

For General Release

DELEGATED DECISION REPORT TO :	Cllr Callton Young, Cabinet Member for Resources and Financial Governance
SUBJECT:	Property Disposals as part of the Interim Asset Disposal Strategy
LEAD OFFICER:	Richard Ennis, Interim Corporate Director Resources and S151 Officer
CABINET MEMBER:	Cllr Stuart King Deputy Leader and Cabinet Member for Croydon Renewal Cllr Callton Young Cabinet Member for Resources and Financial Governance
WARDS:	Various
<p>COUNCIL PRIORITIES</p> <p>Croydon Renewal Plan – the recommendations in this report are in line with the new corporate priorities and new way for renewing Croydon</p> <p>Medium Term Financial Strategy</p>	
<p>FINANCIAL IMPACT</p> <p>This paper is seeking approval for the disposal of three Council assets (one held within the HRA) in line with the Interim Asset Disposal Strategy. The proposal will deliver significant further capital receipts. The disposals are part of the wider disposal strategy and will significantly contribute towards the assets disposal target in the MTFS.</p> <p>All disposal costs, including a contribution towards officer time will be paid for out of capital receipts in line with the current financial guidelines which allow up to 4% of the capital receipt to be allocated against reasonable revenue costs in achieving the sales.</p>	
<p>FORWARD PLAN KEY DECISION REFERENCE NO.: Peter Sylvester House (3421RFG), Kempfield House (3121RFG), 2 Godstone Road (2921RFG)</p> <p>The notice of the decision will specify that the decision may not be implemented until after 13.00 hours on the 6th working day following the day on which the decision was taken unless referred to the Scrutiny and Overview Committee.</p>	
<p>The Leader of the Council has delegated to the Cabinet Member for Resources and Financial Governance the power to make the decisions set out in the recommendations below</p> <p>1. RECOMMENDATIONS</p> <p>Cabinet Member for Resources and Financial Governance in consultation with the Leader agrees the following:</p> <p>1.1 Approve the sale of the freehold interest in Peter Sylvester House,</p>	

- 1.2 Approve the freehold disposal of Kempfield, Reedham Park Avenue, Kenley CR8 4BQ
- 1.3 Approve the freehold disposal of 2 Godstone Road, Kenley CR8 5JE
- 1.4 Approval to a downward price variation of up to a maximum of 10% for each disposal without having to refer the matter back to Cabinet to allow for some minor value changes during the disposal process as further due diligence is undertaken. Any variation in price would be subject to approval of the Interim Corporate Director Resources and s151 Officer

On the basis of the terms set out in Part A and Part B of this report

2. EXECUTIVE SUMMARY

- 2.1 This Interim Disposal Strategy has been developed to support the requirements of the Croydon Renewal Plan and Medium Term Financial Strategy [MTFS] and sets out the guidance and governance necessary to allow the disposal of surplus Council assets. The strategy was approved and adopted by Cabinet in February 2021.
- 2.2 The properties included within this report have been identified as surplus within the context of the disposal strategy and were included in the initial 2021/22 tranche within the Strategy.
- 2.3 The above proposals have followed the governance process as set out within the strategy and has been approved by Place DLT and CMT.
- 2.4 The approved business cases are attached as a background paper in the Part B report

3. BACKGROUND

- 3.1 Given the significant financial challenges faced by the Council, it is important to ensure that the best outcome is achieved from any disposal and this includes
 - Holding cost of any surplus assets if to be retained for longer term use or sale
 - Running costs for under-utilised assets and how these can be reduced
 - Service requirements across the Council to ensure an asset is not being sold off if it could provide a cost effective solution for another service area
 - Achieving “Best Consideration” – would delaying a disposal be more beneficial
 - Loss of revenue from any income producing assets
 - Impact on the local area from holding assets empty for prolonged periods or the additional benefit from regeneration
 - Reputational issues from having vacant assets
- 3.2 The disposals included within this report fall within the following categories:

- Surplus assets released by service area
 - Vacant Properties both General Fund and HRA
- 3.3 It has been recommended that a variance of up to 10% on the initial agreed purchase price is permitted before any disposal needs to be referred back to cabinet. For many of the smaller disposals, the parties making the offers may not carry out as much due diligence around the legal title or site limitations as for larger sites where bidders have access to better professional advice. It may therefore be the case that matters become apparent during the legal process that could impact on the value of the site. On the basis that such conditions are likely to impact the general value of the site it is considered realistic to look at the financial impact and agree a lower figure as may be necessary. Such a reduction will only be considered where it impacts the general value of the asset rather than for the specific user unless even with any agreed reduction the preferred bidder still clearly offers the best option in terms of securing best consideration for the asset disposal and would therefore not be in breach of the requirements of s123 of the Local Government Act 1972

4. DETAIL

- 4.1 SHW were selected to market all the smaller disposal sites following a tender exercise run through the Buying Team. An initial marketing report was received for each site with a recommendation as to the best marketing option and approach. All assets are initially being considered for sale on an unconditional basis.
- 4.2 Where assets have less straightforward use or development options, further advice has been obtained from the planners to provide some guidance to prospective purchasers as to what may be possible to try and maximise value. If offers received suggest a much higher for assets subject to planning then further consideration will be given to a delayed completion in return for a significant financial gain. For the properties being considered within this report, this is not considered to be the case and therefore unconditional offers are being recommended.
- 4.3 All properties have been independently valued and fully marketed to be able to demonstrate that best consideration has been achieved through this process. The individual business cases are appended to the Part B report together with the independent valuations. Part of the marketing process has involved direct mailing of details to the main umbrella VCS groups including the CVA, Asian Women's Group, BME Forum and CNCA but no offers have been received through any of these groups.
- 4.4 As part of the decision to market the assets now, consideration has been given as to whether this is the correct time to sell them in order to obtain best value. Whilst it is clear that the sale of assets is required to help meet the demands of the Council's current financial requirements to support the MTFs and under the capitalisation directive, it must be demonstrated that this will not impact on obtaining best consideration for them.

- 4.5 Detailed consideration has therefore been given to the current market conditions for both residential development and disposals within the Community use sector. In respect of residential sites, the demand for good development opportunities remains high as house prices and rental levels within the private sector have continued to grow. Over the next five years the average house prices are expected to increase by 21.6% although the increases are predicted to tail off over years 3-5, especially within the south east, with the highest increases being predicted for this year.
- 4.6 The market is also witnessing large increases in building material and labour costs as a result of shortage of supply due to the impact of the Pandemic and Brexit and an increase in demand. Material prices rose by 5.6% in the year to Q1 2021 and are forecast to increase by 7.2% in the year to Q2 2021, according to BCIS Materials Cost Index. Despite the current strength of the residential market, cost inflation will continue to impact the sector, especially as increasing costs to meet building regulations under the Future Homes Standard come into effect from 2022 and pressures on better design are introduced under the National Model Design Code.
- 4.7 Given the combined impact of the increase in residential values being offset by the considerable increase in build costs and tender prices it is considered unlikely that any significant change in overall market values for residential developments will occur over the next few years.
- 4.8 The marketing of the community assets has demonstrated that there is a very keen interest in such opportunities within the community, and in particular the faith sector for larger venues as these are generally in short supply. This sector of the market is likely to be less influenced by wider market activity as it is more demand driven.
- 4.9 Based on the above it is considered that a disposal at this time will not unduly undervalue the assets and will have the additional benefit of delivering new uses to help improve and support local communities and deliver savings in the Council's holding costs for the assets.

5. ASSET DISPOSALS

5.1 Peter Sylvester House

- 5.1.1 The property has been used for a variety of purposes by Adult Social Care but more recently was utilized by the Active Lives team to provide support to adults with disabilities. The most recent use was as a decant solution whilst the works to the new Cherry Hub were undertaken. Following the successful re-opening of that facility the need for this site has declined and the service vacated the premises in March 2021 and service users now utilise the facilities at Cherry Hub and Addington Heights. The building has therefore been declared surplus and released for sale. Given the existing community use of the site and the location, planning advice has been obtained from the spatial planning team so that this could be included within the marketing pack to try and maximize values.

- 5.1.2 The property is located on the south side of Bramley Hill in a mixed residential area and comprises of a two storey 1970's flat roofed building offering a mixture of office accommodation and more open planned areas previously used for day care purposes. It has parking which is accessed through HRA land to the rear and part of the sale will include the grant of a formal right of way across the HRA land which has been agreed with the Housing Team. Consideration has been given as to whether this asset should be retained to facilitate wider estate regeneration at some future point, but it is not considered to be key to any such future plans and therefore could be released.
- 5.1.3 The planning advice received has identified the suitability of the site for residential development and ideally with some re-provision of community space given the current use. However the existing classification as Class E would allow a permitted change to residential under permitted development. If this was integrated within the wider redevelopment of the Council retained site it would be possible to secure a greater number of residential units but this would also require affordable units to be provided which would limit any increase in value especially if a level of 50% affordable is required. Any value differential would be far less than might otherwise be expected and would lead to a considerable delay. Discussions have taken place with the NHS regarding their requirements for a diagnostic centre within the centre of Croydon but this is not considered to be suitable.
- 5.1.4 The property has been fully marketed by SHW who have been instructed to act on behalf of the Council for all the smaller asset disposals. SHW have attended the site and produced a full set of marketing particulars and set up a data site with basic information regarding the property. The particulars were distributed initially through their mailing list of residential developers and community use occupiers on the 8 September 2021. They were subsequently resent on the 21 October and 11 November 2021 and lastly 23 November 2021 with details of the tender deadline date. In total 13 parties accessed the data room to view and download related documents with subsequent viewing dates set up at the property. Best and final offers were then invited and this resulted in 3 offers which have been detailed in the Part B section of the paper.

5.2 **Kempfield**

- 5.2.1 This property has been vacant for around 10 years following its closure as a former care home. Both the Council and Brick by Brick (BBB) have produced schemes for redevelopment to provide a mix of residential units but these have not been brought forward. Although a considerable amount of work was carried out by BBB looking at a scheme comprising of 13 flats and 6 houses and an application submitted (20/01526) planning consent has not yet been secured. The BBB scheme received a positive response through the pre-application discussions in respect of a residential scheme with some concerns regarding the proposed density. The property has historically been declared surplus and due to its dilapidated state is not suitable for alternative Council use.
- 5.2.2 The property is located within a housing estate immediately adjacent to a Baptist Church and is a good sized plot of just under half an acre. The location is not well served by public transport and the site has a low PTAL rating of 1a although there are two train stations within a 20 minute walk and

a local bus service. A lot of consultation has previously been undertaken with the voluntary and community sector around potential alternative uses and whilst there was some initial interest, especially from the adjoining Baptist church, no feasible alternatives have come forward. The BBB scheme also involved consultation with local residents in November 2019.

- 5.2.3 The property is a 1960/70's two storey building with a flat roof that is now in a very poor state of repair and detracts from the local area. It has attracted some localized anti-social behavior and the site hoarding is now at a stage that it should ideally be replaced. If the site were to be retained, the Council would therefore need to expend some money to make sure that it was properly secure
- 5.2.4 Although values can be enhanced by first obtaining planning consent, given the work carried out by BBB and all the due diligence already undertaken which forms part of the public record, it is felt that there is a very clear indication as to the potential of the site and therefore securing consent for a specific development would not add any significant value as against the costs involved. It is also possible that the scheme would differ from what the end purchaser would seek to deliver and therefore they would need to submit a new application
- 5.2.4 SHW commenced the marketing of the site through their mailing list of residential developers and F1 use occupiers, together with any direct contacts that had been made to the Council, on the 21 September 2021 and subsequently resent the particulars on the 25 October, 11 and 15 November 2021 together with notification of the tender deadline date. 8 Parties viewed and downloaded the documents within the data room, and viewing dates were set up at the property which were attended by parties. Best bids were received on the 19 November 2021 which resulted in 3 offers. The 2 highest offers have been detailed within Part B of this report.
- 5.2.5 The marketing process has involved direct mailing of the main umbrella VCS groups including the CVA, Asian Women's Group, BME Forum and CNCA but no offers have been received through any of these groups.

5.3 2 Godstone Road, Kenley

- 5.3.1 The site comprises of a triangular sloping site with a detached two storey house located to one end. The property is in poor condition and has not been used for residential purposes for many years due to structural issues. The asset is held within the HRA and a scheme has been looked at to refurbish and extend the property but due to the cost this has not be brought forward. The property is well located being on major bus routes and within 15 minutes' walk of Purley Station.
- 5.3.2 Housing have confirmed that they wish to dispose of the property and as it is vacant it falls within the permitted disposals under the General Housing Consents 2013 and therefore will not need specific Secretary o States consent.
- 5.3.3 SHW commenced the marketing of the site in and distributed particulars initially through their mailing list of residential developers and Community use

occupiers on the 21 September 2021. They were subsequently resent on the 25 October, 10 November 2021 and most recently on 18 November 2021 to advertise the tender deadline date. A number of viewing dates were set up at the property and parties attended the viewings. Best and final bids were then requested by 24 November 2021. A total of 3 offers were received which have been detailed in Part B of this report.

6. CONSULTATION

- 6.1 External consultation has taken place in respect of the Kempfield disposal through the planning process but none has taken place in respect of the other two disposals.
- 6.2 Ward councilors have been informed of the intention to dispose of these assets. Consultation has taken place with the Council's senior leadership team and Cabinet Members.

7. PRE-DECISION SCRUTINY

- 7.1 The proposed disposals have not been presented to Scrutiny but recommendations made from previous scrutiny reports in respect of disposals have been incorporated where appropriate

8. FINANCIAL AND RISK ASSESSMENT CONSIDERATIONS

8.1 Revenue and Capital consequences of report recommendations

Savings and Capital Receipts Included within the MTFS Budgets

Capital receipts generated from asset disposals (£000)

	21/22	22/23	23/24
Capital receipts	£4,230	£19,994	£5,988

Given the significant financial challenges faced by the Council, the disposal of surplus corporate assets is vital to ensure an improvement in its financial position, secure value for money and achieve financial savings by considering the net costs/benefits of holding surplus assets versus sale or letting of the assets.

We are required to pay for the costs of the capitalisation directions out of revenue budgets over a twenty year period, which on a straight line basis would cost 5% per year. In addition interest on those borrowings from the PWLB is at a 1% premium – at current rates this costs this would add 2.9%. Overall this would equate to £790k per £10m borrowed. By generating capital receipts, borrowing to support the capitalisation direction can be avoided and thus prevent pressures on revenue budgets.

There has been no additional capital expenditure involved with these disposals

as the service relocations had already taken place. The running costs of these properties i.e. business rates, premises costs (cleaning, security, utilities etc) will further benefit the Council

The decision to dispose of an asset will consider the need to receive the benefits now, against a possible delayed sale when the financial benefit may be greater but less certain as usually this is dependent on obtaining suitable planning consent. This has been considered in respect of these disposals and it is not considered that a disposal of the assets at this time will significantly impact value

8.2 Risks

Disposal of properties in the corporate portfolio in the current economic climate gives rise to risks and uncertainties around achieving the best possible sale price. The capital receipts in the table above reflects an element of prudence and conservatism in the receipts of disposal and its timing. However, it must be emphasised that these asset values are subject detailed market valuations and market conditions prevailing at the time of sale.

The marketing exercise has generally demonstrated that there is still very good demand for this type of asset from both developers and community organisations and the values achieved have exceeded the valuations in all cases. This would suggest that the disposal of these assets at this point in time has secured best consideration.

8.3 Future savings/efficiencies

The savings highlighted in the table above reflects an estimate of sales proceeds/capital receipts arising from disposal of corporate properties and savings in borrowing costs i.e. interest and minimum revenue provision on the general fund budgets.

Approved by Matt Davis Interim Deputy s151 Officer

9. LEGAL CONSIDERATIONS

- 9.1 The Interim Head of Commercial and Property Law comments on behalf of the Interim Director of Legal Services that, as set out earlier in this report, when disposing of land the Council has a statutory duty under section 123 of the Local Government Act 1972 (or section 233 of the Town and Country Planning Act 1990 where the land has been appropriated for planning purposes) to ensure that it obtains best consideration for the land and buildings disposed of and provisions of section 87-89 of the Localism Act 2011. In certain exceptional cases a disposal for less than best consideration is permitted where the difference in the value between the proposed disposal and the best consideration that might be obtainable on the market is less than £2M or, in other cases, with a specific consent from the Secretary of State. The processes set out in this report in relation to the Interim Disposal Strategy seek to ensure that best consideration is obtained in relation to proposed disposals. If and where disposals are proposed to proceed for less than best consideration (e.g. to secure wider community benefits) it is recommended that officers seek

detailed legal advice in relation to any potential 'Subsidy Control' issues (the Subsidy Control regime replaces the State Aid regulations).

- 9.2 Land should only be disposed of by a local authority where it is considered to be surplus to the Council's requirements. The process set out in the Interim Disposal Strategy seeks to ensure that consideration is given as to potential other Council uses of land before it is recommended for disposal.
- 9.3 In relation to land held for housing purposes within the HRA (such as 2 Godstone Road, Kenley), consent is required by the Secretary of State under Section 32 of the Housing Act 1985 before disposal. The Secretary of State has issued general consents (The General Housing Consents 2013), which includes consent to dispose of land for a consideration equal to its market value (subject to other conditions in paragraph A3.1.1) and consent to dispose of vacant land within the meaning of The General Housing Consents 2013.

Approved by: Kiri Bailey, Interim Head of Commercial and Property Law on behalf of the Interim Director of Legal Services

10. HUMAN RESOURCES IMPACT

- 10.1 The proposed disposal is for a vacant property and therefore has no direct impact on staffing levels, restructuring or recruitment.

Approved by: Gillian Bevan Head of HR Resources

11. EQUALITIES IMPACT

- 11.1 Under the Equality Act 2010 the Council has an obligation to protect **people against discrimination, harassment or victimisation in employment**, and as users of private and public services based on nine protected characteristics: The proposed disposal comprises of vacant land and buildings or assets that have been vacated by services and declared surplus and therefore the disposal will not have a direct impact individual's rights. The disposal of the Peter Sylvester Centre has removed an asset previously used by a group with protected characteristics, but this decision was made prior to the disposal and the impact of the decision would have been taken at that time. The users of this property are now using the new Cherry Hub which can offer a greater range and quality of resources together with the Addington Heights facility. Both the other assets have been vacant for some considerable time.
- 11.2 An equalities impact assessment has been undertaken for these asset disposals collectively, and the action being taken to offset the impact on affected protected groups is noted.

Approved by: Denise McCausland Equality Programme Manager

12. ENVIRONMENTAL IMPACT

- 12.1 The proposed disposals do not have any direct environmental impact. Any development that may take place on the disposed sites will have to be in full compliance with current planning, building and environmental legislation.

13. CRIME AND DISORDER REDUCTION IMPACT

- 13.1 The disposal of the vacant site and redundant buildings will help to improve antisocial behavior and crime that has been evident around this site as it will become an active site.

14. REASONS FOR RECOMMENDATIONS/PROPOSED DECISION

- 14.1 The assets are all surplus to current Council requirements and if retained are therefore likely to remain empty which will lead to increased revenue pressures to ensure they are properly secured and through the payment of Business Rates as they will only be eligible for a 3 month rate free period.
- 14.2 Holding vacant assets also has a detrimental impact on the surrounding area and can become a magnet for antisocial behaviour and fly-tipping. Consideration has been given to letting rather than disposing of the assets but all are likely to require significant expenditure (especially in the case of 2 Godstone Road and Kempfield) and deliver relatively low levels of rental income and therefore this is not an attractive option.
- 14.3 The disposals will help to secure a significant capital contribution and annual revenue saving and will be helping to meet the requirements set out in the MTFS.
- 14.4 In addition to the financial benefits the disposals will help to deliver wider social benefits through delivering new housing and potentially community assets within the local areas.

15. OPTIONS CONSIDERED AND REJECTED

- 15.1 The disposal of these assets is in line with the process set out in the Interim Property Strategy and the sites have already been included within the proposed disposal lists for 2021/22. They are all surplus as no alternative Council use has been identified and therefore disposal is the best option. Failure to do so would not help the Council to address the immediate financial position and the requirements of the MTFS.
- 15.2 The only other options are to either let the properties to generate income or look to sell in the future or hold the asset and try and gain planning consent for a more beneficial use. In respect of the former it is not considered that this will not maximise their value. Regarding the option to try and gain a higher value through obtaining planning consent for an alternative use, this is considered unlikely to significantly add value in the case of Peter Sylvester and Kempfield and the planning advice obtained for 2 Godstone Road will help mitigate any

potential value difference. The level of offers that have been received have all exceeded the Red Book valuations and would already appear to reflect the development potential.

15.3 The disposal of all 4 sites is therefore recommended

16. DATA PROTECTION IMPLICATIONS

16.1 WILL THE SUBJECT OF THE REPORT INVOLVE THE PROCESSING OF 'PERSONAL DATA'?

NO

16.2 HAS A DATA PROTECTION IMPACT ASSESSMENT (DPIA) BEEN COMPLETED?

NO

Approved by: Steve Wingrave Head of Asset Management and Estates

CONTACT OFFICER: Steve Wingrave
Head of Asset Management and Estates ext 61512.

APPENDICES TO THIS REPORT: Equalities assessment

BACKGROUND DOCUMENTS: Location Plans for:

- Peter Sylvester House
- Kempfield
- 2 Godstone Road
- Interim Disposal Strategy