

MIDDLESBROUGH COUNCIL

EXECUTIVE REPORT

PART A

Review of Non-Strategic Assets – Second phase disposals

Executive Member for Resources: Cllr David Budd

Executive Director of Neighbourhoods and Communities: Kevin Parkes

29 July 2013

PURPOSE OF THE REPORT

1. To propose a second phase of asset disposals under the ongoing Review of Non-Strategic Assets.

SUMMARY OF RECOMMENDATIONS

2. That the disposals outlined below are approved, and that, provided the recommended reserve price be achieved (listed in the confidential Part B of this report), sales be progressed through existing delegated authorities.
3. That further reports be brought forward detailing the business case for the transfer of Gainsborough Road / Lucerne Court and Barsford Road to partner RSLs.

IF THIS IS A KEY DECISION WHICH KEY DECISION TEST APPLIES?

It is over the financial threshold (£150,000)

It has a significant impact on 2 or more wards

Non Key

DECISION IMPLEMENTATION DEADLINE

For the purposes of the scrutiny call in procedure this report is:

Non-urgent

Urgent report

BACKGROUND AND EXTERNAL CONSULTATION

Background

4. On 4 April 2012, Executive Property Sub-Committee for Property considered and approved reports that outlined:
 - the review of non-strategic assets that the Council is undertaking as part of its transformation programme; and,
 - a small first phase of advantageous disposals under the first four (of ten) categories of asset: Agricultural Property, Residential Development Sites, Ground Leases and Industrial Sites.

5. It was agreed that capital monies accrued from this process would be used by the Council to repay or avoid capital borrowing and so improve the Council's revenue position by avoiding interest payments. Accordingly a savings target was applied to this project in the Council's budget for 2013/14, and further targets will be applied for future years.
6. The report on first phase disposals made clear that there were additional assets under some of the four categories reviewed at that point that could be brought forward for sale if the first phase was successful. Progress to date on the first phase has suggested that there is indeed a market for these types of assets.
7. In addition, in late 2012 the Council commissioned an overview of the remaining NSAR categories – Industrial Units, Business Centres, Shops and commercial properties, Car Parks, Wayleaves and easements and Miscellaneous Other – which has identified other advantageous disposals.
8. This report combines the findings from the analyses outlined above to propose a second phase of disposals for consideration.
9. As with the first phase disposals, the Sub-Committee is asked to approve the disposals and a reserve price for each. The reserve prices use average capital value as a starting point, with appropriate upward adjustments where relevant for lost income. In some cases the reserve is set by valuer's recommendation in the light of lease conditions and/or market circumstances. Reserves and the rationale for these are listed in the confidential Part B of this report.
10. It is proposed that the assets be disposed via the open market, unless best consideration can only be achieved through negotiation with the sitting tenant or other parties with an interest in the asset.
11. While these disposals are proposed as it is considered likely that sales can be achieved at reserve, given market unpredictability it should be noted that there is no guarantee that all the assets will be disposed, or the reserve prices met.

Proposed disposals

Residential Development Sites

12. The Residential Development Detailed Business Case identified 48 sites owned by the Council, 23 of which were already approved for disposal and proceeding to sale. Of the remaining 25 sites, it was agreed that:-
 - Subject to the receipt of planning permission, nine smaller sites were sold.
 - Nine other sites were considered for sale following further analysis.
 - Seven sites were not sold, as they were unsuitable for residential development.
13. Subsequently, the Committee considered and agreed an approach to allocating small sites such as those above to Registered Social Landlords at nil consideration to secure more affordable housing in the town. Several such disposals are now being appraised.
14. In Phase Two it is proposed that, subject to planning permission and a viable business case approved by this Committee, a further two sites (with a combined estimated average capital value of £177,500) be offered to RSLs at nil consideration for affordable housing. These sites are:
 - Gainsborough Road / Lucerne Court (Ladgate ward);
 - Barsford Road (Thorntree).
15. This is proposed as soft-marketing-testing has suggested that there is no interest from housing developers in purchasing these sites, but that there is interest from RSLs in acquiring the sites

to develop affordable housing. As previously reported to the Committee, the possibility of securing National Affordable Housing Programme funding is greatly enhanced if sites are provided to RSLs at less than best or nil consideration.

16. In addition, it is proposed that four sites be sold for housing, subject to planning permission. These are:
 - Westside (Nunthorpe);
 - Land at De Brus Park (Coulby Newham);
 - Land at Hemlington Lane (Kader); and
 - Land at Cedarwood Glade (Stainton and Thornton).
17. Westside is a range of buildings at the northern end of Nunthorpe Village, which were originally part of the Nunthorpe Hall Estate. Currently the buildings are leased, principally as workshops, and for garage and storage use. However, it is clear that they could be redeveloped for residential use, both given their historic nature and the decision to seek the disposal of Nunthorpe Hall Farm (directly opposite) for a similar purpose.
18. Planning permission was granted in July 1995 for 10 high quality, detached executive dwellings on 2.4 ha of land adjacent to Brass Castle Golf Club in Coulby Newham. This formed phase 1 of the De Brus Park development.
19. The development plan for the area also identified the land to the west and south as phases 2, 3 and 4 of the De Brus Park development, with the potential to deliver an additional 40 dwellings. However the development was halted following consideration of the application by the Secretary of State under Section 77 of the Town and Country Planning Act 1990, it being the inspectors' view that the development of 40 units would cause significant harm to the character and amenity of the area.
20. What is now proposed is the development of part of phase 4 of the original masterplan, which has the potential to accommodate four large executive dwellings in keeping with the existing properties, to be sold as individual plots. This land is currently maintained by the Council and has no active use.
21. This proposal is not considered detrimental to the character and amenity of the area, would support the demand for executive housing in Middlesbrough, and could be delivered in a relatively short timescale, subject to planning.
22. The other two sites (Hemlington Lane and Cedarwood Glade) are also suitable for small-scale housing developments.
23. The disposal of these four sites at reserve price would achieve a significant capital receipt of £1,095,000, as set out in Part B of this report.

Ground Leases

24. As previously reported, the Ground Leases Detailed Business Case identifies 139 leases operated by the Council, of which 67 generate a total rental income of approximately £442,000 per annum, the remainder being let at nil or peppercorn rent.
25. On 4 April 2012, the Sub-Committee approved the sale of the freehold of nine of these sites, in order to test the market for such disposals. Given that (as demonstrated by progress on Phase One) it is now clear that a market for these assets exists, it is now proposed that the freehold of a further 42 Ground Leases (listed below) be disposed.

Site	Ward	Site	Ward
Russell St / Bright St	Middlehaven	Site H, Riverside Park	Middlehaven
Land at Wray Street / Stone Street	Middlehaven	Site K, Riverside Park	Middlehaven
Lamport St	Gresham	Site L, Riverside Park	Middlehaven
Cleveland Business Centre, Watson St / Russell St	Middlehaven	Site L1 North, Riverside Park	Middlehaven
Land at Cragg St / North Ormesby Rd	Middlehaven	Site L2 South, Riverside Park	Middlehaven
Land at Wray Street / North Ormesby Road	Middlehaven	Collingwood Court, Riverside Park	Middlehaven
7-17 North Road	Middlehaven	Cleveland Cables, Riverside Park	Middlehaven
Middlebeck Social Club, Homerton Road	Thorntree	Brighthouse Business Village, Riverside Park	Middlehaven
Park End Public House, Penistone Road	Park End	Former Car Park, Riverside Park Road	Middlehaven
Parkway Social Club, Dalby Way	Coulby Newham	South Bank Road National Tyre Services	North Ormesby and Brambles Farm
Site O Part, Parkway Centre (5 leases)	Coulby Newham	Land at Cargo Fleet Lane	North Ormesby and Brambles Farm
Brambles Farm Social Club, Millbrook Avenue	North Ormesby and Brambles Farm	Land at Cargo Fleet Lane	North Ormesby and Brambles Farm
Turford Avenue Social Club, Turford Avenue	North Ormesby and Brambles Farm	Sotherby Road Cleveland Youth Association	North Ormesby and Brambles Farm
The Thorntree Public House, The Greenway	Thorntree	Sotherby Road British Gas Depot	North Ormesby and Brambles Farm
Viking Hotel, Broughton Avenue	Ladgate	Cargo Fleet Lane Northern Electric Depot (2 leases)	North Ormesby and Brambles Farm
Amalgamated Social Club, Prescott Road	Beckfield	Land at Queensway / Sotherby Road	North Ormesby and Brambles Farm
Site 145/6, Riverside Park	Middlehaven	Land at South Bank Road	Middlehaven
Site F, Riverside Park (3 leases)	Middlehaven	The Smithy Public House	Middlehaven

26. It is estimated that these disposals would generate a significant net return of £2,598,555, as outlined in Part B of this report.

27. As previously reported, the remaining Ground Lease sites are not considered saleable at the present time, as either (i) there is no market for the site, (ii) there is 100+ years remaining on the lease, or (iii) they have been earmarked as part of longer-term developments. Approval of these disposals would therefore exhaust this category for the present time.

Industrial Properties

28. The NSAR Overview report considered nine major industrial estates / compounds, with those listed below considered saleable at the present time. It is considered that Innes Street, Howard and Lorne Streets Workshops and Carcut Industrial Estate will maximise receipt if sold as a package, Tame / Brewsdale Road as separate lots.

Site	Ward	Site	Ward
Innes Street	Middlehaven	Howard and Lorne Streets Workshops	Gresham

1&2 Tame Road / 25 Brewsdale Road	North Ormesby and Brambles Farm	2 Tame Road (remaining part)	North Ormesby and Brambles Farm
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Site	Ward	Site	Ward
3 Tame Road	North Ormesby and Brambles Farm	10 Tame Road	North Ormesby and Brambles Farm
11 Tame Road	North Ormesby and Brambles Farm	12 Tame Road	North Ormesby and Brambles Farm
14/15 Tame Road	North Ormesby and Brambles Farm	16 Tame Road	North Ormesby and Brambles Farm
18 Tame Road	North Ormesby and Brambles Farm	19 Tame Road	North Ormesby and Brambles Farm
20 Tame Road	North Ormesby and Brambles Farm	30/31 Brewsdale Road	North Ormesby and Brambles Farm
32/33 Brewsdale Road	North Ormesby and Brambles Farm	UK Prem Fund 1 LLP Brewsdale Road	North Ormesby and Brambles Farm
Carcut Industrial Estate	North Ormesby and Brambles Farm		

29. It is estimated that these disposals would again generate a significant net return of £1,452,505, as outlined in Part B of this report.

Shops / commercial Units

30. The NSAR Overview report considered eight shops / commercial units. Due to the Council's ongoing strategic interest in the majority of these sites, only one is considered saleable at the present time – Hollowfield Square in Coulby Newham ward. The estimated net return for this disposal is outlined in Part B of this report.

31. The remaining sites will be considered as part of the forthcoming Estates Strategy (see para. 43).

Business Centres

32. The NSAR Overview report considered three further business centres in addition to those already addressed in the sections above, none of which were considered saleable at the present time.

33. Not considered as part of the NSAR Overview report, but considered saleable by the NSAR Working Group, is Bramthorn Business Centre in Thorntree ward. The estimated net return for this disposal is outlined in Part B of this report.

34. As above, the remaining sites will be considered as part of the forthcoming Estates Strategy (see para. 43).

Car Parks

35. The NSAR Overview report considered the Council's sixteen major car parks, and concluded that some were saleable. However, this report was prepared at a time prior to the Council's decision to pilot a revised car park charging strategy, which is now underway. Logically, until the Council agrees its long-term car parking strategy it would not be appropriate to make any decision in relation to the retention of major car parks.

36. The single exception to this is the Queensway Car Park in North Ormesby and Brambles Farm ward. This small site is maintained by the Council for free parking, but is little used due to its location in an industrial area and the availability of on-site parking on adjoining sites. It is recommended that this land be sold for industrial use. The estimated net return for this disposal is outlined in Part B of this report.

Miscellaneous Other

37. The NSAR Overview report considered a range of miscellaneous assets for potential sale. The NSAR working group recommends the following sales at the present time:

Site	Ward	Site	Ward
Land at Linthorpe Road	University	2-5 Langdon Square	Coulby Newham
Woodhouse Coal Depot	Middlehaven		

38. The estimated net return for these disposals is outlined in Part B of this report.

Consultations

39. In line with the agreed approval process, the recommendations in this report have been reviewed and endorsed by the Council's Non-Strategic Assets Review Working Group (which comprises a range of service stakeholders including Development, Valuation and Estates, Legal Services and Strategic Resources) and CMT.

40. Where the sites above are currently let, sitting tenants have been advised of these proposals.

41. As with Phase One, a full briefing will be available for ward members once Committee has agreed these proposals. The Council's Development Service will undertake appropriate consultation with local communities on the proposed appropriations, loss of open space and disposals for residential development, with any issues for consideration reported back to the Committee.

Next steps

42. Phase 1 and 2 together represent the majority of relatively simple, economically advantageous disposals of non-strategic assets open to the Council at this time. The Council's miscellaneous holdings are significant, and it is likely that, as it is reviewed further, additional assets for sale will be identified on an ad hoc basis. It is recommended that these be progressed in line with existing delegated authorities and savings captured against targets for the NSAR project, with progress updates provided to the Committee at appropriate intervals. This approach has already been taken with speculative offers received since the approval of Phase 1 in April 2012.

43. Moving forward, an Estates Strategy will be developed to identify how remaining assets can be best utilised in support of Middlesbrough 2020, in particular driving local growth. It is anticipated that this strategy may include further disposals more complex than those addressed to date, but also more innovative solutions for higher-quality assets. The Estates Strategy will be presented to the Committee for consideration in autumn 2013.

IMPACT ASSESSMENT

44. Not applicable. All disposals will be in line with the Local Development Framework for Middlesbrough, which has been impact assessed with no disproportionate adverse impacts identified.

OPTION APPRAISAL/RISK ASSESSMENT

45. There is a range of options in relation to the recommendations outlined in this report.

Option 1: Dispose of none of the sites – not recommended

46. Disposal of none of the sites would result in no improvement to the Council's revenue position, and none of the additional benefits (e.g. reduced internal management costs, new homes, development and job creation) would be delivered. Given that it is advised that the value of these sites would not appreciate significantly in future, that there is limited potential to increase rental income at present, and that disposals would not prejudice future development in the town, retaining the assets is not logical and is not recommended.

Option 2: Dispose of some of the sites – not recommended

47. Disposal of only some of the assets would obviously reduce achievable benefits. As outlined at paragraph 44, it is advised that there is no logical reason to retain any of the assets at this time.

Option 3: Dispose of all of the sites – recommended

48. It is recommended that all sites be disposed now, as the advice is that the value of these sites will not appreciate significantly in future, that there is limited potential to increase rental income at present, and that disposals would not prejudice future development in the town. The capital accrued will be used to reduce borrowing and so improve the Council's revenue position.

FINANCIAL, LEGAL AND WARD IMPLICATIONS

49. **Financial implications** – It is proposed to pursue 70 sales (individual and packaged lots), for a minimum of £5,336,765, net of fees. If this figure is achieved, and used to reduce capital borrowing, with adjustments for lost rental income, this will equate to an estimated £536,000 net minimum improvement in the Council's revenue position. Further reports will be brought forward on the possible transfer of land to RSLs (para 14) that will outline the financial benefits of such an approach.
50. Given that the sale of these sites will not prejudice future development within the town, and that advice is that – due to the prevailing economic climate – their value is unlikely to increase in any significant manner for some time (if at all in many cases), it is logical to dispose of these sites now in order to improve the Council's revenue position.
51. As previously reported, disposals would be subject to a range of commercial fees, additional to the reserve price, some of which will be payable by the buyer and some by the Council. These will differ in line with the type of asset being sold (and so the work involved), and who is disposing of the asset. The outline fees are set out in the confidential Part B of this report. Some of the fees that fall to the Council may be payable prior to the completion of sales (e.g. if planning for residential development is sought prior to sale). If necessary, an application will be made to the Change Fund to cover these costs, which will be repaid from savings made.
52. **Legal implications** – There will be various routine legal matters to be addressed in progressing these disposals, which are accounted for in the fee regime outlined above.
53. **Ward Implications** – These disposals cover assets in twelve of the town's wards: Beckfield, Coulby Newham, Gresham, Kader, Ladgate, Middlehaven, North Ormesby and Brambles Farm, Nunthorpe, Park End, Stainton and Thornton, Thorntree and University.

RECOMMENDATIONS

54. That the disposals outlined below are approved, and that, provided the recommended reserve price be achieved (listed in the confidential Part B of this report), sales be progressed through existing delegated authorities.

55. That further reports be brought forward detailing the business case for the transfer of Gainsborough Road / Lucerne Court and Barsford Road to partner RSLs.

REASONS

56. To ensure that the Council drives the maximum value from its asset portfolio and that agreed sums for disposals are achieved as quickly as possible.

BACKGROUND PAPERS

- Residential Development Sites Detailed Business Case (Confidential)
- Ground Leases Detailed Business Case (Confidential)
- NSAR Overview (Confidential)

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