

<b>Report of:</b>	Executive Member for Regeneration – Councillor Theo Furness Director of Regeneration – Richard Horniman
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<b>Submitted to:</b>	Executive
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<b>Date:</b>	13 March 2024
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<b>Title:</b>	Disposal of Property Q4 2023/24
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<b>Report for:</b>	Decision
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<b>Status:</b>	Public
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<b>Strategic priority:</b>	Physical environment
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<b>Key decision:</b>	Yes
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<b>Why:</b>	Decision(s) will incur expenditure or savings above £250,000
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<b>Urgent:</b>	No
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<b>Why:</b>	Not Applicable
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### **Executive summary**

It is recommended that the Executive approve the sale of two properties previously identified for sale - House of Fraser and Zetland Car Park.

Sale of the two properties would enable the Council to generate significant capital receipts that would provide critical flexibility in managing the Council's current financial position, and the need to transform.

## **Purpose**

1. To seek Executive approval to dispose of the Council's freehold interest in the following properties in accordance with the Council's Asset Disposal Process:
  - a. House of Fraser; and,
  - b. Zetland Car Park.

## **Background & relevant information**

2. The Medium Term Financial Plan (MTFP) Refresh 2024/25 to 2026/27 report agreed by Executive on 23rd August 2023 regarding the Council's overall financial position set out the challenges faced in setting a balanced budget for 2024/25 and beyond.
3. The Review of Capital Receipts Strategy 2023/24 report agreed by Executive on 21st November 2023 regarding the Flexible Use of Capital Receipts set out the importance of securing capital receipts from asset sales that may be used to support the Council's financial position in one of three ways:
  - a. 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;
  - b. to repay the Council's debt and reduce the annual costs of repaying principal and/or interest on such debt; and,
  - c. to invest in infrastructure through the capital programme.
4. The Asset Review report agreed by Executive on 21st November 2023 therefore recommended a significant programme of asset sales be brought forward, in addition to the existing pipeline of land and properties being brought forward for disposal.
5. Since these reports were agreed by Executive in November there has been a significant effort to generate market interest in the new and existing pipeline of land and properties. Some of this interest has developed into firm offers that have been considered agreeable within the context of the Council's current financial position.
6. The two properties contained within this report have both been the subject of firm, credible offers that reflect their current valuations, and are therefore brought forward for decision in line with the agreed Asset Disposal Process.
7. As the deal is yet to be fully concluded, and negotiations may continue until the date of final completion, the name of the buyer and the valuations of the respective properties have been identified in a confidential appendix rather than in the main body of the report. These details will be released upon formal completion.

## **House of Fraser (37 Linthorpe Road)**

8. The property situated on the prominent Linthorpe Road / Corporation Road crossroads was purchased by the Council in 2020 for £1,000,000 to extend the presence of the retailer in the town centre, and secure control over a major strategic asset in the town's prime retail area.

9. House of Fraser continued to occupy the six storey 129,000 sq ft property until June 2022. The Council has been actively seeking either a long term let or a sale since House of Fraser's departure, but despite some initial interest the market for large floorplate retail space has declined significantly.
10. Redevelopment of the building has been thoroughly explored, but all potential options would require the Council to invest resources significantly beyond those currently available and are therefore undeliverable.
11. As the holding costs for the building are significant (£100,000 pa) a sale has therefore been sought that enables the following:
  - a. removing the Council's ongoing liability;
  - b. securing a capital receipt; and,
  - c. facilitating investment in the town centre.
12. A number of proposals have been received since 2022 that would potentially meet some of these objectives, but nothing that met all three. A bid was however received in late 2023 from (*Ref A Buyer Name - Confidential Appendix I*) offering to pay the current market value, as the property was required as part of a wider proposal that would trigger significant investment into the town centre.
13. The Council instructed two external 'Red Book' valuations from Knight Frank and Algin Property Services, confirming that the current market value for the property is (*Ref B HoF Valuation - Confidential Appendix I*). This reflects the fall in the market for retail property and the deteriorating condition of the now vacant building. The buyer has also sought a formal 'Red Book' valuation that has confirmed a similar value.
14. In order to support the capital requirements built into the 2023/24 budget, and the needs of the buyer, the sale process has been managed to enable completion by 31st March 2024. Approval of this report would therefore facilitate the capital receipt being received within the current budget year.
15. To ensure that the property is not passed on to a third party at a higher price within a short timescale, an appropriate overage agreement will be put in place to protect the Council.

### **Zetland Car Park**

16. The recent Asset Review report identified a number of properties where there was no commercial case for retaining them within Council ownership. The Zetland Car Park was included within this categorisation due to the running costs outweighing the limited income secured. Although the car park is clearly an important town centre asset, there is no commercial rationale for the Council needing to either own or operate it.
17. Constructed in 1989 and offering 739 spaces, the location of the car park near to the Rail Station, Middlehaven and a number of existing and proposed education facilities suggests that the car park could play an important role in the future of the town centre. It's current usage is however limited by a poor image, negative feelings of safety and a perceived lack of geographical connection with Middlehaven.

18. The recently launched plans by the Middlesbrough Mayoral Development Corporation should see an increase in activity in the vicinity of the station and offer opportunities to better connect the car park with the growth of Middlehaven. The car park therefore represents a potential opportunity for a long term investor.
19. A bid was received late in 2023 from *(Ref A Buyer Name - Confidential Appendix I)* to purchase Zetland Car Park at the current market value, with the use as a car park being maintained into the future.
20. As with House of Fraser, the Council instructed two external 'Red Book' valuations from Knight Frank and Algin Property Services, confirming that the current market value for the property is *(Ref C Zetland Valuation - Confidential Appendix I)*. The buyer has also sought a formal 'Red Book' valuation that has confirmed a similar value. A sale is therefore proposed, with a requirement that it remains in operation as a car park for at least five years.
21. In order to support the capital requirements built into the 2023/24 budget, and the needs of the buyer, as with House of Fraser the sale process has been managed to enable completion by 31st March 2024. Approval of this report would therefore facilitate the capital receipt being received within the current budget year.
22. Although no agreement is yet in place, it has been indicated by the buyer that they would wish to contract with the Council to continue existing management arrangements in the short term, until alternative arrangements can be established.
23. The costs of operating the car park currently exceed the income secured from parking by £18,983 per year, although this is mitigated by the income achieved through the solar panels situated on the roof (£26,573), giving a small surplus of £7,590 per year. The sale would therefore represent a small loss of income, although any repairs required each year would clearly negate that income if the property was retained.

#### **What decision(s) are being recommended?**

24. It is recommended that the Executive approve:
  - a. The sale of the House of Fraser Building (37 Linthorpe Road) to *(Ref A Buyer Name - Confidential Appendix I)* for *(Ref B HoF Valuation - Confidential Appendix I)*;
  - b. The sale of Zetland Car Park to *(Ref A Buyer Name - Confidential Appendix I)* for *(Ref C Zetland Valuation - Confidential Appendix I)*; and,
  - c. Delegates responsibility to the Director of Finance and the Director of Regeneration for the negotiation of the final sales value of each property.

#### **Rationale for the recommended decision(s)**

25. Disposal of the two properties as proposed would generate significant capital receipts that would contribute to supporting the Council's financial position in one of three ways:
26. 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.

27. To repay the Council's debt and reduce the annual costs of repaying principal and/or interest on such debt.

28. To invest in infrastructure through the capital programme.

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

#### ***Retain Both Properties Within Council Ownership***

29. The assessment made through the Council's recent Asset Review identified that the commercial potential of the two properties represented a liability rather than an asset to the Council. Retaining both properties would cost the Council £92,000 per year once holding and operational costs are taken into account.

#### ***30. Retain Both Properties Within Council Ownership Utilising Alternative Management Arrangements***

31. The potential exists to seek alternative management arrangements for Zetland Car Park, that could potentially see an increase in income. This could not be achieved however without significant capital investment in improving the facilities and customer experience that would negate any potential benefit. As House of Fraser has already been marketed by respected national agents, it is not expected that alternative management arrangements would trigger any additional market interest.

### **Impact(s) of the recommended decision(s)**

#### ***Legal***

32. No specific legal issues have been created as a result of the proposal to dispose of the properties.

33. The properties would be disposed of freehold in accordance with standing financial orders and asset disposal protocol. The only variation to standard sale contracts required would be the retention of the Zetland Car Park for its current use for a period of five years.

34. If the Council is to continue managing the Zetland Car Park whilst alternative arrangements are put in place by the buyer, this would require the development of an appropriate legal agreement to cover risks and liabilities.

#### ***Strategic priorities and risks***

35. The proposal does not require any change to the Council's existing policy framework.

36. The proposal to dispose of the properties aligns with strategic objectives and contributes positively towards the vision for Middlesbrough.

#### ***Human rights, equality and data protection***

37. There will be no negative, differential impact on protected groups and communities.

38. A Level 1 (Initial Screening) Impact Assessment (IA) accompanies this report attached at Appendix 2. The impact assessment has identified that the proposal would have a positive impact on the local community and does not represent any concern to equal rights, disability discrimination or the impingement of individual human rights.

39. The proposed decision does not involve the collation and use of personal data.

### **Financial**

40. The Council would receive a combined capital receipt of (*Ref D Total Capital Receipt - Confidential Appendix I*) without the need to incur any further marketing costs.

41. As stated above, this would enable the Council to utilise the capital receipts for the following purposes:

- a. 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;
- b. to repay the Council's debt and reduce the annual costs of repaying principal and/or interest on such debt; and,
- c. to invest in infrastructure through the capital programme.

42. The disposal of the two assets would also mean an annual saving of £92,000 on holding and operational costs. This is demonstrated within the table below.

<b>Projected Income / Expenditure 2023/24</b>			
	<b>Income £m</b>	<b>Expenditure £m</b>	<b>Projected Outturn £m</b>
<b>Zetland Car Park</b>	<b>-0.154</b>	<b>0.146</b>	<b>-0.008</b>
<b>House of Fraser</b>	<b>0.000</b>	<b>0.100</b>	<b>0.100</b>
<b>Total</b>	<b>-0.154</b>	<b>0.246</b>	<b>0.092</b>

43. The Medium Term Financial Plan (MTFP) assumed that House of Fraser would be sold by the 31<sup>st</sup> December 2023 and the budget was set accordingly so whilst no expenditure will be incurred following the proposed sale, there are no budgetary savings in 2024/25. Net income and expenditure at the Zetland Car Park is anticipated to remain at similar levels in 2024/25.

44. The proposals being considered by the buyer for the House of Fraser building would also potentially trigger significant investment into the town centre that could result in a longer term increase in Business Rate income.

45. The Council has an obligation to achieve best value when considering asset sales. In terms of an assessment of best value:

- a. With respect to the House of Fraser, the Council instructed two, parallel, external 'Red Book' valuations from Knight Frank and Algin Property Services, confirming that the current market value for the House of Fraser is (*Ref B HoF Valuation - Confidential Appendix I*). This reflects the fall in the market for retail

property and the deteriorating condition of the building. The buyer has also sought a formal 'Red Book' valuation that has confirmed a similar value.

- b. With respect to the Zetland Car park, the Council instructed two external 'Red Book' valuations from Knight Frank and Algin Property Services, confirming that the current market value for the property is *(Ref C Zetland Valuation - Confidential Appendix I) (Ref C Zetland Valuation - Confidential Appendix I)*. The buyer has also sought a formal 'Red Book' valuation that has confirmed a similar value. A sale is therefore proposed with a requirement that it remains in operation as a car park for at least five years.

### **Actions to be taken to implement the recommended decision(s)**

<b>Action</b>	<b>Responsible Officer</b>	<b>Deadline</b>
Subject to Executive approval, the Council moves to proceed with disposal of the two properties as detailed within the report.	Valuation & Estates Manager	March 2024

### **Appendices**

<b>I</b>	Confidential Appendix (Buyer Identity and Property Values)
<b>II</b>	Asset Disposal Business Case – House of Fraser
<b>III</b>	Asset Disposal Business Case – Zetland Car Park
<b>IV</b>	Impact Assessment Level 1 – Initial Screening Assessment

### **Background papers**

The following background papers were used in the preparation of this report:

<b>Body</b>	<b>Report title</b>	<b>Date</b>
Executive	Medium Term Financial Plan (MTFP) Refresh 2024/25 to 2026/27	23 <sup>rd</sup> August 2023
Executive	Review of Capital Receipts Strategy 2023/24	23 <sup>rd</sup> November 2023
Executive	Asset Review	23 <sup>rd</sup> November 2023