

Background Paper Part A Report

Interim Asset Disposal Strategy

1. General Overview

This Strategy provides an initial draft for the proposed Disposal Strategy which will be formally adopted by the Council to ensure that the best use of its assets. This strategy, in combination with a new **Corporate Asset Management Plan** [to be launched in 2021/22 financial year] and will complement the Capital Plan and Medium Term Financial Strategy [MTFS].

It is clear that the Council is in a need of a formal approach to the management of assets and in particular their disposal where they have been identified as either surplus or no longer key to the delivery of services. This must be done in a structured and controlled manner to ensure that any disposal of assets does not cause longer term operational difficulties or fail to achieve the best return for the Council.

This strategy will allow the Council to consider and approve selective disposals, in advance of the adoption of the Corporate Asset Management Plan.

2. Wider policy considerations

Given the significant financial challenges faced by Councils it is important to ensure that the best outcome is achieved from any disposal and this will need to consider:

- 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 benefit from regeneration
- Reputational issues from having vacant assets

3. Governance requirements of this strategy

The Council recognises that good governance is a key component of this strategy, so it is essential that all decisions to dispose of an asset must be subject to a full **business case report** that will include a minimum set of requirements, including:

The business case report for every disposal will include

- a. A business case summary template [to follow]
- b. The financial case for a disposal

- c. Proposed timing of the disposal
- d. Method of disposal
- e. Impact[s] risks of the disposal – financial, reputational, political, operational, etc.
- f. Evidence of an independent valuation to show that **best consideration** is guaranteed
- g. A market assessment by a suitably qualified agent
- h. Disposal options
- i. Sign off [where required] by the relevant ELT director for the disposal of the asset, where there is no longer a service requirement. This is not to be confused with ELT approval, which is required at a later stage.
- j. Cost of sales and any budgetary approval required
- k. Confirmation of deliverability of sale – where required. For example, if staff, public or other consultations are required, they need to have been completed and reported within the business case
- l. Finance and legal sign off

4. Key points to note about business case reports

- Proposed sales that are not deliverable must not be submitted for approval
- ELT will reject reports that are not fully prepared and backed by the requirements set out above
- Key supporting documents must be attached to the reports seeking approval

All decisions to a disposal must be made in the following sequence:

1. Business case report to be prepared within the Place directorate and considered by Place DLT
2. Final version of Business Case report to ELT
3. ELT approval
4. Cabinet approval, where required in line with section 9 of the Financial Regulations (attached)
5. Decision of ELT/Cabinet to be implemented by the Place directorate
6. Sale progress to be reported to ELT as part of a monthly sales update by the Place directorate

The Council will **not assume that** that capital, interest and other financial savings from a potential disposal have been confirmed until the asset has been sold and the net proceeds have been realised.

5. Methods of Disposal

Disposals cannot be progressed until an ELT/Cabinet decision has been made.

Once determined that a property is surplus to the Council's requirements, all land and property assets which are released for disposal will be fully marketed with the exception of disposals to nominated and special purchasers (see below), which will be sold by private treaty negotiation.

Disposal of land and property can be undertaken in a number of ways and it is for the Council to determine the most appropriate sales mechanism for their asset, but potential approaches include:

- **Formal Tender** – where the sale is publicly advertised and tenders submitted by a given date.
- **Informal or Negotiated Tender** – where informal tenders are invited by a given date subject to contract. Negotiations may continue after tenders are received, with the possibility that different bidders may compete to offer the most advantageous terms. This approach enables the seller to continue to negotiate after the closing date for tenders to ensure the best possible terms and outcomes.
- **Public Auction** – where land is sold through an open auction, available to anyone. Sales will be publicly advertised in advance. Auctions have the advantage of being open, competitive and allow for transactions to be completed quickly.
- **Private sale** – where the sale of land is negotiated with one or a small number of potential buyers at a price agreed between the parties. Private sale has the advantage of being straightforward, but is likely to be appropriate only in certain circumstances (for example for smaller lots of land, where sitting tenants have rights to purchase and also farm tenants, etc.).

6. Disposals to Special Purchasers

The Council may dispose to purchasers to whom a particular asset has special value because of advantages arising from its ownership that would not be available to general purchasers in the open market. Such 'special purchasers' will include adjoining owners and parties with an interest in the property where a disposal will release additional, or marriage value, to be shared with the Council. In some cases it could also include existing tenants.

In such off market disposals will be subject to an independent valuation to demonstrate that offers received are in line or better than the best value

7. Best Consideration – definition

The disposal of any Council owned asset is subject to achieving "Best Consideration" either in line with s123 of the Local Government Act 1972 or s233 of the Town and Country Planning Act 1990 where land has previously been appropriated for planning purposes. There are exceptions where a disposal at less than best consideration, where the variance does not exceed £2m can be permitted if there are clear economic, social or environmental benefit in line with the terms of

the General Disposal Consent (England) 2003 or otherwise with the consent of the Secretary of State.

It will be the responsibility of the Place directorate to ensure that the Best Consideration is achieved on all asset disposals

8. State Aid Regulations

It must be noted that disposals by any public body need to comply with state aid rules – legal advice may be required to determine the State Aid implications of disposals and it will be the responsibility of the Place directorate to ensure state aid rules are complied with.

9. Implementing this strategy Asset Strategy Resource Requirements

Any closure and disposal programme will require a separate budget and resource to be set up to allow the correct process to be followed and undertaken in a timely manner. Whilst the disposal costs (up to 4%) can be capitalised against sales receipts, there will need to be a budget made available to allow works to be carried out, specialist advice and if appropriate, planning consent to be obtained. All properties should ideally be externally valued as part of the “best consideration” approach but in certain circumstances an internal valuation undertaken by a suitably qualified RICS registered valuer may be acceptable.

It should be recognised that capital expenditure to allow relocation of staff, both for the physical move and any new facilities, will be required and a suitable budget should be established for asset rationalisation work as part of the strategy.

Given the initial number of assets identified and the complexity of some of the closures, a specific resource should be identified to project manage the process internally to ensure that it can be progressed and monitored properly with the necessary governance being followed.

The attached spreadsheet identifies initial budget costs against each project but these will need to be developed further as part of the project management process.

10. Types of Corporate Assets

The Council’s Corporate property portfolio is made up of a range of property assets that support the Council’s delivery of services and key objectives. The property portfolio can be broadly broken down into the following categories:-

- Operational – held to support service delivery
- Investment – held for financial return
- Community – support residents or provide recreation and increasingly to support delivery of services

- Education – Schools and other learning facilities
- Surplus – awaiting disposal, re-development or alternative use

The Interim Asset Disposal Strategy will not just focus on the surplus properties but will also consider the Council's wider property requirements so that other opportunities for consolidation and disposal or for a more viable alternative use can be considered.

It is important to recognise that any assets that become surplus may provide a viable operational solution to another element of the Council. Therefore when considering the disposal of any corporate buildings that have become surplus for the current operational requirement, details are forwarded to all directors (including plans and planning details) so that they have an opportunity to consider their suitability for alternative service requirements. These assets are only declared surplus and ready for disposal once they have been through this process. Any interest that is raised by service areas will be considered for suitability/viability and budget availability before a decision is taken.

11. HRA Surplus land

In addition to the corporate assets it is important that the Disposal Strategy sets out how the Council intends to release all surplus assets including those in the HRA especially where they have already been identified as potential redevelopment sites for disposal to Brick by Brick.

Subject to the ongoing review of Brick by Brick, the Council may decide to dispose of some of the sites within existing pipelines.

Such disposals will be subject to the approval of a full business case by ELT.

12. Public Open Space, Highways and Common Land

The disposal of land which is, or forms part of an area of Public Open Space, Highways Land or Common Land, is subject to special rules and procedures. Before disposing of such areas, the Council is obliged to publish the intention to dispose and consider any representations which are subsequently received and in the case of Highways Land additional consents or Notices may need to be issued. The provisions regarding the disposal of Common Land require consent from the Secretary of State and replacement land to be made available where the area of land to be sold exceeds 200m².

13. Corporate Assets – definitions

The disposals will fall within seven main categories:

- Surplus vacant sites to include properties in disrepair and surplus tenanted properties – Quick wins

- Surplus assets released by service areas or tenants
- Corporate offices
- Sites currently used for delivery of services but under utilised
- Sites requiring public consultation
- Income producing assets
- Housing Sites
 - Sites where BBB have already obtained planning consent
 - Pipeline sites/subject to planning application

14. Corporate sites – potential disposals

The following pages set out some disposal options.

Please see appendix 1 for more detailed comments for each of the proposed sites with estimated revenue and capital savings.

14.1 Surplus vacant Sites

The Council has some sites where the previous use has been ceased and the buildings vacated and either demolished or boarded up as there are no suitable uses. They are therefore generally vacant land or have buildings that are in need of major refurbishment or structural works which means that they are best suited for redevelopment. Whilst some may have previously been considered for Council led redevelopment projects these have not come forward as viable schemes and most of the sites have now been vacant for many years.

Whilst holding costs in many cases are fairly modest, keeping these sites vacant can offer a security risk or be a source for anti-social behaviour and therefore a reputational issues. Disposal and redevelopment would provide a much more positive outcome for the local area and help generate new homes in many cases.

Consideration should be given to whether the Council should initially seek a planning consent for the site. This may help achieve a higher value but will inevitably delay the disposal and incur considerable up front cost. In many cases this is not seen as a viable option and rather than adopting this approach for all sites, each disposal will be considered on its own merits to reflect the nature of the site, holding costs and need for disposal. If planning is not secured consideration will be given to securing any significant uplift in value through the inclusion of an overage provision.

Consideration has been given to the immediate sites that have been identified for potential disposal and it is recommended that the following sites are disposed of as quickly as possible. The method of the disposals will usually be through auction or using local agents to ensure the best value is achieved. Where appropriate, discussions with the Planning Authority have taken place to inform likely future uses.

14.2 Surplus Assets Released by a Council Service or Commercial Tenants

As service requirements change over time, some buildings are released as they are no longer fit for purpose or required for the original service use. These are generally in reasonable order and have recently been vacated. They may be suitable for re-use, conversion or redevelopment. Prior to consideration for disposal, alternative service uses will be considered through the process outlined above. All assets listed below have been declared surplus through the existing disposal process and are therefore suitable for early disposal.

For tenanted assets that have been vacated, consideration will first be given to the possibility of re-letting them to generate income which may help maximise asset value if they are considered for disposal. However, where the sites are likely to generate low rental returns and capital values for vacant sites are considered to be higher than let sites, these should be considered in the first instance for sale.

14.3 Corporate Offices

The Council's corporate office strategy is to consolidate the number of offices that are used as a head office type function. Over the last 8 years around 15 sites have been vacated and the Council's corporate office function centred round Bernard Weatherall House (BWH). Changes in working styles to adopt a 3:2 desk ration has allowed some surplus space to be created and this has been absorbed through letting space within the building to partner organisations and private companies to generate additional income.

With the increase in home working opportunities and delivery of services using different methods and media, further consolidation of office space has become possible. Whilst there are few outlying offices remaining, where these exist consideration has been given to their closure and relocation of staff to BWH or provision of face to face services from other hub buildings.

Whilst the impact of Covid-Safe building requirements may currently limit some of these relocations, once these restrictions have been lifted, opportunities will arise for further relocations into BWH and the proposed office strategy builds on this and the more flexible working and service provision styles.

14.4 Underutilised Assets

Due to changing service delivery and demands, there are a number of assets that are not fully utilised and buildings could be released and those retained invested in and more intensively used. Key assets within this category include Youth provision as two new facilities, the centrally located Legacy Youth hub in Whitehorse Road and the new Timebridge centre in New Addington, have recently opened.

14.5 Sites Requiring Public Consultation

With a requirement to deliver more services for less the Council also needs to look at some of its assets currently used to deliver services to see whether an acceptable service can be delivered from less locations. The key area of consideration is focused around libraries. Whilst the Council have a statutory duty to provide a suitable library provision, we currently have 13 libraries and therefore it would be possible to consolidate the provision. Prior to the closure of any libraries it is a requirement that formal public consultation is required and for this reason, any such closures are likely to be deferred for at least 12 months.

14.6 Income Producing Assets

The Council have adopted an Investment Strategy to acquire and hold properties to specifically to produce income to support wider service delivery. However there are also a number of historic assets that the Council have acquired that produce income. If capital receipts rather than revenue income are considered to be more important than some of the assets that produce lower income levels could be considered for sale.

Consideration could be given to the sale of the recently acquired investment assets. Although these assets were purchased with a long term view to value but it is now important to consider possible early disposal where this makes commercial sense.

14.7 Housing sites

These sites form part of the ongoing review of Brick by Brick (BBB), so are not immediate disposals. The previous Asset Strategy identified a large number of surplus or underutilised sites that could potentially be used for housing development. These were investigated and brought forward through Brick by Brick and many have now been successfully developed. This process was then continued and BBB put forward further pipeline sites. Some of these have now obtained planning consent whilst others are still at the feasibility stage but with the decision not to transfer over any new sites to BBB following the recent reviews these should now be considered for potential sale to private developers.

Many of these sites were not viable for BBB to develop due to the requirement for them to deliver a high level of affordable housing even for the smaller sites that under the existing planning guidance would not require any affordable units to be provided. Private sale of these sites may therefore prove to be desirable to generate capital receipts albeit at the expense of the number of new affordable homes coming forward.

It is therefore recommended that a detailed piece of work is carried out to assess the potential of all of these sites and bring forward those that, on a purely commercial basis are likely to provide a capital receipt. Any sites that are likely to be marginal or too controversial should not be taken forward and considered for sale at this point.

For the larger sites the development options need to be carefully considered as to whether an outright sale is preferred or a possible Joint Venture option to potentially secure a higher capital sum albeit at a later date. It is recommended that for the larger sites further specialist advice is obtained from tier 1 specialist firms.

A separate piece of work is currently being undertaken to review all the BBB sites that have not already been transferred to BBB including those where contracts may have already been entered into with developers. The assessment will determine whether it is more appropriate to transfer these sites to BBB or look to terminate the contracts and dispose of them to a third party developer.

The proposal for the potential wider site disposal will look at options around straight disposal, enter into a development partnership with a private developer or housing association or not look to bring the sites forward