

Confidential Appendix

July 2024

Financial Implications of sales of property assets and Best Value Consideration

1. The Council has owned its property assets for many years and there appear to be no specific loans in place for specific assets.
2. **Operational Properties** - In the case of operational properties, the savings in running costs, when applicable, will be reported here. There is no loss of income from operational properties.
3. **Vacant Land and Buildings** - in the case of vacant land and buildings, there are no costs savings of any significance, and no loss of income, but an opportunity benefit from generating a capital receipt which can be used to repay debt, thus reducing interest charges and MRP.
4. **Income producing Properties** - in the case of Investment Properties producing rental income, there will be a loss of income, but there will be a potential benefit from stemming further loss from possible falls in future property values by selling now.
5. As at July 2024 the hurdle rate for retaining any income producing asset is that the net return from the property asset would need to exceed at least 12% per annum. This is based on MRP on the CD at 5% per annum and current borrowing rates of 7% per annum to the Council (PWLB rates are currently around 6% plus the Council pays a premium of 1% as its in Exceptional Financial Support).
6. The property assets being sold currently generate a net return of less than 10%, therefore selling such properties will produce a net saving despite loss of income.
7. The net return from an investment property is calculated as the rental income due less managing costs, finance costs (where applicable), operating costs (where applicable) and changes in market value of the property.
8. Where an asset is generating a net return in excess of 12%, then further consideration will be given to the benefits and disbenefits from sale and will be separately reported here.
9. The benefit to the Council from asset disposals will in general be:
 - a. a reduction in MRP charges
 - b. a reduction in borrowing and interest charges; and
 - c. a reduction in operating costs.
10. In the Cabinet Report for July 2024 there are no operational property to report costs savings on. There is no investment property where the net loss of income exceeds 12% per annum.

Date – 18/04/2024