

Public Report

Birmingham City Council

Report to Cabinet

5 March 2019



Subject:	PROPERTY PROSPECTUS - TENDERS
Report of:	ASSISTANT DIRECTOR PROPERTY SERVICES, INCLUSIVE GROWTH
Relevant Cabinet Member:	Councillor Ian Ward – Leader of the Council
Relevant O &S Chair(s):	Councillor Tahir Ali – Economy and Skills Councillor Sir Albert Bore – Resources
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Are specific wards affected?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No – All wards affected
If yes, names of wards: Ladywood, Soho and Jewellery Quarter and Sparkbrook and Balsall Heath East		
Is this a key decision?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
If relevant, add Forward Plan Reference: 005930/2019		
Is the decision eligible for call-in?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Does the report contain confidential or exempt information?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
If relevant, provide exempt information paragraph number or reason if confidential :		

1 Executive Summary

- 1.1 This report provides information on the outcome of the informal tender process for the disposal of surplus Council owned land and property assets as part of the first phase of the surplus land prospectus disposals, as detailed in the Birmingham Sites Prospectus (Nov 2018) (Appendix 1) and approved by Cabinet in November 2018 through the Property Strategy 2018/19-2023/24, and seeks approval to the subsequent sale of freehold and leasehold interests.
- 1.2 The private report contains confidential information which could impact on the tender process.

2 Recommendations

That Cabinet:

- 2.1 Approves the freehold and leasehold disposal of the surplus Council owned land and property assets to the highest recommendable offer as detailed in the private report.
- 2.2 Authorises the Assistant Director Property Services to revert to the under bidders where appropriate should any of the recommended sales not proceed to completion.
- 2.3 Delegates approval of the final sale terms agreed under 2.2 above to the Leader of the Council jointly with Assistant Director Property Services.
- 2.4 Authorises the City Solicitor to negotiate, execute and complete all relevant documentation to give effect to the above recommendation.

3 Background

- 3.1 The subject sites were declared surplus in a report of the Corporate Director, Economy entitled "Property Strategy 2018/19-2023/24 (the Property Strategy) approved by Cabinet in November 2018. The report also approved the subject sites being offered for sale.
- 3.2 The sites were subsequently offered for sale through the Birmingham Sites Prospectus (November 2018) to the open unrestricted market by informal tender, with a closing date of 4th January 2019.
- 3.3 Tenders were invited on either an unconditional or conditional (subject to planning only) basis.
- 3.4 To assist prospective bidders, officers held planning workshops where prospective bidders were given the opportunity to discuss their development proposals and were provided with guidance on their development proposals.
- 3.5 The disposal of the assets will follow the timetable prescribed in the Birmingham Sites Prospectus (Nov 2018) and in accordance with the original timeframe ensuring approved sales are concluded as early as June 2019.
- 3.6 The offers were reviewed and evaluated based on the level of financial offer and the proposed scheme plan/layout, where provided. A moderation panel comprising the Assistant Director of Property and senior officers reviewed the evaluated offers. Where necessary officers have sought best and final offers as set out in the Private Appendix attached to the Private Report.
- 3.7 The Private Report and individual Tender Reports detailing the outcome of the process for each site as appended to that report, provide the confidential tender information.
- 3.8 The recommended sales represent best consideration, and have been validated by the Assistant Director of Property based upon analysis of the offers received.

4 Options considered and Recommended Proposal

- 4.1 Not to proceed would mean not realising capital receipts from the sale of surplus assets.
- 4.2 The sale of the subject sites will remove ongoing management liability to the Council.
- 4.3 The sale of the subject sites will promote private investment into the City region economy.

5. Consultation

5.1 Internal

- 5.1.1 The Leader of the Council has been consulted regarding the contents of this report and is fully supportive of the report proceeding to an executive decision.
 - 5.1.2 The relevant Ward Members have been consulted. Councillor Chaman Lal Ward Member for the Soho and Jewellery Quarter has commented he “would like reassurances the proposed disposal of Birmingham City Council properties in the Jewellery Quarter are made subject to legal covenants/conditions to safeguard the current tenancies and protect the future of the jewellery manufacturing base in this area”. Councillor Lal’s specific comments are included in full together with officer’s responses at Appendix 2 of this report. Further comments received from Councillor Chaman Lal are “I and my colleague Cllr Sybil Spence have obligations to protect and sustain the wellbeing of the jewellery businesses as well as the heritage of the historical importance of the Jewellery Quarter area. I would like us to be clear to the prospective purchasers of our Jewellery Quarter assets that they must not assume that they can make unfettered mass conversions of commercial buildings into residential units and any improvements and developments in this area must support the current and future local businesses.” Councillor Brigid Jones also responded stating “as a council rep on the Jewellery Quarter Development Trust I agree with what Cllrs Lal and Spence are saying.”
 - 5.1.3 As the assets have been marketed on an unrestricted basis to ensure the maximum return to the Council, Councillor Lal’s comments will be dealt with as part of any planning proposals that may be brought forward by the successful purchaser. Councillor Lal has been advised the properties will be protected by the prevailing planning policy and in particular the properties position within a dedicated conservation area.
 - 5.1.4 No other comments have been received to the reports content. The detail of this consultation is set out in Appendix 2 of this report.
 - 5.1.5 The relevant officers from the Inclusive Growth, Finance and Legal & Governance have been involved in the preparation of this report.
- ##### **5.2 External**
- 5.2.1 No external consultation has taken place regarding the content of this report.

6. Risk Management

- 6.1 Inability to meet property market timelines: To meet the expectations of the prevailing property market the Council has committed to deliver this initial programme of land and property sales in accordance with the Delivery Milestones set out in the Birmingham Sites Prospectus (Appendix 1). Approval of this report will support adherence to these milestones and enable sale receipts to be realised as early as June 2019.
- 6.2 Interim reduction in existing rental income. The disposal of assets will impact existing rental income. The reduction in rental income from this first phase of disposals is detailed in the Finance section below in Table 1. Associated mitigation measures are noted in 7.3.6 of the Finance section.

7. Compliance Issues:

7.1 How are the recommended decisions consistent with the City Council's priorities, plans and strategies?

- 7.1.1 The Property Strategy is aligned with the strategic outcomes outlined in the Council Plan 2018-2022 – to create a city of growth where every child, citizen and place matters. The Property Strategy will help make Birmingham: an entrepreneurial city to learn, work and invest in; an aspirational city to grow up in; a fulfilling city to age well in; a great city to live in; and for residents to gain maximum benefit from hosting the Commonwealth Games.
- 7.1.2 As the largest local authority in the country with the biggest property portfolio we have the opportunity to utilise the Council's property and land assets in a strategic way to deliver our priorities.
- 7.1.3 The Property Strategy takes a medium to long term strategic approach to how we utilise our unique asset base and will ensure a balanced delivery of maximised commercial and social returns. Re-aligning the Council's property will provide a catalyst for development and underpin the social fabric of communities across the city.

7.2 Legal Implications

- 7.2.1 The power to hold, appropriate and dispose of land is contained in Sections 120 - 123 of the Local Government Act 1972.
- 7.2.2 Section 1 of the Localism Act 2011 contains the Council's general power of competence and S111 of the Local Government Act 1972 contains the Council's ancillary financial and expenditure powers in relation to the discharge of its functions including the disposal and acquisition of property.

7.3 Financial Implications

- 7.3.1 All offers received are detailed in the individual Tender Reports attached as Appendix 1 of the private report. Any unconditional offers received will be required to exchange contracts within six weeks and pay a 10% deposit, with the balance of the purchase monies payable 28 days thereafter.

7.3.2 The purchasers will be responsible for paying the Council's reasonable surveyors and legal fees.

7.3.3 The sale will generate a capital receipt of £15.297m, allocated between Investment Portfolio and the Non-Investment Portfolio in line with the Property Strategy, (section 7.3 of the private report provides the detailed financial information). These capital resources will be utilised as follows:

- Investment Portfolio – Capital receipts from disposals of assets currently classified within the Investment Portfolio will be reinvested in assets within the Investment Portfolio, in line with the Property Strategy and subject to Capital Board approval. To this end an 'Investment Property Strategy Report' will be produced annually for approval by Cabinet, with the first report scheduled for the first quarter of the 2019/20 Financial Year;
- Non-Investment Portfolio – Capital receipts will be available to support the Council priorities, subject to Capital Board approval and Council Governance process.

7.3.4 Investment Portfolio - Rationalisation of the Investment Portfolio and the associated sale of existing income generating assets will initially result in a reduction net rental revenue income of £0.290m, (as shown in Table 1 below). This loss of income will be mitigated by the allocation of the capital receipts generated from the disposals to the Investment Portfolio, either to acquire better performing assets or for re-investment in the retained estate to generate increased returns. Table 1 below provides additional information on an asset by asset basis, including the reduction in net rental revenue income:

Table 1 Investment Portfolio

Address	Ward / Portfolio	Tenure	Gross Rental Income 2017/18 £m	Gross Expenditure 2017/18* £m	Net Rental Income Foregone £m
58-60 Caroline Street City Centre B3 1UF	Soho and Jewellery Quarter/ Commercial Portfolio	Freehold	(0.044)	0.014	(0.030)
Port Hope Road and Kyotts Lake Road Industrial Estate Sparkbrook B11 1JT	Sparkbrook/ Commercial portfolio	Freehold	(0.159)	0.002	(0.157)
Sydenham Road Business Centre	Sparkbrook/ Commercial portfolio	Freehold	(0.042)	0.013	(0.029)

Sparkbrook B11 1DG					
Montgomery Street Business Centre 272 Montgomery Street Sparkbrook B11 1DS	Sparkbrook/ Commercial portfolio	Freehold	(0.062)	0.052	(0.010)
11-17 Pitsford Street City Centre B18 6LJ	Soho and Jewellery Quarter / Commercial Portfolio	250 year leasehold	(0.050)	0.112	0.062**
Vyse Street Triangle City Centre B18 6JZ	Soho and Jewellery Quarter / Commercial Portfolio	250 year leasehold	(0.151)	0.067	(0.084)
Holliday Street City Centre B1 1SJ	Ladywood / Commercial Portfolio	250 year leasehold	(0.042)	Nil	(0.042)
Upper Gough Street City Centre B1 1JG	Ladywood / Commercial Portfolio	250 year leasehold	Vacant	Nil	Nil
Totals			(0.550)	0.260	(0.290)

* Gross expenditure comprises the total annual management cost associated with holding each asset. This includes the costs of such items as necessary repairs, staff time/costs, statutory maintenance, void business rates and bad debt provision.

** The net income position in relation to 11-17 Pitsford Street is shown as positive as in financial year 2017/18; gross expenditure (the annual costs associated with holding the asset) exceeded the gross income received.

7.3.5 Non-Investment Portfolio - Table 2 below provides additional information on an asset by asset basis:

Table 2 Non-Investment Portfolio

Address	Ward / Portfolio	Tenure	Gross Rental Income 2017/18 £m	Gross Expenditure 2017/18 + £m	Net Rental Income Foregone £m
Summer Hill House Summer Hill Terrace, City Centre B1 3RA	Ladywood / Regulatory Services	250 year leasehold	Vacant	0.119	0.119 ++
Totals				0.119	0.119

+ Gross expenditure comprises the total annual management cost associated with holding each asset. This includes the costs of such items as necessary repairs, staff time/costs, statutory maintenance, void business rates and bad debt provision.

++ The net position in relation to Summer Hill house is shown as positive as in financial year 2017/18; gross expenditure (the annual costs associated with holding the asset) exceeded the gross income received.

7.3.6 Investment Portfolio – The revenue implications of the net loss of rental from the sale of these assets is calculated to be £0.29m. Capital receipts from disposals of assets currently classified within the Investment Portfolio (as set out above) will be reinvested in new assets. In line with the Property Strategy a future report will be presented to Cabinet in spring 2019 which will seek approval to the new Property Investment Strategy which will enable new assets to be acquired to support delivery of the current income stream agreed as part of the Property Strategy.

7.4 Human Resources Implications

7.4.1 Internal professional property, legal and planning resources only have been utilised to deliver this programme of sales.

7.5 Public Sector Equality Duty

7.5.1 The Birmingham Sites Prospectus (Nov 2018) sales programme has been undertaken in accordance with the Property Strategy. The Property Strategy is a policy document setting out the strategy principles associated with property assets and at this stage there are no specific implications. An Equality Assessment Ref No. EQUA124 dated 25th September 2018, is attached as Appendix 3. The assessment confirms there is no adverse impact on the characteristics and groups protected under the Equality Act 2010 and a full Equality Assessment is not required for the purpose of this report.

8. Background Documents

- 8.1 Relevant officer's files save for confidential documents.
Property Strategy 2018/19-2023/24 including first phase projects
- 8.2 List of Appendices accompanying this Report (if any):
 - 1. Birmingham Sites Prospectus (Nov 2018)
 - 2. Ward Member Consultation Property Prospectus - Tenders (March 2019)
 - 3. Equality Assessment