshaped portfolio of Council's owned assets, that are fit for purpose, well maintained and managed effectively. To this end, the ADDP is aiming to achieve a significant reduction in the council's portfolio of assets including to reduce its operating costs and achieve its capital receipt target over the next 5 years.</p> <p>Disposal of operational assets will inevitably mean that services may need to be relocated and consolidated and/or other appropriate locations for their service, subject to consultation.</p>
6.	<p>Current position</p> <p>The Council owns an extensive range of freehold and leasehold properties across the city. Its corporate and operational portfolio alone includes over 330 assets, 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 on the 31st of March 2024 as stated in the Statement of Accounts was well over £200m (excluding schools).</p> <p>This figure is an accounting book value, and it does not necessarily equate to the value of an asset in an open market, particularly when considerations around planning or inherent statutory legislation exist e.g. historic building/ archaeological designations that may constrain development, where the market value would be adversely affected.</p>
7.	<p>The Council also possesses a varied commercial and investment property portfolio. These buildings include shops and retail units, industrial units/ warehouses, pubs, hotels, offices, student accommodation and parcels of land. As of 31st March 2024, as stated in the Statement of Accounts, this portfolio was holding about 200 assets valued at over £100m.</p>
8.	<p>Asset disposal process. The Council has commissioned Savills as its advisory agents to support with marketing of assets earmarked for disposal, undertaking market appraisals, valuations and establishing disposal strategies to drive the best marketing campaign for each asset and attain the most advantageous offers from the current market. Savills will execute market appraisal assessments for assets identified for disposal or development to ascertain the most appropriate route to market and achievable value (via soft market testing, open market sale, auction, etc) to secure best deals.</p> <p>Once the best offer is agreed, vetted and recommended by Savills to the Council, an RICS Red Book Valuation will be required in accordance with</p>

	<p>S123 Local Government Act 1972, to demonstrate best consideration is obtained for that particular asset. A Delegated Decision Notice with report will be produced for each asset recommended for disposal containing key information in readiness for approval. This will then provide the basis for the final delegated approval for the disposal of that asset. Then the officers can proceed with the legal and financial transaction to complete the sale.</p> <p>The outlined corporate and operational properties to be considered for disposal (Appendix 1, Table A), along with properties with significant regeneration and growth potential (Appendix 1, Table B).</p>
9.	<p>Development and regeneration opportunities. A separate exercise is taking place when evaluating buildings within the Council’s commercial and investment portfolio. A commission to review the Council’s investment portfolio has identified opportunities for development / regeneration and business cases will be developed in the coming months to underline the ambition of each site.</p> <p>The outlined investment properties to be considered for disposal (Appendix 1, Table A), along with those properties with significant regeneration and growth potential (Table B).</p>
10.	<p>An assumption has been made that some sites identified for development or regeneration schemes within this programme, have a much longer implementation timeline before realising a capital receipt but would be capable of securing, an enhanced value because of the development potential, compared with a straight disposal now. Therefore, the timeline for the realisation of benefits may fall outside the timeline of this programme.</p>
11.	<p>The commercial and investment sites identified in Appendix 1 (Table B) are sites that have the greatest capacity to create change in the city and maximise the opportunity for growth, support master planning and the work of the Renaissance Board, including generation of capital receipts included within £85m target, new council tax and business rates. Finance officers have implemented a methodology to determine the financial benefits of disposal now versus retention of council-owned properties. The methodology used is detailed in Appendix 2.</p>
12.	<p>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 alongside the ADDP, and it will be the framework by which enhanced capital receipts will be realised by the Council.</p>
13.	<p>Consultation on the future disposal or development 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>
RESOURCE IMPLICATIONS	
<u>Capital/Revenue</u>	

14.	Capital receipt (income proceeds from sale of property, plant and equipment over £10,000) is reserved for capital investment or the reduction of debt.
15.	<p>Currently rental income from properties within the council's investment portfolio is included as income within the Growth & Prosperity Directorate revenue budget. The disposal of any income generating asset will need an accompanying financial assessment to demonstrate that the benefit of the capital receipt being used to avoid borrowing costs, outweighs any reduction in revenue income. This assessment will be used to inform disposals decisions, and the delegation decision for the disposal.</p> <p>The potential loss of revenue income from the disposal of investment property has been considered as part of future financial planning, however, the Growth & Prosperity Directorate budget level will need to be adjusted to offset the loss of the income generated by assets disposed of.</p>
16.	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, or is now being held, is to earn money.
17.	<p>The direct financial benefits from ADDP will be the capital receipts generated and revenue savings from having a reduced borrowing requirement and reduced operational and commercial estate. These savings will be fully costed and incorporated into the Medium-Term Financial Strategy as the detailed disposal programme is developed.</p> <p>The indirect financial benefits will include potential future increases in council tax gains and business rates receipts where sites are redeveloped to create new dwellings or premises, and how they support the growth and prosperity locally and alignment to the city vision and master plan.</p>
<u>Property/Other</u>	
18.	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 RICS Red Book 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 and Estates team. Properties of interest included in this report are those owned freehold or leasehold by the Council.
LEGAL IMPLICATIONS	
<u>Statutory power to undertake proposals in the report:</u>	
19.	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 in accordance with a General Disposal Consent approved by the Secretary of State 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.
20.	Where best consideration is greater than £2m 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. Such disposals will also be subject to review under Subsidy Control legislation to ensure the Council is not conferring an advantage on one undertaking over another by purchasing property at an economically advantageous price.
<u>Other Legal Implications:</u>	
21.	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.
22.	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.
23.	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, in particular s.149 (the 'Public Sector Equality Duty') and detailed impact assessments will be required for each individual disposal proposal. Similarly, a consultation process will be undertaken where appropriate when proposal for disposal of public assets is being considered.
RISK MANAGEMENT IMPLICATIONS	
24.	There is a robust risk management approach as part of the ADDP, in relation to this implementation programme through the development and ongoing review of the programme RAID log (risks, assumptions, issues, and dependencies) and thorough risk management developed for individual buildings. The significant risks within the programme include: 1. Appropriate capacity to deliver - Adequate resources may not be procured promptly to enable asset development / regeneration or disposal work volume to progress at pace to meet programme desired timelines and outcomes. This risk will be mitigated by ensuring the council can continue to procure the necessary expertise through various frameworks to enable workstreams activities such as: legal, valuations, disposals, surveying, procurement expertise, to be supported appropriately. Resource

	<p>requirements will be continuously reviewed/ monitored by the Programme Manager ensuring no loss of programme momentum.</p> <ol style="list-style-type: none"> 2. Robust governance - Appropriate programme governance, including securing programme delegation's approvals to achieve robust/ swift decision making, is inconsistent. The required delegations will be managed proactively by the Programme Manager and sought through consultation with senior officers and elected members as outlined in this paper. 3. Best consideration - The council will achieve best consideration from disposal of its assets. The council will procure the correct level of qualified expertise resources to ensure statutory obligations are achieved around best consideration. Decisions are made supporting the long-term regeneration and future growth of the city, balanced against the need to achieve an ambitious disposals target. 4. Securing a strategic partner - to assess the opportunity for development and regeneration of sites, and the production of a strategy, which aligns with the council's broader master planning ambitions will be key activity within the programme. However, its delivery timeline may not align with the ADDP delivery plans. Programme Manager will monitor existing and future dependencies to re-align delivery plans. 5. Economic uncertainty – Current and prevailing market conditions may prevent a sale or disposal from achieving its maximum potential or vice versa in a strong market.
25.	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, title, statutory compliances, and planning status etc. It will also be important to undertake a current market appraisal with valuation of each property via Savills.
POLICY FRAMEWORK IMPLICATIONS	
26.	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).

KEY DECISION?	Yes (for Cabinet decision)
WARDS/COMMUNITIES AFFECTED:	All
<u>SUPPORTING DOCUMENTATION</u>	
Appendices	
1.	Detailed list of corporate, operational, investment and commercial properties for disposal and development within the Phase 2, ADDP (confidential)

2.	Financial Methodology
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Documents In Members' Rooms

1.	Not applicable
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Equality Impact Assessment

Do the implications/subject of the report require an Equality and Safety Impact Assessment (ESIA) to be carried out.	No
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Data Protection Impact Assessment

Do the implications/subject of the report require a Data Protection Impact Assessment (DPIA) to be carried out.	Yes
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Other Background Documents

Other Background documents available for inspection at:

Title of Background Paper(s)	Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)
1.	