

Birmingham City Council

Report to Cabinet

22 May 2019



Subject: DISPOSAL OF SURPLUS PROPERTIES
Report of: DIRECTOR, 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: Balsall Heath West, Ladywood, Lozells, Nechells, Newtown, Soho & Jewellery Quarter, Sparkbrook & Balsall Heath East.		
Is this a key decision?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
If relevant, add Forward Plan Reference: 001429/2016		
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 checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
If relevant, provide exempt information paragraph number or reason if confidential : Exempt Appendix 1 – Financial Implications – Car Park Brindley Drive City Centre Exempt information 12A of the Local Government Act 1972 (as amended) 3. Information relating to the financial or business affairs of any particular person (including the Council)		

1 Executive Summary

- 1.1 The continued review of the Council's land and property portfolio has identified the individual property interests listed in Appendix 1 of this report as being surplus to Council requirements.
- 1.2 It is proposed that these property interests form part of an agreed programme of land and property sales to be implemented during financial year 2019 - 21.

2 Recommendations:

That Cabinet:

- 2.1 Declares the land and property assets listed in Appendix 1 of this report surplus to Council requirements and authorise their subsequent sale as detailed.
- 2.2 Notes that in accordance with existing surplus property procedures no internal re-use of the properties listed in Appendix 1 has been identified.
- 2.3 Subject to disposals progressing notes the proposed use of receipts from the sale of Investment Portfolio assets in line with the Council's approved Property Strategy 2018/19-2023/24, and the proposed mitigations for budgeted net income foregone in respect of the sale of non-portfolio assets as detailed in sections 7.3 of this report.
- 2.4 Notes that approval of final sale terms for those assets being offered as part of Prospectus 2 will be the subject of further reports to Cabinet.
- 2.5 Authorises the City Solicitor where necessary, to advertise the permanent loss of public open space and consider any objections in accordance with Section 123(2a) of the Local Government Act 1972.
- 2.6 Authorises the City Solicitor to negotiate, execute and complete all necessary legal documents to give effect to the above recommendations.

3 Background

- 3.1 The on-going review of the Council's various land and property portfolios has identified those individual property interests listed in Appendix 1, as being surplus to Council requirements. It is proposed that these interests will form part of an agreed programme of property sales to be implemented during financial years 2019-21.
- 3.2 The assets being considered for release fall within the categories of Investment Portfolio and Non Investment Portfolio. By releasing these assets for potential sale will not only reduce the Council's liabilities and generate capital receipts, but also provide opportunities for inward investment and development.
- 3.3 All the properties are surplus to Council requirements, and have been fully considered in accordance with current surplus property procedures with no alternative internal use identified.
- 3.4 The proposed release of the listed car parking sites represent prime city centre redevelopment opportunities and will enable their development potential to be realised in the current buoyant property market, recognising the future viability of these sites is also at risk for a number of factors including future expenditure requirements and Council priorities (e.g. the introduction of the clean air zone within the city centre).
- 3.5 In addition to this schedule of property it is anticipated that the ongoing review of the Council's property portfolio, in line with the Council's approved property

strategy, will identify further surplus property interests to supplement the programme going forward. All such opportunities will be the subject of further reports.

- 3.6 The sales methodology to deliver the proposed sale programme will fully recognise market sentiment and individual circumstance. Accordingly, the interests will be sold either by informal tender as part of a property prospectus or public auction. The proposed delivery strategy and mode of sale adopted will be tailored to maximise both the prospect of a sale completion, receipt realisation and demonstrate best consideration.

4 Options considered and Recommended Proposal

- 4.1 The sites have been considered in accordance with current surplus property procedures with no alternative internal use identified.
- 4.2 Options have been considered for the disposal methodology for these assets and the chosen routes are considered to be the best in order to maximise both the prospect of a sale completion, receipt realisation and demonstrate best consideration.
- 4.3 The preferred option, as recommended, is to deliver a focussed disposal programme of land and property sales.
- 4.4 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 report has been considered and cleared by the Property and Assets Board.
- 5.1.3 Officers from Legal Services, City Finance and other relevant officers from Inclusive Growth Directorate have been involved in the preparation of this report and support its proposals.
- 5.1.4 The relevant Ward Members for each property have been consulted; the detail of this consultation is set out in Appendix 3 of this report.

5.2 External

- 5.2.1 Where necessary the tenants affected by the proposed sale have been advised of the Council's proposals.

6. Risk Management

- 6.1 Inability to meet property market timelines: To meet the expectations of the prevailing property market the Council is committed to deliver a programme of land and property sales to support business priorities. Approval of this report will support these priorities and enable sale receipts to be realised during financial years 2019-21.
- 6.2 Interim reduction in existing Investment Portfolio rental income: The disposal of assets will impact on existing rental income. The reduction in rental income of £0.107m from this second phase of disposals is detailed in the Finance section below in Table 1. Associated mitigation measures are noted in 7.3.2
- 6.3 Permanent reduction in existing Non-Investment Portfolio net income: The disposal of car park assets will impact on existing rental income. The reduction in rental income of £0.738m is detailed in the Finance Section below in Table 2. Associated mitigation measures are noted in 7.3.3.1 and 7.3.3.2.

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 which was approved by Cabinet on 13th November 2018, 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; an entrepreneurial city to learn in; a great 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, the Council has the opportunity to utilise its property and land assets in a strategic way to deliver its 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 Section 111 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.

7.2.3 Exempt information 12A of the Local Government Act 1972 (as amended) 3. Information relating to the financial or business affairs of any particular person (including the Council). Exempt Appendix 1 is considered to be in the public interest as it contains commercially sensitive information of a financial or business nature, which if disclosed to the public could be prejudicial to a named person, individual or company.

7.3 Financial Implications

7.3.1 The proposed disposals will generate capital receipts, allocated between Investment Portfolio and the Non-Investment Portfolio in line with the Property Strategy. 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.

7.3.2 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, (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
Lime Grove and Clifton Road Industrial Estates Balsall Heath	Balsall Heath West	Freehold subject to existing leases	(0.092)	0.013	(0.079)
Southside Business Centre Ladypool Road Sparkbrook	Sparkbrook & Balsall Heath East	Freehold subject to existing leases	(0.077)	0.099	0.022***
72/78 Crompton	Nechells	Vacant	Nil	Nil	Nil**

Road Nechells		Freehold			
35 Wilson Road, Lozells	Lozells	Vacant Freehold	Nil	Nil	Nil**
Northside Business Centre Wellington Street Winson Green	Soho & Jewellery Quarter	Freehold subject to existing leases	(0.086)	0.036	(0.050)
Totals			(0.255)	0.148	(0.107)

* Gross expenditure against the assets held in the investment portfolio 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.

** Property currently a long term void (in excess of 6 months with no prospect of a re-letting). No void holding costs identified at present.

*** Property significantly under-rented with costs exceeding income and no prospect of this improving over the foreseeable future.

7.3.3 Non-Investment Portfolio - Disposal of existing income generating assets will result in a reduction in budgeted net revenue income, (as shown in Table 2 below) :

Table 2 Non-Investment Portfolio

Address	Ward / Portfolio	Tenure	Gross Income Budget 2019/20 £m	Gross Expenditure Budget 2019/20 £m	Net Income Budget Foregone 2019/20 £m
Multi storey car park Brindley Drive City Centre	Ladywood	Grant of a new 250 year lease	(0.938)	0.215	(0.723)
Car Park Lawson Street City Centre	Newtown	Grant of a new 250 year lease	(0.018)	0.003	(0.015)
Totals			(0.956)	0.218	(0.738)

It is to be noted that the Council's Long Term Financial Plan (LTFP) includes a budgeted net revenue income stream of £0.738m. In order to mitigate this fall out of budgeted net income the following mitigations are proposed:

7.3.3.1 Multi storey car park Brindley Drive City Centre:

Inclusive Growth Directorate Mitigation £0.110m – This will be delivered through an increase to the Civil Parking Enforcement net income budget within the Highways Service. Analysis of the outturn position for the previous three financial years indicates that this increased annual net income will be deliverable on an ongoing basis.

Corporate Mitigation - £0.613m – It has been agreed that the net budget foregone will be funded through an ongoing corporate budget adjustment. The capital receipt from the disposal of the car park will be used to repay Council debt generating treasury management savings sufficient to compensate. Should the final proposed disposal terms result in the capital receipt generated being insufficient to support this level of ongoing revenue mitigation, the Inclusive Growth Directorate will be required to identify additional mitigations to bridge the gap in order to enable the disposal to progress.

Further financial detail is contained in Exempt Appendix 1 to substantiate the proposed recommendation to declare surplus and bring forward for sale the Brindley Drive Car Park site.

7.3.3.2 Car Park Lawson Street City Centre

Inclusive Growth Directorate Mitigation £0.015m – This will be delivered through an increase to the Civil Parking Enforcement net income budget within the Highways Service. Analysis of the outturn position for the previous three financial years indicates that this increased annual net income will be deliverable on an ongoing basis.

7.4 Human Resources Implications

7.4.1 Internal professional property, legal and planning resources will be utilised to deliver this programme of sales.

7.5 Public Sector Equality Duty

7.5.1 The proposed sales programme will be 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. EQUA290 dated 9th April 2019, 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. Appendices

8.1 List of Appendices accompanying this Report (if any):

1. Appendix 1 – Sales Programme
2. Appendix 2 – Site Plans
3. Appendix 3 – Ward Member Consultation Record
4. Appendix 4 - Equality Assessment
5. Exempt Appendix 1 – Proposed Sale Terms and Tender Evaluation

9 Background Documents

9.1 Property Strategy 2018/19-2023/24 including first phase projects – Cabinet report 13th November 2018