

## Slough Borough Council

<b>Report To:</b>	Cabinet
<b>Date:</b>	17 April 2023
<b>Subject:</b>	Disposal of 380 Bath Road, Slough
<b>Lead Member:</b>	Cllr Robert Anderson - Cabinet Member for Financial Oversight & Council Assets
<b>Chief Officer:</b>	Pat Hayes - Executive Director Property, Planning & Housing
<b>Contact Officer:</b>	Mark Halligan, Property Director
<b>Ward(s):</b>	Haymill and Lynch Hill
<b>Key Decision:</b>	YES
<b>Exempt:</b>	Public with exempt appendices under paragraph 3 of Schedule 12A Local Government Act 1972 – Information relating to the financial or business affairs of the Council
<b>Decision Subject To Call In:</b>	No, call-in waived with the agreement of the Chair of Overview & Scrutiny to enable the disposal to be made as soon as possible and minimise the risks to the Council if completion was to be delayed.
<b>Appendices:</b>	Confidential Appendices:  1 – Avison Young – Asset Disposal Recommendation Report – including: <ul style="list-style-type: none"><li>• Bids</li><li>• Heads of Terms</li></ul>

### 1. Summary and Recommendations

- 1.1 This report relates to a building which has been marketed and seeks approval for disposal under the Council's Asset Disposal Strategy.
- 1.2 The proposed Asset sale has been subject to a due diligence process and reflects best consideration reasonably obtainable for the disposal of the assets in accordance with section 123 of the Local Government Act 1972. The asset sales will generate capital receipts which will be applied to reduce borrowing and the Council's Minimum Revenue Provision (MRP).

### Recommendations:

- 1.3 Cabinet is recommended to:

- a) Agree to the Council sale of 380 Bath Road, Slough with the bidder named in Appendix 1 – Heads of Terms;
- b) Delegate authority to the Executive Director of Property, Planning and Housing, in consultation with the Lead Member for Financial Oversight and Council Assets and the Executive Director of Finance and Commercial, to negotiate the terms of and enter into the contract and any associated documentation in connection with the disposal consistent with the disposal report and Heads of Terms appended at Confidential Appendix 1.

**Reason:**

- 1.4 The disposal of 380 Bath Road, Slough is in accordance with the Council's Asset Disposals Strategy, in that it has previously been agreed as 'surplus' and identified for disposal. Agreement to the recommendations in this report will contribute to the reduction in the Council's future financial commitments, generate disposal receipts at the earliest opportunity and reduce the Council's borrowing and MRP. The proposed asset sale has been subject to due diligence process and reflects best consideration reasonably obtainable for the disposal of the assets in accordance with section 123 of the Local Government Act 1972.
- 1.5 The disposal of such assets supports the priority of the new Corporate Plan for "a Council that lives within its means, balances the budget and delivers best value for taxpayers and service users."
- 1.6 The disposal of such assets will enable the Council to simplify the property portfolio and enable the Council to focus on its core activities and services.

**Commissioner Review**

The recommendations are supported. Disposal of this site is essential as part of the journey back to financial stability.

**2. Report**

**Introductory paragraph**

- 2.1 The disposal of such assets supports the priority of the new Corporate Plan for "a Council that lives within its means, balances the budget and delivers best value for taxpayers and service users." This enables the Council to simplify the property portfolio and focus on its core activities and services.
- 2.2 On 21 June 2021, Cabinet approved the Asset Disposal Programme which outlined the principles and process for disposing of surplus General Fund land and property assets to reduce borrowing costs. The report highlighted that the Council would seek to dispose of surplus assets to support the following objectives:
  - Provide capital receipts to contribute to the 2022/23 budget through reducing MRP and borrowing costs; and
  - Provide capital receipts to meet Capitalisation Directive commitments and align with the Medium-Term Financial Strategy (MTFS) to reduce overall borrowing costs.

2.3 The Asset Disposal Programme approved in June 2021 set out the following sequential steps for disposing of assets:

- Identify assets for disposal
- HB Public Law to produce detailed Reports on Title for each asset identified for disposal
- Asset valuation – obtain up to date independent valuations to provide a benchmark for assessing best consideration.
- Methods of disposal - take advice on the most advantageous method of disposal

2.4 Given the thorough open marketing exercise (described in the appendix) and the level of the recommended bid (in excess of the acquisition price and the Avison Young pre-marketing report and broadly consistent with the 'book' value) a further valuation was not deemed necessary. This would have added unnecessary cost and time to this disposal case.

### Options considered

Option A – To retain 380 Bath Road, Slough. Whilst this would retain an income stream, the costs of servicing the Council debt outweigh the income generated. **This is not recommended.**

Option B – To dispose of the asset by way of freehold disposal to an investment purchaser.

Option C – To dispose of the asset by way of freehold disposal to a developer.

**Option B is recommended** to Cabinet for approval for the reasons given in the confidential Appendix 1. Sale to an investment purchaser will allow the Council to receive a capital receipt by the end of April 2023, which will allow it to reduce its borrowing and contribute to its capital receipts target. It also provides far greater certainty on the sale and sale price, than would be the case with Option C.

### 2.4 Background

The Council acquired 380 Bath Road, Slough in 2016 as part of the then Council strategy to acquire assets within the Council's boundaries.

### 2.5 The Asset

2.5.1 The site is located on Bath Road, approximately 0.5 miles from Slough Town Centre. The property comprises part of the dominant retail warehouse cluster to the west of central Slough, with local occupiers including Sports Direct, Dreams, B&Q, M&S, Next and McDonald's. The property totals 11,501 sq ft across the ground floor, with 51 car parking spaces and is currently let to Halfords Limited. A renewal of the lease was authorised last year as it fell within the security of tenure provisions of the Landlord and Tenant Act 1954. Notwithstanding this, the site was identified for disposal as it is not required for service delivery, subject to ensuring that the best consideration requirements were met.

## **2.6 Valuation**

2.6.1 The site was purchased in 2016 as an investment purchase in accordance with the Council's strategic acquisitions strategy. The purchase price was £4.038m.

2.6.2 The asset is held in the Council's balance sheet and is revalued annually at fair value in line with accounting standards. Fair value measures the "highest and best" value in the most advantageous market for an asset (ie. this method of valuation includes considering alternative uses for the asset as well as its current use).

2.6.3 Avison Young have provided professional advice on the market conditions and recommended disposal to the bidder named in Appendix 1 for the reasons contained in that appendix.

## **2.7 Marketing**

2.7.1 The asset was marketed with the benefit of a legal pack that included existing tenancy information, title information, EPC and planning documentation. The Property was formally launched to the market on Thursday 2<sup>nd</sup> February with a half page, colour advert in the Estates Gazette (EG). The Estates Gazette is an industry trusted source of real estate intelligence with 16,500 paying subscribers and a readership of approximately 120,000 people.

2.7.2 Also on the 2<sup>nd</sup> February 2023, Avison Young (AY) sent out a marketing mailshot detailing the opportunity to approximately 800 contacts of the Out of Town Retail and Land and Development teams. The mailshot included a link to a bespoke marketing brochure. The brochure was circulated to around 50 parties upon request, as well as individuals and organisations who had previously indicated an interest in properties of a similar nature and those, we have had informal conversations with regarding the opportunity prior to launch. The property featured again in the EG magazine on the 18<sup>th</sup> of February, free of charge. AY posted the property on Propex and their LinkedIn page to increase traction and market penetration.

2.7.3 AY recorded approximately 43 parties expressing an initial interest in the opportunity and had requested a copy of the brochure and access to the data room.

2.7.4 AY arranged for 3 different parties to carry out a formal inspection of the property. However, most of the parties inspected the property as customers therefore no formal inspection had to be arranged.

## **2.8 Bids Received**

2.8.1 8 unconditional bids during the first round of bids, with 5 parties being at quote or above the initial quoting price. As expected, offers were received from a range of bidding parties comprising property companies, private individuals, a fund and a housing developer.

2.8.2 During the best and final round of bids, 4 parties raised their initial bids.

2.8.3 The preferred bidder is buying the property as an investment with the benefit of the current lease.

## 2.9 Summary of Proposed Terms

2.9.1 Heads of Terms have been agreed as set out in Confidential Appendix 1. A legal pack has already been submitted to the bidder and it is anticipated that simultaneous exchange and completion can take place by the end of April 2023.

### 3. Implications of the Recommendation

#### 3.1 Financial Implications

3.1.1 The current passing rent for the site being sold is £250,000. This has been allowed for in the 2023/24 budget workings as a reduction in the level of commercial rent which will be achievable by the Council from 23/24 onwards.

3.1.2 The capital receipt achieved through the sale will be used to enable the council to reduce the revenue impact from MRP (minimum revenue contribution) and thereby contribute towards the modelled MRP reductions in the medium term financial plan modelling. The cash generated from the sale will also enable the council to reduce its level of short term borrowing from other local authorities which are due to mature and require repayment over the coming months, and hence reduce the interest on borrowing incurred by the council.

3.1.3 Details on the amount of the disposal proceeds are set out in the confidential appendix.

#### 3.2 *Legal implications*

3.2.1 Pursuant to section 123 of the Local Government Act 1972 ("Section 123 LGA 1972"), the Council has the power to dispose of land in any manner it wishes, subject to certain provisions. The Council has a statutory duty to obtain the best price reasonably obtainable, subject to certain exemptions. Section 123(2) permits a disposal at less than the best price reasonably obtainable with the consent of the Secretary of State. 4.2. When considering the duty under section 123 LGA 1972, what is reasonable in any particular case depends entirely on the facts of the transaction.

3.2.2 Case law has determined that whilst there is no absolute requirement to market the land or obtain an independent valuation. If valuation evidence is obtained, it should be up to date and that there should not have been any material and significant changes in circumstances since it was obtained. In addition, obtaining proper professional advice throughout the process on how to maximise its receipts is a material consideration and the Council should limit itself to taking account of those elements of a transaction which are of commercial or monetary value and should disregard irrelevant factors such as "job creation" when assessing whether it is obtaining the best consideration reasonably obtainable. The deliverability or credibility of a bid are commercial factors which are relevant to an assessment.

3.2.3 The Council has employed Avison Young ("AY") as specialist property advisors to advise on an asset disposal strategy and to market and dispose of the asset identified for disposal. It has advised that the bid represents the best consideration reasonably obtainable based on the short timescale in which the receipt will be received and risks with other bids in relation to timescale and changing market conditions. The named bidder has completed due diligence and produced a well-researched offer and are working to a tight timescale for exchange and completion.

### 3.3

#### *Risk management implications*

3.3.1 The recommendation required from Cabinet, as outlined in this report, is intended to improve the Council's financial position, by realising capital receipts which can be used to repay Council borrowing from the existing high level and reduce debt servicing charges in the form of interest and minimum revenue provision (MRP). If the recommendations are not approved this will delay the Council being able to return to a financially sustainable position – specific risks are summarised below:

<b>Risk</b>	<b>Summary</b>	<b>Mitigations</b>
Financial	Delay in realising capital receipts from the assets will delay the Council's financial recovery.	Cabinet to approve officers to proceed with the sale.
Governance	Failure to obtain best consideration from the disposals could expose the Council to risk of legal challenge.	The Council has employed external property advisors to manage and competitively market the properties, having access to wider markets than officers locally and has obtained up to date valuations for the sites for comparison purposes.
Legal	<p>Failure to ensure legal title/deeds etc which could delay or halt sale.</p> <p>Delay to contract negotiations.</p> <p>Failure to establish that the buyer is a reputable business and that the buyer's funds are from acceptable sources.</p>	<p>Legal title reports obtained for this site.</p> <p>Regular meetings between officers.</p> <p>Due diligence on buyer to assess their business and funding, including anti-money laundering checks.</p>
Governance	Failure to establish robust governance arrangements could expose the Council to risk of impropriety and legal challenge.	The Council has established sound governance arrangements for asset disposals to ensure that the Council achieves best consideration from asset disposals.
Reputational	Unable to agree a way forward causing delay to asset disposals and failure to deliver capital receipts within the timescales set out in the Debt Reduction/Asset Disposal Strategy.	Governance, project/programme management and decision making operate effectively to deliver asset disposals on time and best consideration for the Council.

### 3.4 *Environmental implications*

3.4.1 No environmental implications have been identified as a direct result of this report.

### 3.5 *Equality implications*

3.5.1 The asset is not used for operational or service delivery. There are no identified equality implications with the disposal of this site. By reducing the level of Council borrowing, the Council will reduce its MRP, which will reduce the level of savings required from services, albeit significant savings will continue to be needed. This is likely to have a positive impact on protected groups who are more likely to utilise the services of the Council.

### 3.6 *Procurement implications*

3.6.1 The appointment of Avison Young as the Council's external property advisors was secured in compliance with:

- The Public Contracts Regulations 2015
- Council Contract Procedure Rules, and
- Expenditure Control Panel requirements.

### 3.7 *Workforce implications*

3.7.1 No workforce implications have been identified as a direct result of this report.

### 3.8 *Property implications*

3.8.1 This report will directly impact on the Council's property holdings however it meets the Council's objective to reduce borrowing and the Council's MRP.

## **4. Background Papers**

None