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EXECUTIVE MEMBER REPORT TO COUNCIL

EXECUTIVE MEMBER: REGENERATION – COUNCILLOR THEO FURNESS

DATE OF MEETING: 29 NOVEMBER 2023

The purpose of this report is to provide an update to members on areas of activity within my portfolio including performance against strategic priorities.

HIGHLIGHTS

Middlesbrough Council Asset Review

Introduction

1. An asset review has been undertaken to identify land and property owned by the Council that could be utilised differently (including disposal) to assist in supporting the Council's financial recovery and to achieve financial sustainability.
2. Disposal of capital assets generates capital receipts that may be used to support the Council's financial position in one of three ways:
   - To fund investment in projects that will either deliver ongoing revenue savings or deliver transformation in public service delivery through cost and/or demand reduction in accordance with Government regulations governing the Flexible Use of Capital Receipts.
   - To repay the Council's debt and reduce the annual costs of repaying principal and/or interest on such debt.
   - To invest in infrastructure through the capital programme.
3. The Council holds significant amounts of land and buildings on its balance sheet which presents opportunity for review and optimisation to support the Council's delivery of services in the future.
4. A review has been undertaken for all land and property assets, and recommendations made as to the future strategy for each. These recommendations can be summarised as:
   - The investment of £1.5m in existing Council buildings to accommodate additional staff;
   - The development of a public sector hub within the Cleveland Centre;
   - The closure and sale of Middlesbrough House, Multi Media Exchange, 3 Park Road North, Lloyd Street Depot;
   - The procurement of specialist external management arrangements for the premium assets within the commercial portfolio;

- Disposal of Tees AMP 1 and 2, the Viewley Centre; Lorne Street Industrial Estate; Howard Street Industrial Estate; Letitia Industrial Estate; Gilkes Street Industrial Estate; Carcut Road Industrial Estate; Florence/Italy Street Units;
- Disposal of the Middlesbrough Municipal Golf Centre with the appropriate covenants in place to secure its permanent use as a golf club;
- Disposal of Zetland Street Car Park with the appropriate covenants in place to secure its permanent use as a car park; and,
- Disposal of sites known as Land East of Middlesbrough Municipal Golf Centre Driving Range; Acklam [Stainsby Road]; Hemlington Grange [West]; Coulby Farm Way East / West; Muirfield, Nunthorpe; Land West of Toby Carvery; Cannon Park Car Park 1; Cannon Park Car Park 2; and Corporation Quay.

5. The financial impact of the proposed sales would be an estimated net capital receipt of over £33m, with a reduction in the Council's longer term income of £1m pa, with a one off revenue cost of £0.6m in relation to TeesAMP 1.

Purpose

6. This report sets out the details of a review of land and property assets held by the Council, with a view to generating additional income and/or disposals resulting in a pipeline of capital receipts being realised to support the financial recovery and return to financial sustainability over the period of the Medium Term Financial Plan. Approval is sought for the recommended changes and disposals.

Background and relevant information

Financial Position

7. On 23 August 2023, the Executive considered the following reports:

   a. Revenue and Capital Budget – Forecast Outturn at Quarter One 2023/24 which sets out the significant financial challenges facing the Council in the current year in terms of controlling expenditure within the approved budget set within the context of critically low usable revenue reserves. Usable revenue reserves stand at £14.8m comprising the General Fund Reserve of £12.041m and the Council's unrestricted usable earmarked reserves of £2.788m at 31 March 2023.

   b. Medium Term Financial Plan (MTFP) Refresh 2024/25 to 2026/27 which estimates the expected budget gap between projected spending levels for current policies and service delivery models compared with the estimated available resource which is a shortfall of £14.204m rising to £24.522m over the period 2024/25 to 2026/27

8. The scale of the financial challenge will require the Council to consider a range of options for reducing expenditure on its services to fall within an affordable and financially sustainable budget. This will include options for service:

    a. transformation (doing different things to achieve improved outcomes);
    b. redesign (doing things differently/more efficiently);
    c. reduction/ stopping (doing less); and,
    d. income generation.

9. The need for change has been reinforced by the Council's External Auditor. On 21 August 2023, the Council received a Value for Money Update report from its External Auditor, EY which included the issuance of 11 Statutory Recommendations under s24 Schedule 7(2) of the Local Audit and Accountability Act 2014. This included three recommendations relating to concerns about the financial sustainability of the Council. Recommendation 5 within the Auditors report is relevant context for the Executive in considering this report as the Council is required to comply with the Statutory recommendations in order to avoid an escalation of action by the External Auditor and potential further intervention by the Department for Levelling Up Homes and Communities (DLUHC). It stated that:

    'We recommend that the Council reviews its service delivery models to ensure that they are efficient, represent value for money and achieve the outcomes required for the resources invested. Where opportunities to improve service delivery models are identified, the Council should develop detailed plans for implementation of service delivery transformation and how the up-front transformation costs will be funded.'

10. LMT has been working over the summer with the Mayor and Executive Members to implement measures to control expenditure and optimise income in 2023/24 whist also developing budget proposals for the 2024/25 budget and MTFP to 2026/27 that will be brought forward to a meeting of the Executive in December 2023. This is the start of the budget consultation process that will conclude in the Council considering and approving the 2024/25 budget on 28 February 2024.

11. A significant level of change and transformation is essential to achieving financial sustainability for the Council and will require up front financial investment to develop and deliver new service solutions whilst delivering cost reduction, efficiency and/or demand management over the term of the MTFP and beyond.

12. Much of this expenditure would normally be accounted for as revenue expenditure, under legislative requirements of the Local Government Act 2003 in relation to the capitalisation of expenditure. This presents a significant constraint to the Council achieving this requirement given its critically low levels of revenue reserves. The Council will therefore need to secure alternative funding sources, the primary one being to generate a pipeline of capital receipts from asset sales that can be applied to

investment in transformation and cost reduction/ demand management projects under Government funding flexibilities explained below.

13. The Local Government Act 2003 Sections 16(2)(b) and 20: Treatment of Costs as Capital Expenditure was implemented in 2016/17 in which the Government relaxed the restrictions to allow local authorities to capitalise eligible expenditure and finance it using capital receipts under a ‘Flexible Use of Capital Receipts Policy’ that is subject to Council approval. The flexibility is currently applicable through to 2024/25 financial year and is subject to review and is likely to be extended to future financial years.

14. In addition to the need to generate a pipeline of capital receipts for investment, it is essential that the Council also reviews its income generating assets to challenge whether these are optimising income or whether alternative uses may present improved value for money and provide increase income to support the operational revenue budget.

Reviewing the Role of Assets

15. As with any other business or organisation, the Council must respond to the financial challenges it faces and a key element of this is to consider the land and property assets that it holds, and how they can be used most effectively to address the financial challenges. The three key areas where this could be considered are as follows:

    Operational Property

    a. The Council currently has operational responsibility for 83 different buildings and facilities, at a cost of £6m pa (including items such as maintenance, rates, utilities and security). One of the solutions to reducing Council expenditure must therefore be to look at reducing the number of operational properties it uses.

    Commercial Property

    b. The Council also owns a significant number of commercial properties that it uses to generate income from occupiers on a range of leasehold arrangements. This also has the potential to contribute to addressing the overall financial position through either increasing the income via positive rent reviews, or through disposals in return for capital receipts.

    Land

    c. The Council regularly sells land assets identified for housing and agrees a pipeline of future disposals that aligns to the Local Plan. Alongside these agreed housing sites the Council owns a significant amount of open space, farmland, small infill sites and generic land that sits unclassified between other people’s ownerships. Whilst the potential exists to accelerate disposal of the agreed housing land pipeline, there also exists an option to sell off other small plots of land held by the Council, including those suitable for self-build, small (0-10 unit) housing schemes or other commercial uses.

16. The benefits of reducing ongoing operational costs or increasing rental income are immediate and impact directly on the Council's revenue position. The benefits of securing additional capital receipt income are less direct (as set out above) but are essential to enabling investment in the transformation of the Council's service delivery models from a lower cost base.

17. Given the Council's need to undergo significant transformation to achieve financial sustainability, the Council needs to explore all possible opportunities to generate additional receipts, and provide the funding required to enable the required change to be achieved effectively and at pace.

Asset Review

18. To support the drive for financial sustainability, a review of all land and property assets has been undertaken. The terms of this review were specified as:

    a. urgently review the Council's asset holdings to identify short term (by year end) opportunities to:
        i. Generate capital receipts through the disposal of surplus assets;
        ii. Minimise running/holding costs to free up revenue capacity;
        iii. Maximise revenue generation from the commercial portfolio;
    b. set out the Council's longer term asset requirements in a revised policy and strategy framework;
    c. 'right size' the Council's operational estate to match future strategic direction and service priorities; and,
    d. implement appropriate future management arrangements for the Council's property assets under a corporate landlord model.

19. This report primarily considers the outcomes of objective 'a'. A further report will be brought for Executive consideration on objectives b-d.

20. The review has looked at the operational assets the Council uses, the commercial assets it owns or occupies and the plots of land it owns to conclude an appropriate future strategy for each one. A number of factors have been considered in determining the future strategy, including but not limited to:

    - holding costs (the ongoing cost of owning the asset);
    - maintenance backlog (the cost of work that the asset needs to continue to function effectively); and,
    - income potential (the rental received or the commercial potential if not currently exploited).

21. In determining the future strategy for each of the commercial assets in particular there is an inbuilt tension between the need to secure receipts now to assist transformation, and retain the income that would be due in future years that would be part of securing longer term sustainability. Inevitably those that provide the most sustainable long term

income stream are also those that would generate the largest and most immediate capital receipt. A balance therefore needs to be found that reflects the Council’s current financial risk profile.

22. The rationale for recommending disposal of an asset is therefore based on one of the following criteria:

    a. the asset has a negative or limited five year net benefit (i.e. the income profile is less than projected running costs and assessed maintenance liability); or,
    b. the asset is appropriate for institutional investment and realises a significant receipt.

23. The recommended strategy for each asset has also been tested against the needs identified for the Council’s own evolving requirements, such as the need to identify land and properties suitable for the provision of children’s homes. The future strategy for each has also been tested against the overall geographical impact to ensure that properties are not being unnecessarily retained when others around them are being sold and vice versa.

24. Each asset has therefore been discussed by a panel comprising Economic Growth, Capital Projects, Asset Management, Valuation and Estates and then cross checked by Finance, Planning and Highways for any technical considerations. Outcomes have then been shared with each directorate to ensure the future service delivery objectives continue to be supported. The main categories used were as follows:

    a. *retain as is* - assets that will continue to be used in the same way as they are currently;
    b. *retain but needs new strategy* - where assets are to be retained but different management arrangements would improve income and/or reduce running costs;
    c. *retain but expand capacity* - where assets could accommodate more staff to reduce the need for other buildings;
    d. *surplus* - where assets can be disposed of in the short / medium term; and,
    e. *review further* - where the future categorisation of assets is dependent upon the service delivery models emerging within the wider transformation programme.

25. An example of the assets categorised as requiring further review would be the 20 buildings located within communities for which options need to be considered as part of the Council’s emerging locality working model. Although there are likely to be significant surplus assets within this category, the nature of them dictates that the benefits are likely to be solely around reducing running costs rather than generating additional capital receipts.

26. No assets currently proposed for transfer to the Mayoral Development Corporation by the Secretary of State for Local Government, Housing and Communities have been considered as part of the review.

Outcomes of the Review

27. The main recommendations of the review are as follows:

Operational Property

28. *Close and sell Middlesbrough House -* Children's Services staff within the building would primarily be relocated to Fountain Court, with the remainder moving to other Council buildings with public facing provision. The customer centre will be revised and relocated (where necessary) in line with the outcome of a review of the Council's approach to *Customer and Digital* that is due to commence. Investment will be required in both Fountain Court and other buildings to facilitate the additional staff, and Middlesbrough House would then be sold as a surplus asset.

29. *Relocate the Live Well Centre from Dundas House to the Cleveland Centre -* the Council currently leases space within Dundas House from a private sector landlord. External grant funding is available to relocate the Live Well Centre as part of a new public services hub within the Council owned Cleveland Centre. This would remove the need for the Council to pay rent to the private sector.

30. *Relocate Middlesbrough Community Learning from the Multi Media Exchange to the Cleveland Centre -* the external funding identified above to relocate the Live Well Centre is also available to establish new community learning provision within the Cleveland Centre as part of the wider public services hub. This would enable the relocation of Middlesbrough Community Learning and free the Multi Media Exchange up to be sold.

31. *Relocate Children's Services staff from 6-14 Viewley Centre to the other Council buildings -* as with the public facing elements from Middlesbrough House, the staff would be relocated alongside other public facing provision to enable continuity of service. This would free up those units within the Viewley Centre to be sold.

32. *Sell 3 Park Road North and Lloyd Street Depot -* both properties have little or no current usage and would be sold.

33. *Resolution House / Depot -* although no actions are proposed in the short term, the longer term future of Resolution House needs to be considered, and a new depot solution explored – perhaps in partnership with others.

34. *Town Hall (Municipal Buildings) -* although no actions are proposed in the short term, the longer term future of the Town Hall needs to be considered, as significant ongoing investment is required to maintain its current use.

35. *Further reviews linked to transformation* - the Council currently operates a number of properties that need to be further reviewed once the future operating models for various services are determined, such as Family Hubs, community centres and crematoria. These will be reviewed in 2024, and will consider a range of options including retention and reinvestment, alternative delivery models or community asset transfers.

36. The overall financial impact of the changes proposed above is as follows:

	2023/24	*2024/25*	*2025/26*	*2026/27*	*Total*
	£m	*£m*	*£m*		*£m*
Revenue					
Reduction in running costs	0.000	-0.223	-0.261	-0.035	-0.519
Total	0.000	-0.223	-0.261	-0.035	-0.519
Capital	0.000	0.000	0.000	0.000	0.000
Expenditure required	0.350	1.150	0.000	0.000	1.500
Receipts received	0.000	-1.500	-0.250	0.000	-1.750
4% cost of sales reduction	0.000	0.060	0.010	0.000	0.070
Total	0.350	-0.290	-0.240	0.000	-0.180

Commercial Property

37. The following properties have been identified as being retained in the longer term by the Council, but would require specialist external management arrangements to ensure that the role of landlord was sufficiently separated from the Council's role in sector development:

    a. Boho 1, 5, 8 and X;
    b. Centre Square 1 and 2 (leaseholding only);
    c. Captain Cook Square; and,
    d. Cleveland Centre.

38. As Captain Cook Square and the Cleveland Centre are already successfully managed externally, and generate income for the Council it is recommended that similar commercial arrangements are sought for the Boho and Centre Square properties.

39. The following properties have all been identified as either having a low or negative five year benefit to the Council (i.e. the income profile is less than the projected running costs and assessed maintenance liability) and should therefore be declared surplus and sold:

    a. Viewley Centre;
    b. Lorne Street Industrial Estate;
    c. Howard Street Industrial Estate;

d. Letitia Industrial Estate;
e. Gilkes Street Industrial Estate;
f. Carcut Road Industrial Estate; and,
g. Florence/Italy Street Units.

40. It is not intended that the tenants of these properties are disrupted, and any lease agreements already in place would transfer across to any prospective new owner.

41. Middlesbrough Municipal Golf Centre also met the definition of having a low or negative five year benefit to the Council, due to the significant amounts that are required for reinvestment in the asset. As such it is also recommended for disposal – but with the appropriate covenants in place to protect members and secure its permanent use as a golf club.

42. The Zetland Street Car Park is also recommended for disposal due to the limited income secured against significant running costs, and again this would be covenanted to secure its long term use as a car park.

Tees Advanced Manufacturing Park (TeesAMP)

43. In order to balance the disposals of low value, low return industrial space, there is a need to include assets for sale that are attractive to the market (particularly institutional investors) and could provide a significant early receipt that is essential to funding the transformation of services to return to financial sustainability. The grant conditions that are attached to many of the Council's premium assets prevent their future sale. The only premium asset the Council owns that would represent an attractive option for institutional investors and would return an early capital receipt is Tees Advanced Manufacturing Park (TeesAMP).

44. The Council developed the park in 2019, with a view to eventually selling the development to facilitate future growth. An expansion site known as TeesAMP 2 sits adjacent to the park, which was due to be developed in 2024/25 at a cost to the Council of £8.8m. By selling the completed development (TeesAMP 1) and the future development site (TeesAMP 2) the Council could realise a significant capital receipt and reduce the capital programme by £8.8m which would require debt financing at an additional long term revenue cost to the Council.

45. The annual income lost through the sale of TeesAMP 1 is significant but represents a necessary cost of releasing the early receipt.

46. The overall financial impact of the changes proposed above is as follows:

	2023/24	2024/25	2025/26	2026/27	Total
	£m	£m	£m	£m	£m
Revenue					
Lost income	0.025	1.075	0.409	0.125	1.634
Lost income (rent free periods)	0.650	0.000	0.000	0.000	0.650
Total	0.675	1.075	0.409	0.125	2.284
Capital	0.000	0.000	0.000	0.000	0.000
Receipts received	-10.600	-4.745	-0.200	-0.750	-16.295
Capital no longer required	0.000	-8.800	0.000	0.000	-8.800
4% cost of sales reduction	-0.424	-0.190	-0.008	-0.030	-0.652
Total	-10.176	-13.485	-0.190	-0.750	-24.601

Land

47. Although the future use of all of the Council's land holdings has been considered, sites have only been identified for disposal where they are not required for public open space, hold potential for commercial or residential use and are likely to secure planning and highways consent. Those identified for disposal are as follows:

Housing Sites

a. Land East of Middlesbrough Municipal Golf Centre Driving Range;
b. Acklam [Stainsby Road];
c. Hemlington Grange [West];
d. Coulby Farm Way East / West;
e. Muirfield, Nunthorpe; and,
f. Land West of Toby Carvery.

Commercial Sites

g. Cannon Park Car Park 1;
h. Cannon Park Car Park 2; and,
i. Corporation Quay.

48. Plans of these sites are included as Appendix I.

49. Alongside the plots of land identified above, the Council also owns a significant number of smaller sites and individual plots that would be disposed of as 'business as usual' throughout the year as interest comes forward. It is noted that this process would continue as normal in addition to the disposal of those sites identified above.

50. As most of these identified sites are relatively small there is no requirement to include them specifically within the Local Plan that is currently in development in order to realise their housing potential. It is however prudent for the largest sites (a,b and c) to be included within the Preferred Options document due to go out to consultation in December.

51. Although it is normal practice to dispose of land '*subject to the purchaser securing planning permission'* the delay that is caused between deals being agreed and the receipt ultimately being received can be significant. Although this remains relevant to the development of larger strategic sites, in the current financial climate it may not be prudent to attach this condition to all of the sales identified above as significant delays in receiving receipts would be problematic in terms of realising the required pipeline of capital receipts.

52. The overall financial impact of the changes proposed above is as follows:

	2023/24	*2024/25*	*2025/26*	*2026/27*	*Total*
	£m	*£m*	*£m*	*£m*	*£m*
Capital					
Receipts received	0.000	-1.167	-3.550	-4.300	-9.017
4% cost of sales reduction	0.000	0.047	0.142	0.172	0.361
Total	0.000	-1.120	-3.408	-4.128	-8.656

53. A summary of the proposed recommendations is included as Appendix II.

Disposal Strategy

54. The Council has a clear Asset Disposal Policy that has been approved as part of the overall Asset Management Plan and is included as Appendix III. Although both the Asset Management Framework and the Disposal Policy are under review as part of the wider asset work, no changes are proposed that would alter the recommendations or how they are taken forward.

55. The current disposal policy does however require that the disposal of assets over the financial threshold are subject to an Asset Disposal Business Case that requires Executive consideration. In light of the formal review undertaken to date, the balanced analysis of the business case that has already been carried out and the volume of sales proposed, it is recommended that the Executive approve the defined list of disposals set out, with the sign-off of individual Asset Disposal Business Case forms being delegated to the Director of Regeneration in consultation with the Director of Finance as they come forward. Any additional assets subsequently identified for disposal or recategorized to identify them for disposal would be brought back to Executive.

56. Although the individual sites and properties identified for disposal could all be placed on the open market at once, this may not be appropriate in terms of maximising the return to the Council. As a result it may be necessary to dispose of properties in waves to enable best value to be secured. It is therefore recommended that the responsibility for the packaging and timing of disposals identified in this report be delegated to the Director of Regeneration in consultation with the Director of Finance.

57. The general principles of open market sale will be observed in the disposals unless there is a clear and obvious reason identified for a specific asset. Departure from these principles would need to be confirmed by the Directors of Finance and Regeneration and recorded as delegated decisions. It is anticipated that the higher value disposals such as TeesAMP will be managed through external agents with the necessary expertise to maximise the return for the Council. Others will be managed through the Council's Valuation and Estates Team.

58. All operational properties identified for disposal will be vacated and mothballed at the earliest opportunity to enable savings to be made in terms of utilities and business rates.

Implementing the Rest of the Review

59. The changes identified as being required to implement the alternative strategies for properties such as Boho 1,5,8 and X will be implemented through the Council's Asset Management Team and brought forward for Executive decisions where required.

60. The additional objectives of the wider review including the move to a single corporate landlord model will also come forward for Executive consideration – including an Asset Management Plan updated to reflect the move to a Corporate Landlord model.

What decision(s) are being recommended?

That the Executive:

a. close and sell Middlesbrough House, relocating staff to Fountain Court and other Council buildings;
b. invest £1.5m from the Council's Capital Programme in expanding the capacity of Fountain Court and other Council buildings;
c. relocate the Live Well Centre from Dundas House to the Cleveland Centre, subject to confirmation of external funding;
d. relocate Middlesbrough Community Learning from the Multi Media Exchange to the Cleveland Centre, subject to confirmation of external funding;
e. close and sell Multi Media Exchange;
f. relocate Children's Services staff from 6-14 Viewley Centre to other Council buildings;
g. close and sell 3 Park Road North;
h. close and sell Lloyd Street Depot;
i. seek specialist external management arrangements for the premium assets within the commercial portfolio;
j. sell the following commercial properties:
    i. Tees AMP 1 & 2;
    ii. Viewley Centre;
    iii. Lorne Street Industrial Estate;
    iv. Howard Street Industrial Estate;

v. Letitia Industrial Estate;
vi. Gilkes Street Industrial Estate;
vii. Carcut Road Industrial Estate;
viii. Florence/Italy Street Units;

k. sell the Middlesbrough Municipal Golf Centre with the appropriate covenants in place to protect members and secure its permanent use as a golf club;
l. sell the Zetland Street Car Park with the appropriate covenants in place to secure its permanent use as a car park;
m. sell the following sites for housing development:
   i. Land East of Middlesbrough Municipal Golf Centre Driving Range;
   ii. Acklam [Stainsby Road];
   iii. Hemlington Grange [West];
   iv. Coulby Farm Way East / West;
   v. Muirfield, Nunthorpe;
   vi. Land West of Toby Carvery;
n. sell the following sites for commercial development:
   i. Cannon Park Car Park 1;
   ii. Cannon Park Car Park 2;
   iii. Corporation Quay;
o. delegate the approval of individual Asset Disposal Business Case forms for the assets listed above to the Director of Regeneration, in consultation with the Director of Finance; and,
p. delegate the packaging and timing of disposals identified in this report to the Director of Regeneration, in consultation with the Director of Finance.

Rationale for the recommended decision(s)

61. Reducing the number of assets held by the Council will enable revenue costs to be reduced and capital receipts to be secured, and the alternative strategies proposed for others should enable the Council to reduce its revenue costs and increase commercial income. The additional income, reduced expenditure and secured capital receipts will all be essential to addressing the budget challenges that the Council faces, but comes at the cost of reducing longer term income potential.

Other potential decision(s) and why these have not been recommended

62. The following options have been considered as part of the review:

Dispose of all non-operational assets

63. Although the Council's short term financial situation is challenging and would be supported by the complete disposal of all non operational assets, there is a need to balance this with the longer term view as well. If the Council sells all commercial assets and invests the receipts in reducing capital borrowing and funding transformation, there is inevitably going to be less long term reliance upon the revenue income generated by a commercial portfolio. This reliance is however unlikely to be eased to the extent that none of the commercial income is required in

future. The optimum balance can be found by taking a more incremental approach that is recommended in this report, and if the financial position improves and the long term reliance on commercial income reduces over time then there is a case to be made for further asset disposals.

Sale and leaseback of operational assets

64. Similar to the argument regarding the disposal of all non-operational assets, the Council needs to balance taking short term capital benefits at the expense of the longer term revenue position. A sale and leaseback arrangement may ultimately be determined to be necessary if the financial position does not improve, but this exchange of long term revenue for short term capital is viewed as being an unnecessary step at this stage, with such saleable commercial assets to utilise first.

Categorisation of community based properties for disposal or retention

65. The long list of community based assets identified in the report represent an opportunity to reduce running costs, rather than to raise capital receipts. The future use of community assets is as likely to be driven by Council need and the appetite for community asset transfers than it is by commercial considerations, as the properties have only a limited financial value. Determining the disposal or retention of these individually ahead of the Council determining its preferred model for locality working would potentially weaken the chances of success, and create a confused local picture.

Impact(s) of the recommended decision(s)

Legal

66. The disposal of land and property, the implementation of new commercial arrangements for retained properties and potential transfers to other organisations will all require significant contracting and legal input.

Strategic priorities and risks

67. The key strategic risk that the report addresses is *Failure to meet a balanced budget.*

68. As an organisation facing financial challenges, it is appropriate that the Council reviews its assets to determine whether they hinder the ability to meet a balanced budget, or whether they offer an opportunity to take action to reduce the overall strategic financial risk. The recommended actions balance the need to take short term action to reduce the risk, without compromising the longer term ability of the Council to balance its budget. As the disposal of assets can be done incrementally, the list of assets could be added to in future if the need to take more significant action is identified, and a revised risk profile is applied to the list of retained assets.

Human Rights, Equality and Data Protection

69. The sale of assets does not in itself specifically compromise the rights of individuals, but some of the recommendations on the movement of services may have an impact upon the accessibility of provision by individuals. These changes need to be subject to individual impact assessments by the relevant services prior to any implementation, and the necessary changes put in place to mitigate any identified impacts.

Financial

70. The case for generating capital receipts to fund service transformation and financial recovery is set out in the main body of the report and has been balanced throughout the review with reducing operating costs and maintaining the longer term supply of commercial income. The recommended disposals reflect the balancing of these factors with the Council's current risk profile.

71. The schedule of recommended disposals provides a flow of capital receipts and reduced operating costs across the next two to three years but is balanced by the need to invest in existing buildings such as Fountain Court to accommodate additional staff. The overall forecast outcome of the recommended actions is therefore as follows:

	2023/24	*2024/25*	*2025/26*	*2026/27*	*Total*
	£m	*£m*	*£m*	*£m*	*£m*
Revenue					
Reduction in running costs	0.000	-0.223	-0.261	-0.035	-0.519
Lost income	0.025	1.075	0.409	0.125	1.634
Lost income (rent free periods)	0.650	-0.650	0.000	0.000	0.650
Total	0.675	0.202	0.148	0.090	1.765
	0.000	0.000	0.000	0.000	0.000
Capital	0.000	0.000	0.000	0.000	0.000
Expenditure required	0.350	1.150	0.000	0.000	1.500
Receipts received	-10.600	-7.412	-4.000	-5.050	-27.062
Capital no longer required	0.000	-8.800	0.000	0.000	-8.800
4% cost of sales reduction	0.424	0.296	0.160	0.202	1.082
Total	-9.826	-14.765	-3.840	-4.848	-33.279

72. The financial impacts of the recommendations are based on the following assumptions:

   a. TeesAMP would be sold in 2023/24;
   b. all other properties would be sold by the end of 2026/27;
   c. the cost of selling each asset is estimated at 4% of its value; and,
   d. rent free periods in existing leases on properties being sold would be accounted for in the year of sale.

73. The current capital programme includes a plan to utilise capital receipts over the term of the 2023/24 Medium Term Financial plan. It should be noted that all commitments in the capital programme are under review and will be the subject of a further report in due course.

74. It will be necessary to review and revise the existing Transformation Programme and Flexible Use of Capital Receipts Strategy for which a report for consideration by the Executive is included elsewhere on this agenda for consideration and recommendation to Council for approval. The 2024/25 Flexible Use of Capital Receipts Strategy will be brought forward as part of the budget setting proposals for approval by Council in February 2024. It should be noted that the application of capital receipts under the Flexible Use of Capital Receipts Strategy will require capital receipts to be realised (ie cash in the bank) before expenditure that is reliant upon this funding can be incurred.

NAME Cllr Theo Furness
DATE: 29 November 2023