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# Government's asset sale plan: Short-term fix or long-term disaster?

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Recently, there has been **much discussion around plans being considered by Government** to encourage councils in England to address budget shortfalls by selling publicly-owned buildings and other assets worth up to £23bn.

Critics have labelled the proposal a 'fire sale' and 'sticking plaster solution', raising legitimate concerns it is poorly timed, based on short-term thinking and fails to address the wider problems in local authority funding, which could create future issues and a loss of valuable services.

Yet does this mean the plan is completely without merit and that no disposals should be considered?

## Capital vs revenue

It is undeniable that many councils urgently need to raise finances to continue providing essential services and avoid following Birmingham, Nottingham and others in issuing Section 114 notices.

Years of reduced funding and limits on the ability to raise funds through council tax increases have resulted in many councils having severe budget deficits.

There is therefore an attraction of using capital assets to free up cash and ease the subsequent revenue crisis but this isn't without dangers.

In accounting terms, capital and revenue are separated for good reason, and turning one into the other requires careful thought.

It can be done properly. The private sector regularly swaps revenue for capital via sale and leaseback transactions. Conversely, investors (historically including many local authorities) use capital to purchase high-yield investment properties.

Nonetheless, there is a distinct difference between using capital **to generate revenue** and using it **as revenue.**

The latter should be a last resort when no other options are available. The money can only be spent once and disposed capital can't generate a future return.

## Selling the family jewels

To be clear, the official position of the Government is it wants to encourage *'the sale of assets held only for revenue'.*

It could therefore be hoped that buildings or places used for *'delivering the objectives of the local authority'* would not be sold.

However, greater freedom to retain capital receipts combined with continuing financial pressures means many councils have already identified assets such as leisure centres, community halls and libraries for sale.

Any services 'lost' through such sales are unlikely to be replaced, so this strategy should be a last resort.

## Killing the goose that lays the golden eggs

What if a council does have assets held only for revenue? Careful thought should still be given to keeping them as crucial for financial stability.

Selling assets may provide a quick fix, but cuts off future revenue supplies and worsens budget deficits.

Additionally, we have advised many authorities that have purchased revenue assets as the first step to a wider place-shaping strategy. It would be a great shame if longer-term versions were sacrificed for short-term wins.

However, many investment assets have proven less successful than expected. Councils should avoid 'sunk cost' mentality by holding on to them in the hope of a future upturn – selling could produce a longer-term benefit in addition to the immediate cash injection.

Yet, they should also consider whether the perceived failure of the asset is from passive management. Could modest time and investment in the property bring better revenue returns for long-term sustainability than a quick fix of cash?

# Now is not the time

Critics who say this isn't the time to sell property are correct. Mat Oakley, of Savills, believes the first half of 2024 could be the worst time of all, so forcing sales now reduces capital receipts.

Moreover, large-scale property disposal in a depressed market can have a negative ripple effect on the wider economy. It can catalyse a further decline in property values, a decrease in construction activity, and a general perception that things are not improving.

It would obviously be better to hold on to these assets until the market improves. The real estate market is cyclical and a depressed market isn't permanent.

A better long-term vision for solving these problems might be for Government to provide support to councils now to allow asset retention until there is a better time to sell. It could recover this support (and more) if it took a share of any future uplift in value realised by selling in a strong market.

Unfortunately, the political world is even more cyclical than the property market and, right now, long-term planning is unlikely. The £1.25bn loan to Birmingham City Council, to be repaid via sales as soon as possible, confirms this isn't the Government's current thinking.

# Conclusion

Whatever the outcome of the review, if this discussion motivates councils to undertake a measured review of their portfolio, that's no bad thing.

Councils may identify assets which can safely be sold and also discover ways in which they can better maximise a revenue return from existing stock – providing a more stable budget to avoid future problems.

Sales should only be made where essential, and where it forms part of a longer-term plan to address revenue shortfalls.

Local authorities shouldn't rush to decisions purely on short-term necessity but use this consultation as an opportunity to work with advisers to develop a long-term, sustainable vision for achieving the most from their property portfolios.

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