

MIDDLESBROUGH COUNCIL

EXECUTIVE REPORT

PART A

Review of Non-Strategic Assets – First phase disposals

Executive Member for Resources

Executive Director of Regeneration

4 April 2012

PURPOSE OF THE REPORT

1. To advise Executive Land and Property Sub-Committee of the findings of the reviews of Agricultural Property, Residential Development Sites, Ground Leases and Industrial Sites undertaken as part of the Non-Strategic Assets Transformation Project, and to propose a small first phase of advantageous disposals under these asset categories.

SUMMARY OF RECOMMENDATIONS

2. That Executive Land and Property Sub-Committee notes the findings of the reviews of Agricultural Property, Residential Development Sites, Ground Leases and Industrial Sites undertaken as part of the Non-Strategic Assets Transformation Project.
3. That disposals outlined at 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.

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

It is over the financial threshold (£150,000)	X
It has a significant impact on 2 or more wards	X
Non Key	

DECISION IMPLEMENTATION DEADLINE

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

Non-urgent	X
Urgent report	

BACKGROUND AND EXTERNAL CONSULTATION

Background

4. The Council has agreed a review of non-strategic assets as part of its joint transformation programme with Mouchel. For the purposes of the review, 'non-strategic assets' are defined as land and property that the Council does not use for service delivery purposes.

5. Ten categories of non-strategic assets have been agreed. Under the terms of the Partnership contract, the Council has requested that Mouchel prepare a series of Detailed Business Cases outlining potentially economically advantageous options for disposals of land and property under each category.
6. Capital monies accrued from this process will be used by the Council to repay or avoid capital borrowing and so improve the Council's revenue position by avoiding interest payments.
7. This report outlines the findings and recommendations from the reviews of the first four categories: Agricultural Property, Residential Development Sites, Ground Leases and Industrial Sites.
8. A small first phase of advantageous disposals are proposed. The Sub-Committee is asked to approve the disposals and a reserve price for each. The reserve prices are based on average capital value less fees, with appropriate adjustments for potential development value and lost income, where relevant, and are listed in the confidential Part B of this report. Once approved, sales would be progressed through existing delegated authorities (outlined in paragraphs 25-27).

Proposed disposals

Agricultural Property

9. The Agricultural Property Detailed Business Case considered three working farms in the Council's ownership. These are: Newham Hall Farm, Nunthorpe Grange Farm and Nunthorpe Hall Farm.
10. The Council's remaining rural properties, namely Lingfield and Larchfield Farms, Newham Grange Leisure Farm, Unicorn Riding School and Nature's World were not considered, but will be subject to review in the future.
11. Of the three working farms, it is recommended that: -
 - One of the farms be sold, with the development potential of the farm being realised. The advice received is that the development potential of this site will not appreciate in any significant way in future, so the Council can obtain possession at this time and realise the latent value.
 - The remaining two farms are however likely to appreciate significantly in value in the future, should they be confirmed in whole or in part as residential development sites, so it is logical for the Council to retain the sites at this time.

Recommended site for disposal	Ward
Nunthorpe Hall Farm	Nunthorpe

Residential Development Sites

12. The Residential Development Detailed Business Case identifies 48 sites owned by the Council, 23 of which are already approved for disposal and are proceeding to sale. Of the remaining 25 sites, it is recommended that:
 - Subject to the receipt of planning permission, nine smaller sites are sold.
 - Nine other sites are considered for sale following further analysis.
 - Seven sites are not sold, as they are unsuitable for residential development.

Recommended site for disposal	Ward
Margrove Walk	Park End
Cornforth Walk	
Overdale Road	
Royston Avenue	
Evesham Road (former 'Wee Willie' Pub)	
Penrith Road	
Grassington / Rylestone / Beechwood	Beechwood
Haxsby / Slingsby	Acklam
Former Thorntree Library / Youth Centre site	Thorntree

13. In addition to the significant estimated net return outlined in Part B of this report, the Council will realise a small saving of circa £12,000 p.a. in annual maintenance costs¹ and, importantly, accrue a significant increase in Council Tax and New Homes Bonus from the anticipated 124 new homes, once the sites are developed.

14. Releasing some of lower value residential sites to partner RSLs for development at nil consideration may bring greater benefits to the town than sale to a private developer, especially where the likely capital receipt would be low. Opportunities for such ventures in relation to the above sites will be explored with the Council's partners before the sites are marketed, in line with the approach approved by the Executive Member for Regeneration and Economic Development on 19 January 2011.

Ground Leases

15. A Ground Lease is an arrangement by which a landlord leases a site to a tenant for the purposes of development, in exchange for an upfront premium or an annual rent. Discounts on rent can be given if the development benefits of the arrangement are considered appropriate. At the end of the lease (typically for 99 or 125 years) the buildings would ordinarily revert to the landlord. Ground Leases were used in the past as a useful lever for controlling development without disposing of sites, but are little used today as councils' powers over development have widened.

16. 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 p.a., the remainder being let at nil or peppercorn rent.

17. It is recommended that initially the freehold of nine sites currently leased be sold, in order to test the market for such disposals. If this first wave is successful, 26 further sites have been provisionally identified as a second wave of sales and would be brought forward in a further report to the Sub-Committee.

Recommended site for disposal	Ward
Thistle Hotel	Middlehaven
Fountains Court	
The Jack and Jill Pub	Pallister
The Newcastle House Pub, Ingram Road	Pallister
The Eagle Public House, Rothbury Road	
Crest Hotel, Marton Way, Marton Road	Beechwood

¹ Note that this saving would be notional as it would be dependent on any previously negotiated flexibility to reduce large-scale maintenance contracts in line with disposals. Savings in relation to the Thorntree buildings were accounted for as part of the Community Buildings review.

Recommended site for disposal	Ward
Land at Cargo Fleet Lane	North Ormesby and Brambles Farm
Land at Southerby Road / Westerby Road	
Land at Sotherby Road	

18. These disposals would again generate a significant estimated net return, as outlined in Part B of this report.

19. The remaining 104 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.

Industrial Sites

20. The Industrial Sites Detailed Business Case identifies nine sites across Middlesbrough (many of which are in Middlehaven), the majority of which are unused, untidy and provide no benefit to the town or significant income to the Council. Three of these sites (Southwest Ironmasters, Hemlington Grange and the land next to Acklam Hall) are already earmarked for, or in the process of, disposal.

21. It is recommended that the remaining six sites be marketed for sale now (listed below). The sales would bring significant benefits, including development of prominent unused sites on the eastern approach to the town, job creation, and a significant net capital receipt (outlined in Part B of this report).

Recommended site for disposal	Ward
Middlesbrough Warehousing Site (South of A66)	North Ormesby and Brambles Farm
Abattoir off Cargo Fleet Lane	
Site G, Riverside Park	Middlehaven
Site K, Riverside Park	
Site L, Riverside Park	
Teesaurus Park, Riverside Park	

22. It is not considered that the sale of these sites would prejudice future development in the town. The disposal of the sites will be subject to the bid being accompanied by a clear proposal for future use / development. A time limit will be set for the implementation of these proposals to ensure that the land and local amenity are protected. If no progress has been made at the end of the period, then the site will be returned to the Council and the capital receipt returned to the buyer. The Council will retain fees payable.

Consultations

23. In line with the agreed approval process, the recommendations in this report have been reviewed and endorsed by (in sequence):

- The Non-Strategic Assets Review Working Group, which comprises a range of service stakeholders including Development, Valuation and Estates, Legal Services and Strategic Resources.
- The joint Transformation Board with Mouchel, on which sit the Deputy Mayor and Chief Executive.
- The Corporate Land and Property Panel, on which sit the Council's statutory officers and the Executive Director of Regeneration.

24. Where the sites above are currently let, preliminary discussions have been held with the sitting tenants so that they are fully aware of these proposals.

Next steps and timescales

25. The Assistant Director of Regeneration (Economic Development, Culture and Communities) will act as strategic lead for approved disposals, allocating the work to either the Council's Valuation and Estates service or to Mouchel (under the terms of the Partnership contract). A common and streamlined disposals process has been agreed between all parties to ensure that the agreed sums are achieved as quickly as possible. It is expected that the agreed sums are achievable within a maximum of 24 months.

26. As part of the disposals process, there will be appropriate consultation with ward members and the general public, in line with the nature of agreed disposals.

27. As previously agreed by the Sub-Committee, if offers at or in excess of the reserve price are achieved, the strategic lead will be able to finalise the disposal of the asset in agreement with the Chief Executive, who has delegated authority to sign-off disposals resulting from the Non-Strategic Assets project.

IMPACT ASSESSMENT

28. 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

29. 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

30. Disposal of none of the sites would result in no improvement to the Council's revenue position, and none of the additional benefits (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, 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

31. Disposal of only some of the assets would obviously reduce achievable benefits. As outlined at paragraph 30, 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

32. It is recommended that all sites be sold 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, and that disposals would not prejudice future development in the town. The capital accrued will be used to reduce borrowing and so significantly improve the Council's revenue position.

FINANCIAL, LEGAL AND WARD IMPLICATIONS

33. **Financial implications** – It is proposed to dispose of 25 sites for a minimum of £5.541m, 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 £492,000 p.a. net minimum improvement in the Council's revenue position. The cost of the DBCs (£88,704) will be repaid to the Change Fund from savings made.
34. 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), it is logical to dispose of these sites now in order to improve the Council's revenue position.
35. Disposals would be subject to a range of commercial fees, 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 will be payable prior to the completion of sales (e.g. planning for residential development). An application will be made to the Change Fund to cover these costs, which will be repaid from savings made.
36. **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.
37. **Ward Implications** – These disposals cover assets in eight of the town's wards: Acklam, Beechwood, Middlehaven, North Ormesby and Brambles Farm, Nunthorpe, Pallister, Park End and Thorntree. Disposals for residential purposes will see an estimated 141 new homes built across the town, with the majority in Park End and Thorntree.

RECOMMENDATIONS

38. That Executive Land and Property Sub-Committee notes the findings of the reviews of Agricultural Property, Residential Development Sites, Ground Leases and Industrial Sites undertaken as part of the Non-Strategic Assets Transformation Project.
39. That disposals outlined at 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.

REASONS

40. 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

- Agricultural Property Detailed Business Case (Confidential)
- Residential Development Sites Detailed Business Case (Confidential)
- Ground Leases Detailed Business Case (Confidential)
- Economic Development (Industrial Sites) Detailed Business Case (Confidential)
- Community Services Review
- Budget 2012/13

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