

Report of:	Director of Regeneration – Richard Horniman
Relevant Executive Member:	Executive Member for Regeneration – Councillor Theo Furness
Submitted to:	Executive
Date:	22 May 2024
Title:	Sale of TeesAMP
Report for:	Decision
Status:	Public
Council Plan priority:	A successful and ambitious town
Key decision:	Yes
Why:	Decision(s) will incur expenditure or savings above £250,000
Subject to call in?:	Yes
Why:	Key Decision

Proposed decision(s)	
That the Executive:	
<ul style="list-style-type: none"> a. approves the sale of TeesAMP (1 & 2) to <i>(Ref A Buyer Name – Exempt from Publication Appendix I)</i> for the sum of <i>(Ref B Sale Price – Exempt from Publication Appendix I)</i>; and, b. delegates the agreement of any final revisions to the price to the Director of Finance. 	

Executive summary	
<p>The 23rd November 2023 Asset Review report to Executive identified the sale of a number of assets including TeesAMP as being critical to the delivery of the Medium Term Financial Plan (MTFP). In particular, the funding of investment in the transformation programme through application of capital receipts from assets sales through the Council’s Flexible Use of Capital Receipts Strategy is essential due to the lack of sufficient revenue reserves to meet these costs.</p> <p>The two elements of the site (comprising the developed units - TeesAMP 1, and the undeveloped land – TeesAMP 2) have been marketed for sale as a joint package. The interest in purchasing the site has been strong, with multiple offers received. A ‘best and final’ offer stage has subsequently been undertaken which has led to the recommended offer significantly exceeding the expected receipt.</p>	

1. Purpose

1.1 To seek Executive approval to dispose of the Council's freehold interest in TeesAMP (1 & 2) in accordance with the Council's Asset Disposal Process.

2. Recommendations

2.1 That the Executive:

- a) approves the sale of TeesAMP (1 & 2) to *(Ref A Buyer Name – Exempt from Publication Appendix I)* for the sum of *(Ref B Sale Price – Exempt from Publication Appendix I)*; and,
- b) delegates the agreement of any final revisions to the price to the Director of Finance.

3. Rationale for the recommended decision(s)

3.1 Disposal of TeesAMP as proposed would generate a significant capital receipt that is critical to the delivery of the MTFP.

4. Background and relevant information

4.1 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.

4.2 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:

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

4.3 The 2024/25 budget and MTFP, Council Tax Setting and Treasury Management report approved by Council on 8 March included a plan to achieve capital receipts totalling £19.7m in 2024/25 rising to £44.7m by 2026/27 in order to finance the capital programme (£18m), transformation programme and redundancies (£26.7m).

4.4 The Asset Review report agreed by Executive on 21st November 2023 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. The key asset listed for sale within the report was TeesAMP. The Asset Disposal Business Case is included as Appendix II.

- 4.5 Since these reports were agreed by Executive in November there has been an extensive marketing process undertaken through leading national property agents Cushman & Wakefield. The process has focused on finding an appropriate buyer for the developed units (TeesAMP 1) and the undeveloped land (TeesAMP 2).
- 4.6 The latest valuation placed on the site by Cushman & Wakefield at the outset of the process was £14,450,000 with an expectation that although the market for commercial developments is relatively flat, there should be sufficient interest to achieve this valuation.
- 4.7 The market interest generated by the process has been significant, with over 50 potential bidders registering an interest. Almost all of the potential bidders were identified as nationally recognised, significant investors with the ability to fund the purchase directly.
- 4.8 An extended period of due diligence has followed, culminating in the receipt of 13 bids – most of which were in excess of the valuation. A period of ‘best and final’ offers was undertaken, with bids subsequently improving. The final figures offered are all listed in the Exempt from Publication appendix (Ref C Final Bid Figures – Exempt from Publication Appendix I).
- 4.9 The highest offer is recommended for approval and is significantly higher than the valuation estimate, prior to the bid exercise.
- 4.10 The bid amount and identity of purchaser has been held as exempt from publication as not to prejudice either party’s commercial interests until the sale completes. i.e. it is possible for competitors to derive important commercial information about yield ratios or investment thresholds. As such, and pursuant to the Access to Information Procedure Rules at section 16.12.2 (Category C) of Middlesbrough Council’s Constitution.
- 4.11 When the sale is legally complete, the sale details will be in the public domain and, typically, published on the Land Registry within six months of sale completion.
- 4.12 Cushman and Wakefield have assessed the detail of the bids and have concluded that the highest offer of (Ref B Sale Price – Exempt from Publication Appendix I) submitted by (Ref A Buyer Name – Exempt from Publication Appendix I) should be the recommended bid. This has been reviewed by officers with the same conclusion reached. This is therefore the bid recommended within this report.
- 4.13 As with any property deal of this nature, there will be a series of minor issues that are negotiated further as the legal paperwork is finalised. It is not anticipated that the headline sale figure would vary significantly as a result of this, but delegation is also sought for any minor revisions to be agreed by the Director of Finance.

5. Other potential alternative(s) and why these have not been recommended

Retain The Site Within Council Ownership

- 5.1 The assessment made through the Council’s recent Asset Review identified that the site had significant commercial sale potential, and that the value would be maximised by securing a sale whilst fully occupied with strong lettings in place. The Council also does not traditionally invest sufficient funds in the ongoing renewal of commercial properties to retain this level of value for an extended period. Retaining the site within Council ownership would enable the retention of the annual rental income but would

miss the opportunity to secure the significant capital receipt required to deliver the Council's MTFP which underpins the achievement of the Council Plan, and risk the loss of value experienced through lack of ongoing investment.

Retain The Site Within Council Ownership Utilising Alternative Management Arrangements

5.2 The potential exists to seek alternative management arrangements for TeesAMP, that could potentially address the lack of ongoing investment. This could not be achieved however without foregoing a proportion of the annual revenue income. This would still miss the opportunity to secure the significant capital receipt needed to deliver the Council's MTFP and the Council Plan.

6. Impact(s) of the recommended decision(s)

Financial (including procurement and Social Value)

6.1 The MTFP approved by Council on 8 March 2024 included the Capital Programme and Funding Statement as summarised in Table 1 below. This includes the requirement to deliver total capital receipts of £19.7m in 2024/25 rising to £44.7m over the period to 2026/27. This will fund the main capital programme and transformation investment, redundancy costs and the associated contingency budget via the Flexible Use of Capital Receipts Strategy.

Table 1: Summary of Capital Programme 2024/25 to 2026/27

Summary of Capital Programme 2024/25 to 2026/27							
	2024/25 £m	2025/26 £m	2026/27 £m	TOTAL		Council Funding £m	External Funding £m
Directorates	61,449	65,518	7,913	134,880		70,959	63,921
Transformation Programme	5,500	4,800	3,300	13,600		13,600	-
Redundancies	6,500	-	-	6,500		6,500	-
Contingencies	1,700	2,900	2,000	6,600		6,600	-
Exceptional Financial Support (EFS)	13,400	-	-	13,400		13,400	-
TOTAL CAPITAL EXPENDITURE	88,549	73,218	13,213	174,980		111,059	63,921
	2024/25 £m	2025/26 £m	2026/27 £m	TOTAL		Council Funding £m	External Funding £m
FUNDED BY							
Prudential Borrowing	23,037	28,009	1,913	52,959		52,959	-
EFS Borrowing	13,400	-	-	13,400		13,400	-
Capital Receipts	6,000	6,000	6,000	18,000		18,000	-
Flexible Receipts	13,700	7,700	5,300	26,700		26,700	-
Grants	29,897	27,931	-	57,828		-	57,828
Contributions	2,515	3,578	-	6,093		-	6,093
TOTAL FUNDING	88,549	73,218	13,213	174,980		111,059	63,921

6.2 The Council would receive a capital receipt of (*Ref B Sale Price – Exempt from Publication Appendix I*).

6.3 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.

6.4 The site is currently fully occupied with all business rates and operational costs being met by tenants with a net rental income of £1.05m per year for the Council. In the event that the site was not fully occupied, business rates and operational cost would fall to be met by the Council. The loss of this net income has been factored into the approved 2024/25 MTFP as part of the findings of the Asset Review.

6.5 The Council is not able to borrow to fund transformation expenditure under current government regulations with the exception of some short term funding of any timing delay to realising capital receipts v incurring transformation expenditure via approved Exceptional Financial Support. However, it should be noted that the revenue cost of borrowing a sum in the region of £14m would be approximately £1m per annum and is therefore broadly equivalent to the loss of income.

6.6 The disposal of the site also removes the requirement for the Council to finance the development of the remediated land at TeesAMP 2, for which £8.8m was previously included within the Council's Capital Programme but has been removed from the 2024/25 to 2026/27 programme.

6.7 Members will recall that £13.6m of Exceptional Financial Support (EFS) was approved in principle by DLUHC in February 2024 in the form of borrowing. Within this total, an amount of £4.6m was included to cover the risk of a delay in the timing of the realisation of capital receipts compared to the planned £13.7m of investment in the transformation programme and redundancy costs. The sale of TeesAMP will mitigate against the need to draw upon this element of EFS.

6.8 The Council has an obligation to achieve best value when considering asset sales. In terms of an assessment of best value, the valuation undertaken by Cushman & Wakefield at the start of the process confirmed that the current market value would be £14,450,000. Many of the offers received throughout the competitive process were in excess of this valuation, with the recommended bid representing a significant uplift to this figure.

6.9 Financial assistance was originally sought from TVCA to fund the development of TeesAMP 1 including a repayable grant of £7.650m (the 'Grant'). Under a Funding Agreement dated 14th February 2018 (the 'Funding Agreement') it was set out that the Grant shall be repaid to TVCA via Business Rates achieved from the occupiers on the development, and therefore formal consent to any disposal must be obtained from TVCA. Provided that an agreement remains in place to continue the payment of Business Rates to TVCA to cover the outstanding Grant, TVCA cannot unreasonably withhold their consent to the disposal. It is proposed therefore that an alternative agreement is put in place to confirm the ongoing repayment through Business Rates.

6.10 As at 31 March 2024, £1.001m of business rates relating to the site have been collected on behalf of TVCA, leaving £6.649m as outstanding. At the current collection rate of £0.422m per annum the outstanding £6.649m would be repaid by 2039/40. However, upon development of TeesAMP 2 the income from business rates on the wider site is anticipated to increase by approximately 50%, accelerating the payback period.

6.11 TVCA's consent to the proposed disposal, and the continued repayment through Business Rates has been formally sought. The Council could proceed with the sale without TVCA's formal written consent, but the terms of the Funding Agreement would require the Council to hold all sale proceeds on trust for use in the repayment of the Grant until consent is received.

Legal

6.12 The site would be disposed of freehold in accordance with standing financial orders and the established asset disposal protocol. Womble Bond Dickinson would act on behalf of the Council in respect of the proposed disposal.

6.13 As noted above, financial assistance was originally sought from TVCA to fund the development of TeesAMP 1 including a repayable grant of £7.65m. Under a Funding Agreement dated 14th February 2018 it was set out that the Grant shall be repaid to TVCA via Business Rates achieved from the occupiers on the development, and therefore formal consent to any disposal must be obtained from TVCA.

6.14 Provided that an alternative mechanism is agreed (prior to completion of the sale) to cover the repayment of outstanding Grant, TVCA cannot unreasonably withhold their consent to the disposal. It is proposed therefore that an alternative agreement is put in place that would continue the repayment through Business Rates, and the acting solicitors will need to ensure that any residual liability on the Council is avoided/minimised (as far as can be negotiated). This would need to be considered in the drafting of the appropriate conveyancing documentation once the terms of the repayment mechanism are agreed.

6.15 The roads on the estate have also not yet been adopted, and the future sewer adoption arrangements will depend on the agreed extent of roadway which is to be adopted as part of finalising the sale. The buyer will expect to be indemnified against the costs of maintaining these services (until such time as the services are in fact adopted) if arrangements cannot be finalised prior to completion of the sale.

Risk

6.16 The generation of the significant capital receipt through the sale of TeesAMP would contribute towards reducing the overall risk to the Council's ability to set a balanced budget (SR-01).

Human Rights, Public Sector Equality Duty and Community Cohesion

6.17 The sale of TeesAMP does not impact directly upon the above.

Climate Change / Environmental

6.18 Although TeesAMP houses significant business investments around Net Zero activity, the transfer of ownership from the Council to a private sector buyer does not affect the overall contribution to the green agenda.

Children and Young People Cared for by the Authority and Care Leavers

6.19 The sale of TeesAMP does not impact upon the care of children and young people.
Data Protection

6.20 The information held by the Council on lettings etc. will be passed to the buyer as part of the normal handover of the asset.

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

Action	Responsible Officer	Deadline
Completion of the legal sale of TeesAMP to the identified buyer	Director of Regeneration	31 st May 2024

Appendices

I	Exempt from Publication Appendix (Buyer Identity and Sale Price)	
II	Asset Disposal Business Case	
III	Impact Assessment Level 1 – Initial Screening Assessment	

Background papers

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

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