

Draft Asset Disposal Strategy - 17-01-2024 (version 2)

1. Background

1.1. In July 2023, the Council General Fund Budget update report explained that the Council's ambitious capital programme had resulted in a significant need for the Council to borrow and to provide for debt repayment through its minimum revenue provision.

1.2 The cost of Capital financing is a significant contributing factor to the £18.3m Medium Term Financial Plan (MTFP) deficit.

1.3 The July report stated that the Council's debt must be reduced to achieve a sustainable financial position and that this could be supported through the sale of assets.

1.4 Asset Disposal is a critical workstream within the Financial Recovery Plan (FRP) endorsed by Council at its meeting of 30 August 2023.

2. Objectives

2.1 A well planned and implemented programme of asset disposals will improve the Council's financial position via the generation of capital receipts to reduce its level of borrowing and repay the existing debt.

2.2 This course of action will decrease both interest costs and Minimum Revenue Provision charged to revenue budgets.

2.3 Asset disposals will also lessen pressure on revenue budgets by reducing property repairs, maintenance and utility costs.

2.4 The project aim is to conclude a detailed assessment of the Council's corporate property portfolio to identify, as part of its rationalisation programme, which Council owned assets could be sold to generate a total capital receipt of £50M (net of costs etc.) and assist in relieving the level of borrowing and capital financing requirement, as detailed within the updated FRP and Medium Term Financial Plan (MTFP) presented to the Council's Corporate Governance and Standards Committee in November 2023.

2.5 The project is working towards the following timescales to achieve capital receipts via the sale of property assets.

£12.5M by Oct 2025
+ £12.5M by Apr 2026
+ £12.5M by Oct 2026
+ £12.5M by Apr 2027

3. Scope and Process

3.1 A high-level review of all corporate property assets has been undertaken by the Property and Assets service to assess their suitability for disposal using a RAG rating, the portfolio having been divided into 3 major categories for consideration:

1. **Investment properties** (held only for income generation and/or capital value appreciation but do not fulfil any service objective),
2. **Land and Buildings** (held for operational or strategic reasons)
3. **Surplus Assets** (those no longer required).

3.2 Housing Revenue Account owned assets fall outside the scope of Asset Disposal strategy.

3.3 This assessment provided an initial view on whether an asset falls within a Sell/Review/Keep outcome based upon a number of assumptions, assessment of property income/expenditure to determine the yield received, and knowledge of the suitability of the asset to the service using it.

3.4 A detailed review of all assets in scope is now required taking into consideration additional factors, such as tenure and occupancy information, current/alternative use values and a further in-depth review of income/outgoings to confirm the yield being achieved on each asset, upon which to inform a recommendation to sell.

3.5 Whilst the project will focus on generating capital receipts to meet the total financial target, revenue savings will also be achieved via savings on expenditure, which will be detailed within each business case for disposal.

3.6 Any legal rights and planning issues that may impact on the ability to sell an asset will be investigated and potentially resolved prior to an asset being placed on the market.

4. Other Considerations

4.1 The operational needs of service teams using or occupying assets will impact on the likelihood of achieving a sale of those assets falling within the operational portfolio.

4.2 Meetings have commenced with all Service Leads to discuss potential disposal opportunities identified in the high-level review to ascertain whether these can be brought forward for further consideration having regard to latest operational requirements, underutilisation, ability to relocate services to alternative assets where potentially required and any previous assumptions.

4.3 These discussions will be concluded before progressing with any recommendation to sell.

4.4 Those property assets that are essential to continue the delivery of Council Statutory Services and those that continue to provide an attractive and sustainable investment return are to be protected.

4.5 The Council holds building and land assets of strategic significance and for public realm as well as those which may form part of another key workstream within the Council's Corporate Plan, e.g., Shaping Guildford's Future.

4.6 These sites would therefore not be considered for disposal at the initial stages of this workstream.

4.7 Interaction with and interdependencies on other corporate projects as well as any impact thereon will be considered as part of the strategic approach to be taken.

4.8 The focus of this Asset Disposal Strategy will be on assets that, should they be sold, will ideally have either zero or limited negative impact on the Council's Revenue income streams in terms of rent or income received.

4.9 Some assets may have potential to add value ahead of disposal e.g., conversion of surplus vacant offices to residential use.

4.10 To maximise value ahead of disposal, planning permission may need to be obtained, schemes to be developed through a planning application and funding to be made available prior to being actively marketed.

4.11 Each opportunity will be fully explored to determine the preferred route to disposal.

4.12 Where planning permission can add value, a recommendation to secure planning consent will be presented alongside a disposal value without consent or alternatively, an overage or clawback provision will be recommended for future payments to be made to the Council in the event of excess profits being generated post completion of a disposal.

4.13 The ability to secure such overage provisions will be dependent upon the quality of the site and market conditions prevailing at the time of sale.

5. Risks & Constraints.

5.1 *Property Market conditions* - with the exception of the industrial sector, current property market conditions are not especially buoyant and whilst demand exists, there is a risk that the market could see a decline which could impact negatively on the Council's ability to dispose of assets at acceptable prices and within the target timescale.

5.2 *Timing* - Placing a large number of assets on the local property market at the same time could result in pricing being negatively impacted via over-supply in the short term.

5.3 To avoid adversely impacting local market valuations, a phased approach will be recommended.

5.4 A marketing strategy will commence for those assets that should be more straightforward to obtain Council approval to sell (or where approval has already been obtained).

5.5 Thereafter, at appropriate stages, further properties will be placed on the market with specialist property agents once all necessary preparation has been completed and based on the market conditions and level of interest being experienced at the time.

5.6 *Best Consideration* - s.123 of the Local Government Act 1972 places a statutory obligation on the Council not to dispose of any asset for a consideration less than the best value that can reasonably be obtained.

5.7 In order to ensure compliance with Section 123, whether the Council chooses to dispose of assets via private treaty, auction, formal or informal tender, in advance of any sale progressing updated independent valuations will be obtained (sourced via external property advisors).

5.8 This will initially entail obtaining an opinion of value for each asset recommended for disposal to be followed by a formal red book valuation once each disposal has been formally approved and is ready to progress. 5.9 *Subsidy Control* – The Subsidy Control rules (superseding the State Aid regulations) will need to be complied with and legal advice may be required to ascertain the State Aid implications of any disposals to be approved to ensure Subsidy Control rules are met.

5.10 *Political Sensitivity* - whilst there may be financial and/or strategic reasons for the Council to proceed with the sale of assets, there may be political pressures opposing disposals, which may complicate a decision to sell being reached and may delay or prevent the target outcome being attained.

5.11 Early consultation with all stakeholders will be undertaken to identify any assets where such political pressures may complicate decisions to sell being arrived at.

5.12 These decisions will be addressed by the Executive or other appropriate decision-making forum within the Council at the earliest possible stage to minimise any impact on the target outcome.

5.13 *Resource Implications* - In addition to valuation and marketing budgets being allocated to this workstream, staff support from the Council's legal team will be required to fully investigate any legal issues that could impact on the ability to sell assets.

5.14 Land title reports will be required to establish whether any restrictive covenants, rights and any other impediments to a disposal exist, in addition to undertaking the typical conveyancing work associated with disposing of property, dealing with pre-contract enquires etc.

5.15 Dependent on capacity available and numbers of transactions progressing, the legal team may require additional staff resources

5.16 Further support may also be required from Planning Services relating to enquiries on planning restrictions listings and where it may be necessary to apply for planning permission to maximise sale prices

5.17 *Public Open Space and Common Land* - Should the Council approve the disposal of land assets that form part of Public Open Space or Common Land, there

will be a need to comply with requirements to publish its intention to do so and consider any representations received.

5.18 Special rules apply to disposal of Common Land which may require Secretary of State Consent.

5.19 *Confidentiality* - Confidentiality will be required on certain discussions where a sale may be sensitive to avoid impacting staff uncertainty (for example, some of the properties in-scope provide facilities to the local community).

5.20 Communications with all stakeholders including the Executive Team, councillors, officers within the Service Teams and all users of the assets will therefore need to be closely controlled during the project programme.

5.21 Also key, will be how the strategy is communicated externally to ensure commercial confidentiality, and to manage market impact.

6. Approach

6.1 Summary Property Reports will be prepared for each asset to be recommended for disposal that will include a property description, tenure details and all other relevant information to support a recommendation to go to the Executive for approval.

6.2 These reports will include a financial appraisal and business case.

6.3 The intention is for these reports to be submitted to the Executive for approval in batches as the project progresses rather than individually.

6.4 The Council's portfolio of assets is highly diverse in nature ranging from prime commercial and industrial sites generating strong income streams or development opportunities comprising sought after investments, to those potentially unoccupied and lower value buildings and land plots that are likely to prove less straightforward to achieve a sale and for which an extended period of marketing may be required to find a buyer.

6.5 Some assets may require additional investment, planning permissions to be obtained or legal issues to be resolved before they can be sold for the best value and these opportunities will need to be further explored.

6.6 Each asset will be fully assessed to identify the most effective route to market and the preferred option for those assets where it may not be possible or financially practical for the Council to iron out all potential issues within a realistic timescale or budget within the project constraints.

6.7 These elements will be set out in detail as part of the business case included within each Summary Property Report.

6.8 To gain some early traction, following Executive approval of the asset disposal list, the more straightforward assets will be actively marketed with the minimum of delay as well as progressing those sales of assets where Executive approval to dispose may have already been received.

6.9 The Council owns a wide variety of assets, some of which, due to their specialised nature or more limited appeal, may require a longer period for marketing to find a suitable purchaser and to avoid potentially disposing at a depressed value.

6.10 This will need to be allowed for within the programme and timescale for delivery of capital receipts.

6.11 Procurement of property agents with the specific knowledge and sector expertise will be undertaken in compliance with the Public Contracts Regulations 2015 and Council procurement policies via use of suitable compliant frameworks where possible, to provide valuations and formally market the assets agreed for disposal.

6.12 A number of property agencies will be appointed to maximise marketing impact and suitably cover the range and volume of assets to be disposed.

7. Governance Requirements and Review Process

7.1 For the Asset Disposal workstream to succeed and the target capital receipts to be met, strong governance will be necessary to provide a transparent and efficient decision-making process.

7.2 Following agreement of a long list of assets for disposal by the Financial Control Panel (FCP) and Financial Recovery Executive Working Group (FREWG) the preparation of the Summary Property Reports will commence detailing the business case for disposal of each individual property which will set out the financial appraisal, options available, recommendations on the proposed way forward, analysis of any legal and planning issues and timing and approach to market.

7.3 Once disposal of an asset is submitted to the Executive with a recommendation to sell, the recommendation will include provision for final adjustments to the terms for disposal to be delegated to the Strategic Director for Place and Executive Head of Assets and Property.

7.4 Assets and Property team members will hold regular update meetings with each of the property agents who will be marketing assets for sale once appointed, to assess progress and monitor sales and a monthly update thereon will be issued to the FCP and FREWG.

7.5 These updates will advise on progress of the workstream against the financial target and agreed milestones. As part of this process, the Asset Disposal Strategy will also be reviewed to ensure it remains fit for purpose.