

Committee Report Checklist

Please submit the completed checklists with your report. If final draft report does not include all the information/sign offs required, your item will be delayed until the next meeting cycle.

Stage 1

Report checklist – responsibility of report owner

ITEM	Yes / No	Date
Councillor engagement / input from Chair prior to briefing	Yes	27/10/25 & 28/10/25
Commissioner engagement (if report focused on issues of concern to Commissioners such as Finance, Assets etc)	Yes	21/10/25
Relevant Group Head review		
MAT+ review (to have been circulated at least 5 working days before Stage 2)		
This item is on the Forward Plan for the relevant committee		
	Reviewed by	Date
Risk comments	LO	22/10/25
Legal comments	LH	21/10/25
HR comments (if applicable)	N/a	N/a

For reports with material financial or legal implications the author should engage with the respective teams at the outset and receive input to their reports prior to asking for MO or s151 comments.

Do not forward to stage 2 unless all the above have been completed.

Stage 2

Report checklist – responsibility of report owner

ITEM	Completed by	Date
Monitoring Officer commentary – at least 5 working days before MAT	L Heron	21/10/25
S151 Officer commentary – at least 5 working days before MAT	T.Collier	20/10/25
Confirm final report cleared by MAT		

Corporate Policy & Resources Committee

Date of meeting – 11 November 2025

Title	Asset Rationalisation to underpin the revised Medium-Term Financial Strategy
Purpose of the report	To make a decision and make a recommendation to Council
Report Author	Terry Collier, Deputy Chief Executive
Ward(s) Affected	All Wards
Exempt	No Appendix 1 - Yes
Exemption Reason	Appendix 1 contains exempt information within the meaning of Part 1 of Schedule 12A to the Local Government Act 1972, as amended by the Local Government (Access to Information) Act 1985 and by the Local Government (Access to Information) (Variation) Order 2006 Paragraph 3 – Information relating to the financial or business affairs of any particular person (including the authority holding that information) and in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information because, disclosure to the public would prejudice the financial position of the authority in any lease, contract or other type of negotiation with the tenant or developer, who could then know the position of the Council.
Corporate Priority	Statutory Direction issued May 2025
Recommendation	Committee is asked to: <ol style="list-style-type: none"> 1. Consider and agree the principle of Asset Rationalisation as set out in this report and recommend this to Council; 2. Approve the commencement of the procurement of a specialist adviser through an appropriate framework; 3. Delegate authority to the s.151 Officer and Group Head of Assets, in consultation with the Leader and the Deputy Leader, the Chair of the Commercial Assets Sub-Committee, and Chair of the Business Infrastructure and Growth Committee, to appoint the preferred bidder from the above procurement to assist in the implementation of an Asset Rationalisation Strategy; 4. Delegate authority to the Group Head of Corporate Governance to enter into a contract with the proposed advisers.
Reason for Recommendation	Full Council needs to approve any significant changes to the approved Treasury Management Strategy, Revenue and Capital Budgets for 2025/26, and any significant changes to Council's Medium-Term Financial Strategy. The Constitution requires that

	Corporate Policy and Resources Committee makes a recommendation on matters reserved to Council for decision.
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1. Executive summary of the report

What is the situation	Why we want to do something
This report sets out proposed changes to the Council's Capital Strategy for 2025/26 which was approved by Full Council in February 2025.	Statutory Directions issued by MHCLG in May 2025 require the Council to implement “ <i>..an asset rationalisation programme for assets and commercial investments.</i> ” (paragraph 2.2)
This is what we want to do about it	These are the next steps
Approve the principle of Asset rationalisation and procure specialist resource to progress its implementation	<ul style="list-style-type: none"> • Approve progressing an Asset Rationalisation Strategy as set out in this report • Rework the 2025/26 General Fund budget and Medium-Term Financial Plan accordingly • Conduct a procurement exercise in line with the Procurement Act 2023, to obtain specialist support for marketing and negotiating asset sales.

2 Key issues

- 2.1. Similar to the previous report on this Agenda, relating to Debt Rescheduling, this report is setting out a proposal to commence a strategy to both address the Best Value Directions (in this case undertaking an asset rationalisation programme) and to mitigate the impact of the proposed new Minimum Revenue Provision (MRP) policy and its associated higher annual MRP charges to the Revenue Budget.
- 2.2. The Council owns a substantial portfolio of commercial property which currently generates net rental income in excess of £45m per year. Until recently a programme of regeneration work was also under way with projects carried at cost in Balance Sheet and classified as Assets Under Construction. Expenditure on these projects was suspended in 2023/24 with the properties consequently reclassified as Surplus Assets and held for sale. Minimum Revenue Provision charges are now being applied to those assets.
- 2.3. Since May 2025 the Council has been under a Statutory Direction which requires, amongst other things, that it “implements “*an asset rationalisation programme for assets and commercial investments*” together with “*a comprehensive and strict debt reduction plan, demonstrating how overall*

capital financing requirement and external borrowing will be reduced over a realistic but expedient timescale". The Commercial and Regeneration themes of the Improvement and Recovery Plan are developing a programme for delivering an asset rationalisation programme. This programme informs the financial modelling.

- 2.4. Some asset disposals are already under way with the disposal of a commercial site in Sunbury and Thameside House in Staines under offer and approved by Council. This report seeks member approval to develop a more ambitious Asset Rationalisation Strategy with the aim of completing the rationalisation of commercial and regeneration assets by 31 March 2035.

2.5 **Capital Financing Requirement (CFR)**

This report refers to the CFR throughout. The CFR measures the extent to which a local authority has incurred capital expenditure which has not been financed. Financing is the setting aside of resources to fund capital expenditure and includes: capital receipts, capital grants, developer contributions and direct funding from revenue or earmarked revenue reserves. The CFR measures the underlying need to borrow.

- 2.6 When capital expenditure is incurred the CFR increases. When resources are set aside, the CFR reduces.

- 2.7 Paragraph 36 of the Statutory MRP Guidance states that

"the MRP charge must be calculated with respect to all capital expenditure financed by debt (and which has not yet been provided for). The appropriate measure for this is CFR as this is a complete measure of all capital expenditure which has not been funded by either capital or revenue resources."

3. **Financial implications**

- 3.1 Selling Investment Property will reduce a net revenue cost to the General Fund, particularly the MRP charge. The cash generated from asset disposals can be used to:

- repay borrowing
- reduce future interest charges, and
- reduce Minimum Revenue Provision (MRP) set aside.

- 3.2 The following is an example showing impact of a single asset disposal in 2026/27 following a refinancing exercise. The example assumes a reduced Capital Financing Requirement to £700m and interest payable on the refinanced debt of £700m at 4.5%.

- 3.3 Assuming a disposal of an asset for £50m takes place in March 2026:

Investment Asset Income and Expenditure 2025/26

2025/26 - Asset Sale in March 2026

	£m
MRP over 20 years (£1,100m / 20 years)	55.0
Interest at 5% on £700m	35.0
Landlord Costs	<u>6.0</u>
	96.0
Investment income of £40m	(40.0)
Early repayment discount credit spread over 10 years	<u>(36.0)</u>
	(76.0)
Net Revenue Budget deficit/(surplus)	20.0

2026/27

	£m
MRP on reduced CFR of £1,050m (£1,050m / 20 years)	52.5 MRP Reduces by £2.5m
Interest on reduced borrowing at 5%	32.5 Interest Reduces by £2.5m
Revised landlord holding costs of £5m	<u>5.0</u> Holding costs reduce by £1m
	90.5
Investment income reduced on asset disposed £2m	(38.0)
Early repayment discount credit spread over 10 years	<u>(36.0)</u>
	(74.0)
Net Revenue Budget deficit/(surplus)	16.5

reducing the deficit by £3.5m

It can be seen from the above illustrative example that whilst income from investment assets reduces following the disposal of one asset this is more than offset by savings on interest and MRP charges.

- 3.4 Financial modelling suggests that a combination of debt rescheduling and asset sales could cumulatively benefit the General Fund by £37m over the next 10 years even after allowing for increased MRP set aside, as set out in Table 1 below:

Table 1 –Net impact of proposed debt restructuring, MRP changes and indicative asset sales

	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34	2034/35	2035/36	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
MRP	59	41	39	30	30	30	31	31	32	32	9	364
Interest	29	26	26	22	21	20	20	20	20	20	6	230
Discount £361m in total	(36)	(36)	(36)	(36)	(36)	(36)	(36)	(36)	(36)	(36)	0	(360)
Net operating inc/exp on Investment Property	(44)	(38)	(36)	(22)	(20)	(20)	(22)	(23)	(23)	(23)	0	(271)
Net (surplus)/deficit to General Fund	8	(7)	(7)	(6)	(5)	(6)	(7)	(8)	(7)	(7)	15	(37)

- 3.5 However, it should be noted that the above modelling assumes a challenging but achievable timetable for both marketing and conveyancing process. If the timetable slips by 6 months, this would reduce the cumulative General Fund position from £37m to £12m over the same period.
- 3.6 Capital receipts from asset sales can also be applied to reduce the Council's CFR in line with the Statutory Direction now in place. Modelling summarised in Table 2 below, suggests that implementing the Asset Rationalisation Strategy set out above in conjunction with debt rescheduling and increased MRP set aside could reduce the Council's CFR from its current level of almost £1bn to £229m at 31 March 2036.

Table 2 - Impact of indicative asset sales on borrowing and the CFR

	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34	2034/35	2035/36
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Principal outstanding at year-end	588	533	475	460	445	430	415	399	383	114	114
CFR outstanding at year-end	988	892	689	662	634	605	577	547	518	236	229

MRP set aside would similarly reduce from £59m in 2025/26 to only £9m in 2035/36.

- 3.7 Given that the Council would still potentially have residual loan debt of £114m and CFR of £229m (see Table 2 above), it would be prudent to use all surpluses generated over the 10 year period to make additional revenue provision to reduce the CFR (over and above MRP) and to make additional repayments of loan debt. Potentially this could further reduce debt charges to c.£5m.

4 Options appraisal and proposal

- 4.1 A rationalisation programme of this size will be complex and will require detailed and specialist knowledge of both local and national property markets. Options available are as follows:
- **Option 1** - Use internal resources to develop and implement an Asset Rationalisation Strategy. This is a less resilient option as increases reliance on a handful of internal skilled and experienced Assets staff
 - **Option 2 recommended** – Agree the principle of implementing an Asset Rationalisation Strategy, and in order to progress this to employ the services of specialist agents to work with internal staff to market each asset and identify suitable purchasers. This is a more resilient option as reduces reliance on a handful of internal skilled and experienced assets staff and ensures the Council is achieving the best consideration for any disposals.
 - **Option 3** – Agree the principle of asset and rationalisation and use internal resources to manage the process but appoint external specialists to deal with the operational aspects of rationalisation. This is a less resilient option as increases reliance on a handful of internal skilled and experienced assets staff

- 4.2 Using internal resources only runs the risk that the Council would be unable to achieve best consideration from asset sales because it would not have access to potential specialist markets, which a national external advisor would have and would slow the rationalisation programme through resource constraints.
- 4.3 Consequently, this report recommends that Option 2 is pursued and that the Council seeks external support from organisations with a successful track record of working with local authorities on asset disposal projects.
- 4.4 Engaging external specialist advice will incur additional cost. Regulation 23(h) of the local Authorities (Capital Finance and Accounting) (England) Regulations 2003, as amended, permits local authorities to charge directly attributable disposal costs (including external agents fees) against the capital receipt up to a maximum of 4% of the capital receipt. Experience at other authorities which have embarked on asset rationalisation programmes is that fees are usually less than 1% of the capital receipt.

5 Risk implications

- 5.1 Financial outcomes are sensitive to changes in both the timescales achieved for asset sales and to the value of disposal proceeds eventually realised. The model underpinning the proposals facilitates dynamic sensitivity analysis and scenario modelling. For example, a 25% reduction in sales values could reduce General Fund balances by up to 60% through a combination of:
- delayed reductions to MRP set aside, and
 - delayed loan repayments leading to increased interest costs.
- 5.2 To manage and mitigate these financial risks it is recommended that the Council appoint external consultants to deal with the operational aspects of assets rationalisation. This additional capacity and specialist expertise should ensure that:
- the most favourable markets and prospective purchasers are accessed
 - delays are minimised, and
 - the best possible sales prices are achieved.
- 5.3 Further information about the proposed procurement process has been set out in Section 9.
- 5.4 It should also be recognised that not disposing of property that is not held for operational, or community benefit exposes the Council to some significant financial risks, as follows:
- current forecasts of future rental income assume buoyant demand for tenancies, low void levels and limited exposure to late payments or defaults. None of these factors can be guaranteed, and there are break clauses in some contracts which permit earlier termination by tenants and are likely to trigger new lease incentive arrangements.

- unanticipated future events such as pandemics, geo-political turmoil etc.
- rental income from commercial properties has historically covered interest charges and principal debt repayments as well as making a financial contribution to service delivery. Following on from the COVID-19 pandemic, this contribution has dropped considerably in recent years, and with the significant number of lease renewals and breaks coming up and is no longer being included in revenue budgets going forward.
- to remain in Grade A condition and be attractive to new and existing tenants, some properties will require extensive maintenance and improvement work, not all of which can be recovered from existing tenant service charges. These costs have yet to be fully modelled property by property (the recent business plans focused on a five year time horizon) and consequently for the purposes of the new model and are not fully reflected either in General Fund revenue and capital budgets or in the financial modelling which informs this report.
- the Council's portfolio of investment property and regeneration assets is currently estimated as having a realisable aggregate disposal value of £552m. This reflects a cumulative loss in the value of the investment property since the assets were initially purchased at a total cost (including fees and taxes) of £1.077bn. Whilst it is possible that the values of some sites might improve over time in the future, it is equally possible that some values would remain static or even reduce further, thereby creating additional revaluation losses over time. Values would remain static or even reduce further, thereby creating additional revaluation losses over time. over time. over time.
- As highlighted above, there is a risk around reliance on a small number of skilled Assets team members. Bringing in some additional external support improves resilience.
- if the rationalisation programme is not managed carefully there is a risk that the market could perceive the Council and its successor as a forced sale. To mitigate this the rationalisation programme will be delivered over the medium term, using appropriate specialist expertise and building on the experience of asset rationalisation programmes at other councils to ensure that the Council obtains best consideration from asset disposals.
- the Council's investment property portfolio contains a substantial number of voids (approximately 10.2% across the portfolio). Whilst this is below the South East regional average void rate of 18.9% (source MSCI Monthly Void Rate for Inner SE Offices 18.9% (as a % of ERV) – August 2025), it is still a substantial loss of rental income. Unless these can be re-let the Council will continue to lose potential income.
- these revaluation losses are not cash transactions, as they are taken to the Revaluation Reserve each year. However, they do affect the Council's Balance Sheet position, potentially increasing its negative net worth as currently reported at 31 March 2025.

6 Legal comments

- 6.1 Local authorities must follow a strict legal framework in relation to disposal of land and property. Under the Local Government Act 1972, the Council has a statutory duty to sell land at the best price reasonably obtainable, unless it has the express consent of the Secretary of State where undervalue exceeds £2m.
- 6.2 A “disposal” includes the sale of the freehold, granting a lease, assigning a lease and/or granting an easement. Entering into option agreements or sale and leaseback contracts are also deemed to be disposals.
- 6.3 In addition to the statutory framework controlling the ability to dispose of land and property, local authorities are public bodies and must follow a fair process in relation to decision-making. This must include taking account of:
- all relevant information and financial implications
 - statutory duties and responsibilities
 - local decision-making requirements as set out, for example, in the Council’s Constitution, Financial Regulations and other codes of practice
 - the duty to act reasonably and to make decisions in line with Council policies which have been properly approved.
- 6.4 The proposed award of the contract to the specialist external advisor must be in accordance with the Council’s Contract Standing Orders and the Procurement Act 2023.
- 6.5 To ensure that these requirements are complied with in full it is recommended that in addition to approving the Asset Rationalisation Strategy set out in this report, each individual asset sale is also subject to member approval by reporting to the Corporate Policy and Resources Committee and to Council.

7 S151 Officer comments

- 7.1 Clearly as set out in the report, approving and implementing an Asset Rationalisation Strategy as proposed will have significant financial implications, which are set in this report and the proposal needs to be carefully considered. This is why appropriate expertise will be brought in to support the process. The Commercial Assets Sub-Committee, including input from its independent lay member will be closely involved in evaluating asset rationalisation proposals. Additionally Audit Committee will review and monitor the process to ensure appropriate risk mitigation arrangements are in place. Key to successful implementation of this plan will be delivering asset sales at current valuation level (at a minimum) and within the timescales assumed by the financial modelling.
- 7.2 It should also be noted that sales of Investment Property will remove a significant part of the stream of rental income which historically has been used by the Council to support service budgets as well as to cover loan interest costs. These changes will need to be reflected in the Medium-Term Financial Plan provided in the later report on this Agenda as part of the Council’s mid-year Budget review.

8 Monitoring Officer comments

- 8.1 The proposed approach as set out in this report represents a course of action which intends to meet the requirements of the Statutory Direction issued in May 2025.
- 8.2 As the proposed Asset Rationalisation Strategy will have a significant impact on 2025/26 Revenue and Capital budgets as well as the Medium-Term Financial Plan, it represents a decision which will need to be approved by Full Council. However, the proposals included in this report must first be considered by the Corporate Policy and Resources Committee in line with decision-making arrangements set out in the Council's Constitution.

9 Procurement

- 9.1 A rationalisation programme of this size will be complex and will require detailed and specialist knowledge of both local and national property markets. Options available are as follows:
- Option 1 - Use internal resources to develop and implement the asset rationalisation strategy
 - Option 2 - Use internal resources to manage the process but following an appropriate procurement process appoint external specialists, with specific market knowledge to deal work with the Council internal resources.
- 9.2 This report recommends that Option 2 is pursued and that the Council seeks external support from an organisation with a successful track record of working with local authorities on asset rationalisation projects. Given the time sensitivity in achieving the most favourable outcome and the resulting urgency of progressing this workstream, in the context of Local Government Reorganisation and the Best Value Directions, it is recommended that subject to complying with the framework conditions, the Council appoints through an appropriate framework. The specialists' key tasks would include:
- advising on how best to dispose of Council assets
 - arranging condition and site surveys
 - advertising land and property for sale
 - proactively identifying and contacting potential purchasers and completing due diligence work
 - negotiating sale prices, terms and conditions on the Council's behalf
 - undertaking value for money assessments
 - liaising with legal advisers, valuers etc.
 - liaising with, and reporting to, Council officers and elected members.

- 9.3 Procurement of these services will be carried out in compliance with Council's Contract Standing Orders and with the Procurement Act 2023.
- 9.4 Fees paid to external consultants will be determined as part of the procurement process, which will evaluate (amongst other things):
- total fees payable as a percentage of asset sale price
 - incentivisation arrangements, and
 - impact (if any) on revenue budgets.
- 9.5 Before commencing any formal procurement procedure, the Council will consult with its existing advisers, other local authorities and independent experts with a view to:
- preparing accurate and appropriate procurement documentation, and
 - identifying any suitable framework contracts that might be available or already in place.
- 9.6 This process is an appropriate part of the procurement procedure so long as it does not violate the key principles of non-discrimination and transparency.

10 Equality and Diversity

- 10.1 There are no specific issues relating to equality and diversity that need to be addressed as part of this report.

11 Sustainability/Climate Change Implications

- 11.1 There are no climate change implications arising directly from this report.

12 Other considerations

- 12.1 Rationalisation of the Council's investment property and surplus assets portfolio is part of a wider strategy to implement the Statutory Direction issued by MHCLG in May 2025.
- 12.2 Other actions to be taken include a new MRP Policy Statement and Debt Rescheduling initiative which will be the subject of separate decision-making reports at November 17th Council meeting but need to be considered in terms of their overall impact on the Council's financial position, as set out above.

13 Timetable for implementation.

- 13.1 To be implemented as part of the Commercial Theme of the Improvement and Recovery Plan.

14 Contact

14.1 Terry Collier, Deputy Chief Executive

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15 **Background papers and Appendices**

None