POLICY & RESOURCES COMMITTEE	Agenda Item 151 Brighton & Hove City Council

Subject:	**Asset Disposal Process to support the Medium-Term Financial Strategy and achievement of Capital Receipts**	
Date of Meeting:	**19th March 2020**	
Report of:	**Executive Director, Economy, Environment & Culture**	
Contact Officer: Name:	**Angela Dymott Jessica Hamilton Ben Miles**	**Tel: 01273 290336**
Email:	**ben.miles@brighton-hove.gov.uk**	
Ward(s) affected:	**(All Wards);**	

FOR GENERAL RELEASE

1. PURPOSE OF REPORT AND POLICY CONTEXT

1.1 This report sets out the options and process for achieving the capital receipts that are critical to enabling the council's MediumTerm Financial Strategy, Capital Strategy and Investment programmes. Capital receipts are generated through the disposal or appropriation of corporate property assets that are surplus to requirement, poor performing or do not contribute to the councils Corporate Strategy priorities through their current use, from within Property & Design's commercial and operational portfolios.

1.2 The options for achieving capital receipts outlined in this report support the delivery of the council's target to provide additional council homes and other affordable homes by 2023. Outline proposals for the delivery of homes have been submitted and approved at Housing Committee 18th September 2019 (Housing Supply Update 2019-23). The council's commercial and operational property portfolios have the potential to enable the delivery of homes in the City by releasing identified sites for development.

1.3 The disposal of council-owned property has been delayed to avoid an opportunity for the development of homes being missed. This approach has impacted on the council's ability to meet its capital receipt requirements for future financial years. The proposed asset disposal process outlined in paragraph 3.12 means sites not identified for council housing, nor required to support other council priorities such as community wealth, economic or environmental policy, can now be considered for disposal to achieve capital receipts as part of the council's Medium Term Financial Strategy and Capital Strategy. Sites identified for housing delivery also have the potential to provide capital receipts through their appropriation to the Housing Revenue Account.

2. RECOMMENDATIONS:

2.1 That the Committee:

- Agrees the criteria set out in paragraph 3.11 of this report for identifying non-HRA council-owned property and land as being suitable for disposal.
- Agrees that when the Council appropriates land from the General Fund to the Housing Revenue Account the sum paid to the General Fund should meet best consideration under Section123 of the Local Government Act 1972.
- Notes that any recommendations to dispose of land or property comply with the criteria and asset disposal process set out in paragraphs 3.11 and 3.12, and are brought to P&R committee with a business case for approval.

3. CONTEXT/ BACKGROUND INFORMATION

3.1 The council has a large property and land portfolio valued at £1.83 billion [March 2019]. The operational portfolio consists of approx.11,500 housing revenue account (HRA) residential units and in excess of 500 non-HRA properties. The non-operational commercial portfolio consists of approximately 600 properties, is valued at £244m, produces an annual income of approximately £11m and contributes to the Medium Term Financial Strategy helping support the delivery of key council services.

3.2 Property is our second largest resource after people and it is therefore important for the council, as a major owner and occupier of land & buildings in the city, to review and justify its holdings. We use our property assets to support the council’s Corporate Strategy outcomes in Our Plan and aim to make best use of our public assets working towards a carbon neutral City by 2030 and build community wealth through city and regional regeneration. The Asset Management Plan & Corporate Property Strategy (AMP) provides a strategic overview of the council’s property assets and the systems, processes and policies in place or being progressed to manage and maintain them. The AMP is currently being refreshed to reflect the approved council’s Corporate Strategy.

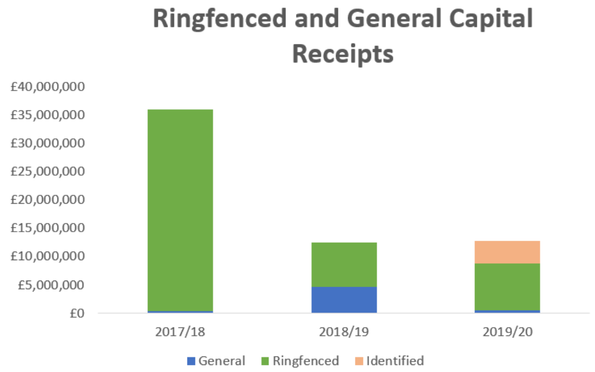
3.3 The role of Property & Design, representing the council’s Corporate Landlord, is to use our assets to best effect, to understand and challenge services on their future operational property requirements, to identify & dispose of those assets which are performing poorly, to prioritise our limited resources to our core assets and to find cost effective property solutions alongside our partners. For our investment portfolio (urban and rural estates) the challenge is to develop a new strategic approach to optimise capital growth and income whilst reflecting corporate priorities by re-balancing the portfolio which is heavily retail focussed, enabling community wealth and regeneration opportunities, working towards a carbon neutral city by 2030 and contributing to the well-being of the City.

3.4 The Council's Medium Term Financial Strategy (MTFS) links to the Asset Management Plan and Corporate Property Strategy through the capital and revenue budget and programme of work. Future year capital allocations will need to be reviewed in line with capital receipts projections. The main aims of the council's Capital Strategy are to use our existing assets to generate income for investment and modernisation of council services and to generate capital receipts from the disposal of surplus or under-performing assets and to deploy the proceeds from the sale of capital assets for:

- Reinvestment in the capital investment programme,
- Modernisation of council services including using the government's capitalisation direction that allows revenue costs to be capitalised and funded from capital receipts where this generates efficiencies,
- Repayment of debt or for investment, for example, to offset any loss of rental income in the revenue budget,
- Reinvestment from under-performing assets back into more commercially viable assets as part of the rationalisation of the commercial property portfolio.

3.5 Demand for capital receipts was high during the previous four-year budget cycle and Property & Design have provided over £60m through disposals between 2016/17 to 2019/20 to support the Medium Term Financial Strategy Capital Investment programme and a range of modernisation initiatives.

Capital Receipts Target



	2017/18	2018/19	2019/20	Total
General	£360,000	£4,640,000	£505,000	£5,505,000
Ringfenced	£35,595,000	£7,887,000	£8,259,000	£51,741,000
Identified	£0	£0	£4,020,000	£4,020,000
Total	£35,955,000	£12,527,000	£12,784,000	£61,266,000

Achieved Capital Receipts

What Are Capital Receipts Funding?

- **IT&D**
- **Digital First**
- **ISFP Investment**
- **Voluntary Severance**
- **Modernisation Agenda & Contingency**
- **Capital Investment Programme**
- **Asset Management Fund**
- **Strategic Investment Fund**
- **Other Capital Projects**

3.6 The need for capital receipts continues, and Property & Design officers have been set a minimum target of £6m a year up until 2022/23. A substantial proportion of previous years' capital receipts were delivered through the consolidation of operational property, mainly offices, enabled by the council's Workstyles modernisation programme. The amount of office space owned and leased by the council has reduced by 60 per cent since 2009 achieving savings of over £2m pa. There is little scope to reduce this further without negatively affecting service delivery. Officers must therefore focus on the commercial property portfolio for future disposals in order to achieve the council's capital receipt targets.

3.7 For the 19/20 financial year £8.7m capital receipts have been achieved. The target for 19/20 is £12.78m and the remaining balance of £4m has been identified and is dependent on the delivery of a range of capital projects. For future financial years the capital receipts target is at risk mostly due to the restriction placed on disposals described in paragraph 1.3. If the council is unable to meet its capital receipts targets for the future financial years then it will put pressure on the Medium Term Financial Strategy and Capital Strategy preventing and putting at risk the delivery of the range of modernisation and capital investment programmes and initiatives described above.

3.8 For the purposes of this report two types of disposal are being considered, both of which would generate a capital receipt. The first type of disposal is appropriation, which involves transferring ownership of the land or property from the General Fund to the HRA. In these cases, it is recommended that HRA would make a best consideration payment in accordance with Section 123 of the Local Government Act 1972 to the General Fund as a capital receipt. The second type of disposal would be on the open market, where the land or property is marketed, and the capital receipt is generated by sale to a private buyer. More information about the disposals process can be found on the website in Brighton & Hove City Council's Corporate Property Strategy & Asset Management Plan and the Community Asset Transfer Policy.

3.9 Some of the properties held in the council's commercial property portfolio have the potential to be suitable for council housing development schemes, while others do not. It is recommended that property suitable for council housing development is appropriated by the HRA, while property which is not suitable for council housing development is considered for disposal, provided that it is not required to support other council priorities such as Community Wealth building (e.g. suitable for consideration under the Community Asset Transfer policy) encompassing social value benefits, economic policy or environmental policy.

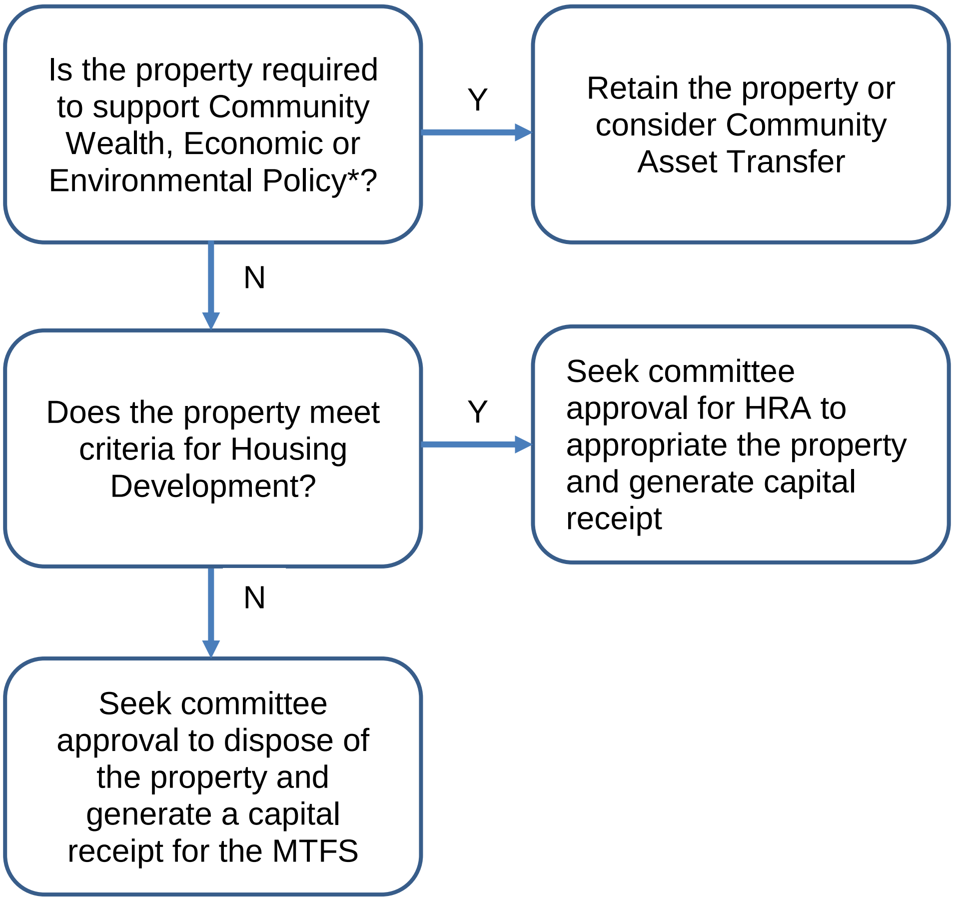
3.10 In order to define the new criteria that determines which properties are suitable for council housing development, officers from Property, Housing, Planning, Finance and City Regeneration held a series of workshops. These workshops considered property related issues such as condition, value, location, tenancy status, ownership, planning conditions, redevelopment viability and risks. As a result of the workshops a set of criteria has been developed which provide a framework for assessing council-owned assets and their potential suitability for council housing development. These criteria are set out below.

3.11 **Council Housing Development Criteria**

Viability – in cases where the land/property would deliver fewer than 10 homes or best consideration cannot be achieved, the housing scheme was assessed as financially unviable or an inefficient use of officer capacity
Planning – in cases where a change in use would be required that undermined the council's City Plan, the housing scheme was assessed as non-compliant.
Ownership – in cases where there was mixed tenure or ownership of land/property, the housing scheme was assessed as too complex to deliver within the council homes target timescales.

Location – in cases where the land/property was unsuitably located (e.g. lacking in service infrastructure – drainage, highways, power etc.), the housing scheme was assessed as financially unviable or incongruous.
Operational – in cases where the property was required for ongoing service delivery to support corporate strategic priorities, the housing scheme was assessed as incompatible with the council's other priorities. This includes property requirements for the provision of Adult Social Care in the city.

3.12 **Proposed Asset Disposal Flow Chart**



*These include current and emerging strategies such as the Corporate Plan, Asset Management Plan, Circular Economy, Economic Strategy, Sustainability, Medium Term Financial Strategy, and City Plan.

3.13 The council's commercial portfolios also provide rental income for the organisation which supports key service delivery. Any disposal has the potential to reduce the amount of rental income that the portfolios generate. For this reason, the properties identified as suitable for disposal have been assessed as low-rent, high-value assets, and the impact of disposal on rent levels is therefore reduced to a minimum.

3.14 Alongside this work, a set of Asset Investment Principles are being developed, which aim to rebalance the urban commercial portfolio, removing risk and creating opportunities for income growth. These principles will further mitigate any potential income loss associated with disposals. The Investment Principles are being developed through the Asset Member Board and will be presented to this committee at a later date.

4. ANALYSIS & CONSIDERATION OF ANY ALTERNATIVE OPTIONS

4.1 **Do Nothing** This option is not viable as it would not resolve the issues described in this report, and the capital receipts targets required to fund critical activity within the organisation would not be achieved.

4.2 **Reduce Capital Receipts Target** This option is not viable unless the council agrees to substantially reduce the capital investments currently funded by capital receipts. This includes IT&D transformation programmes, Modernisation initiatives, and the capital investment programme.

4.3 **Reduce Low-Rent Housing Target** This option is not viable as the clear target for new low-cost housing in the city, has been approved by committee. This is a strategic priority for the council.

5. COMMUNITY ENGAGEMENT & CONSULTATION

5.1 Due to the commercially sensitive nature of the council's commercial property portfolios there has been no consultation or engagement with the community on proposals contained within this report. However, consultation will take place through any required planning applications and when reports are brought back to Policy & Resources Committee to approve disposals and associated business cases on a case by case basis.

6. CONCLUSION

6.1 In order for the council to meet its minimum capital receipts target of £6m p.a. it must dispose of properties from within its commercial portfolios. The analysis completed and described by this report ensures that any future sites identified for disposal do not undermine the council's target of delivering 800 additional council homes and 700 other affordable homes by 2023, nor do they undermine other strategic priorities relating to community wealth, economic or environmental policy.

7. FINANCIAL & OTHER IMPLICATIONS:

<u>Financial Implications:</u>

7.1 The generation of capital receipts is a key component of the council's capital strategy and Medium Term Financial Strategy (MTFS). Capital receipts support investment in strategic investment funds and support other council investment priorities. The council has ambitious investment plans over the MTFS period and therefore identifying opportunities to generate receipts is a core requirement of the Corporate Property Strategy & Asset Management Plan. The net capital receipts target is £6m per year to 2023.

7.2 The proposed disposal process and criteria supports the delivery of new homes and provides criteria for disposal if council led housing is not appropriate.

7.3 Any proposed appropriation or disposal of council land or property will require Policy & Resources Committee approval with supporting financial implications for each case.

Finance Officer Consulted: James Hengeveld Date: 24/02/20

Legal Implications:

7.4 The Executive Director of Housing, Neighbourhoods and Communities has delegated authority under the Council's constitution to acquire land or property for housing purposes up to consideration of £250,000 and residential property up to a consideration of £500,000. The Assistant Director of Property has delegated authority to acquire or dispose of land for a consideration of up to £250,000. The proposed criteria and disposal process will inform those officer decisions and will, in relation to disposals/ acquisitions assist the Policy & Resources Committee in deciding whether to acquire or dispose of land.

7.5 The Council is under an obligation pursuant to S123 of the Local Government Act 1971 when disposing of land to obtain best consideration for it. This obligation does not apply to appropriations but it is proposed that the council does require the Housing Revenue Account to make a payment which represents best consideration to the General Fund when land is appropriated for housing.

7.6 Section 17 of the Housing Act 1985 authorises a local housing authority such as the council to acquire land for housing purposes.

Lawyer Consulted: Alice Rowland Date: 23/01/20

Equalities Implications:

7.7 An Equalities Impact Assessment has not been completed as a part of this work, but equalities implications continue to be considered in relation to all decisions affecting the council's commercial property portfolios.

Sustainability Implications:

7.8 Sustainability implications were considered as a part of the analysis undertaken by offers when determining whether land or property was suitable for housing development as described in the body of this report.