

DECISION-MAKER:	CABINET COUNCIL
SUBJECT:	ASSET DEVELOPMENT AND DISPOSAL PROGRAMME – Phase 3
DATE OF DECISION:	25TH MARCH 2025 (CABINET) 26th MARCH 2025 (COUNCIL)
REPORT OF:	COUNCILLOR BOGLE CABINET MEMBER FOR ECONOMIC DEVELOPMENT

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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 Disposal Programme (ADDP) at Cabinet on the 19th of March 2024 and Council on the 20th of 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 is focused 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>On the 17th of December 2024, the Cabinet approved the Phase 2 of this transformation programme, and it was ratified at the full Council Meeting on 26th Feb 2025.</p>
<p>This report now focuses on the Phase 3 of the transformation programme with assets proposed to be either disposed or developed and seeks approval to proceed for further market assessment investigation. The list has been drawn up following work analysing assets that are suitable for disposal using the following criteria:</p>

- a. They are no longer required for operational delivery.
- b. The net present value of disposal is negative.
- c. The asset is not required for council led individual development sites and/ or larger regeneration purposes.

The net book value of the 13 assets being proposed for disposal is over £5M. The report also recommends 2 assets for development or regeneration purposes.

These potential disposals and developments will undergo further evaluation (as described in paragraphs 8 and 9 below), to ensure it is in the best interests of the Council to do so, before the final decision.

RECOMMENDATIONS TO CABINET:

	(i)	To approve the Phase 3 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 3 of the Asset Development and Disposal programme (as detailed in the confidential Appendix 1) which includes assets with a combined value of over £5m.
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REASONS FOR REPORT RECOMMENDATIONS

1.	<p>The assets recommended for disposal, development or regeneration in Phase 3 of ADDP, as outlined in the confidential appendix are being proposed for approval following extensive engagement with relevant services to align with their transformational initiatives, localised service assets review and early market assessments, consultation with senior officers and relevant members to build on the intelligence gathered within the past 2 years and select the most appropriate set of assets.</p> <p>The capital receipts from these disposals and developments are required to help fund the council’s Transformation Programme and Exceptional Financial Support (EFS) requirement. 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. Lastly and perhaps more importantly it also releases assets that can support the city’s regeneration, supporting the work of the Southampton Renaissance Master Plan (SRMP).</p> <p>It is important to safeguard the confidentiality of the assets in scope, and not to expose them to the market or put in the public domain before a full evaluation and decision-making process is concluded. This would</p>
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	detrimentally affect their marketability and the council's ability to maximise the capital receipts.
2.	The report also seeks approval for delegated powers to senior 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 powers process will ensure the council can take advantage of the market offers and ensure an agile, yet robust and transparent decision-making process.
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 a further 200 investment and commercial properties. Assets within the General Fund incur substantial maintenance and operational costs, including energy, insurance and 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 alongside not optimising growth opportunities. 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>Bringing individual asset decisions that meet the constitutional criteria in terms of financial or public interest thresholds one by one to either Cabinet or Council would add a considerable time burden and risk of abortive sales to this process.</p> <p>Once an offer is agreed, the expectation within the market is that the majority of transactions would conclude very quickly to agree terms, finalise the due diligence, legal and financial transactions to move to exchange and completion as soon as possible thereafter, in a matter of days or weeks.</p> <p>If the decision needs, to be ratified at this point (once the terms of sale have been agreed) through the Cabinet and/or Council, this would prolong the completion time, would potentially compromise the sale agreement as it would lose momentum and interest from the buyer, and the sale could collapse before the final decision is reached.</p>

	<p>The value of the many individual assets left could now fall under the threshold for Cabinet decisions.</p> <p>This approach is not sustainable when considering the volume and speed of decision making required for the 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>The Council approved an ADDP including Phase 1 and Phase 2 asset lists. This programme is now underway with disposal or development proposals being progressed under delegated authority, as stated in previous reports. Phase 3 is proposed in this report. Undertaking the disposals and development opportunities in a phased manner allows for a planned and managed approach in undertaking a wholesale review of the council’s sizable asset base. This option also allows the Council to retain assets that prove not viable for immediate sale following further market testing but will be able to yield enhanced value through regeneration initiatives which would align with the Council’s longer-term vision.</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 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 a 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 contribute to the fiscal stability of the council.</p> <p>One of the most significant outcomes of the ADDP is to maximise capital receipts and to benefit the future financial stability of the council by part funding use 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 in order to reduce</p>

	<p>its operating costs and achieve its capital receipt target over the next 5 years.</p> <p>Disposal of operational assets will 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 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, investment and non-operational 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 engaged 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 the best deals from the current market.</p> <p>Once the best offer is agreed, vetted and recommended by Savills to the Council, a RICS Red Book Valuation will be required in accordance with S123 of the Local Government Act 1972, to demonstrate best consideration is obtained for that particular asset.</p> <p>A Delegated Decision Notice 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 corporate and operational properties to be considered for disposal are listed (Appendix 1, Table A), along with properties with significant development or regeneration and growth potential (Appendix 1, Table B) in the confidential appendices to this report.</p> <p>Assets that will prove not viable on the open market for disposal would be retained by the Council.</p>
9.	<p>Development and regeneration opportunities. A separate exercise is taking place when evaluating buildings in conjunction with the City Development Team within the Council’s commercial and investment portfolio and in certain cases the decision may be taken to hold some proposals for a period of time in order to extract additional value or where there is significant potential to drive the regeneration of the City and meet the Council’s wider strategic objectives.</p> <p>The same delegated authority process will be applied when considering the assets for development or regeneration as in paragraph 8 above.</p> <p>The outlined investment properties to be considered for disposal are listed (Appendix 1, Table A), along with those properties with significant development or regeneration and growth potential (Appendix 1, Table B) in the confidential appendices to this report.</p> <p>Assets that will prove to be unviable on the open market for development scheme opportunities would be retained by the Council.</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, and would be capable of securing an enhanced value due to its greater 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, supporting the Southampton Renaissance Master Plan (SRMP), including generation of capital receipts, 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. This financial analysis and the methodology applied 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.</p> <p>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</p>

	<p>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.</p> <p>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.</p> <p>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%. This will be kept under review to reflect market interest rates and the council's cost of borrowing.</p>
12.	<p>The Council is looking to procure a Strategic Partner to define opportunities for large scale asset development and regeneration across Southampton in line with the ambitions of the SRMP. The Council is looking to procure a Strategic Partner to define opportunities for large scale asset development and regeneration across Southampton in line with the ambitions of the SRMP. 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 - 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) for all relevant assets on an individual basis and will include potential mitigation measures under the Equalities Act 2010.</p>
<p>RESOURCE IMPLICATIONS</p>	
<p><u>Capital/Revenue</u></p>	
14.	<p>Capital receipt (income proceeds from sale of property, plant and equipment over £10,000) is reserved for capital investment or the repayment of debt.</p>
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 factored into financial planning to ensure the Directorate can be compensated for any actual loss of income. Similarly,</p>

	for the operational assets, budget adjustments will also be applied, where there are running cost savings as a result of disposals.
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 future 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.

Other Legal Implications:

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.
24.	A consultation process will be undertaken where appropriate when proposal for disposal of public assets is being considered. The council will need to make a traffic regulation order under the Road Traffic Regulation Act 1984 revoking provisions regulating the land as an off-street car park. The council must follow a statutory process before the order can be made, which involves a 21-day public consultation period.

RISK MANAGEMENT IMPLICATIONS

25.	<p>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.</p> <p>The significant risks within the programme include:</p> <ol style="list-style-type: none">1. Confidentiality – There is the risk that if any of the details of assets in scope are being made public, in advance of the evaluation work that is being undertaken with Savills, this will affect the - marketability and will have a detrimental effect on the potential capital receipts or even make that particular asset not marketable at all. This will significantly impact the potential to maximise the capital receipts in a short or long term as well as to reduce the opportunity to achieve best consideration for the Council.2. 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,
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	<p>procurement expertise, to be supported appropriately. Resource requirements will be continuously reviewed/ monitored by the Programme Manager ensuring no loss of programme momentum.</p> <ol style="list-style-type: none"> 3. Robust governance - Appropriate programme governance, including securing programme critical delegation's approvals to achieve robust/ swift decision making, is required. The delegated authority will be continually managed proactively by the Programme Manager and sought through consultation with senior officers and elected members as outlined in this paper and escalation process used when required. 4. 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. 5. 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 a key activity within the programme. However, its delivery timeline may not align with the ADDP delivery plans. The Programme Manager will monitor existing and future dependencies to re-align delivery plans. 6. 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.
26.	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	
27.	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 development and disposal within the Phase 3, ADDP (confidential).
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Documents In Members' Rooms

1.	Not applicable	
Equality Impact Assessment		
Do the implications/subject of the report require an Equality and Safety Impact Assessment (ESIA) to be carried out.		No
Data Protection Impact Assessment		
Do the implications/subject of the report require a Data Protection Impact Assessment (DPIA) to be carried out.		No
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)	