

REPORT TO:	22 March 2023 Cabinet
SUBJECT:	Property Disposals
LEAD OFFICER:	Jane West Corporate Director of Resources and S151 Officer
CABINET MEMBER:	Cllr Cummings Cabinet Member for Finance
WARDS:	All

SUMMARY OF REPORT:

This report builds on the Corporate Asset Management Plan and Disposal Strategy approved by the Executive Mayor in Cabinet in November 2022. It recommends the disposal of further properties in line with the approved strategy.

The Council remains financially unsustainable and needs to reduce its asset base considerably and in a timely manner. The proposed disposal route will ensure that the right decisions are reached in relation to the Council deciding to sell, rent or retain assets in line with the Medium-Term Financial Scheme requirements and the expectation of the Improvement and Assurance Panel.

To allow for some flexibility during the disposal process to reflect any issues that arise as part of the due diligence process undertaken by the purchaser or to reflect a change in the market conditions, it is recommended that a variation in the Red Book valuation of up to 10% is agreed provided it can be demonstrated that the asset has been properly marketed.

FINANCIAL IMPACT:

The overall aim of the Property strategy will be to reduce costs of retained corporate assets used for the delivery of services and to generate capital receipts to reduce the Council's borrowing requirement. This will help the Council move to a more sustainable future.

The specific assets identified within this report will generate an anticipated capital receipt of £3.8m

KEY DECISION REFERENCE NO.: 0623EM

The Executive Mayor has the power to make the decisions set out in the recommendations contained within this report:

RECOMMENDATIONS

The Executive Mayor in Cabinet is asked to:

1. Approve the disposal of Aztec Centre 28 Boulogne Road (former site of Croydon Community Equipment Service)
2. Approve the disposal of 58 Ashburton Road
3. Approve the disposal of 56 Craignish Avenue
4. Approve the disposal of 139 Wingate Crescent
5. Approve the disposal of 92a High Street
6. Delegate authority to the Corporate Director Resources and s151 Officer to agree minor changes to the terms and a price variation of up to a maximum of 10% below the Red Book valuation for each disposal where it is clearly demonstrated that the asset has been correctly marketed and the recommendation reasonably represents the best consideration achievable.

1. DETAIL

Background

- 1.1 Given the significant financial challenges faced by the Council, it is important to ensure that the best outcome is achieved from any disposal which includes consideration of:
 - Holding costs 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” – consideration must be given to “sell now” or selling on a conditional basis such as subject to planning where the increase in value is considered significant enough to justify holding costs and risk
 - Loss of revenue from any income producing assets – this will involve consideration of the benefit of the capital receipt against the reduction in borrowing costs against loss of current or potential income. It is also essential to consider any future holding costs and capital investment together with risk for such income producing assets
 - Impact on the local area from holding assets empty for prolonged periods or the additional benefit from regeneration
 - Other issues from having vacant assets
- 1.2 The specific disposals included within this report fall within the following categories:
 - Surplus assets released by service area

- Vacant properties held by both General Fund and HRA

- 1.3 It is also recommended that minor changes to the terms and a price variation of up to a maximum of 10% below the Red Book valuation for each disposal is delegated to the Corporate Director of Resources and S151 Officer to allow a more commercial response as the disposal process takes place. This will allow for variance due to factors being identified by further due diligence or market conditions at the time of sale. The current market is very uncertain due to the changes in borrowing rate, impacts of inflation, especially within the building sector and the change in demand and tenure types for residential developments. Such a reduction will only be considered where it can be demonstrated that a full marketing exercise has been undertaken through appropriate agents. In each case it will need to be demonstrated that the sale meets the requirements of the Council in achieving best consideration for the asset disposal and would therefore not be in breach of the requirements of s123 of the Local Government Act 1972.
- 1.4 Where a value at below the Red Book valuation is being recommended, consideration must be given as to whether an increased value could reasonably be achievable if the sale were delayed. Prices below the 10% threshold will need to be signed off by the Executive Mayor.
- 1.5 In all cases where a price is agreed below the Red Book valuation it must be clearly demonstrated that the asset has been correctly marketed and the recommendation reasonably represents the best consideration achievable.
- 1.6 In line with the adopted Disposal strategy, ward councillors (as well as the Mayor and Cabinet Member for Finance) will be informed of all proposed disposals.
- 1.7 In addition to the five assets detailed in this paper, a further 21 properties have been identified for potential disposal. It is proposed that these will be brought to Cabinet for approval as part of an Annual Assets Disposals Plan, demonstrating the progress the Council is making in generating capital receipts.

2. Asset Disposals

2.1 Boulogne Road



Cabinet & Executive Template

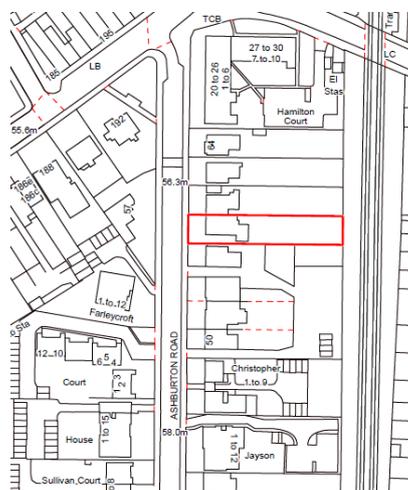
2.1.1 Boulogne Road site provided the former equipment store for the Croydon Equipment Service (CES). Following the development of the service to provide equipment for other authorities, they were relocated to larger premises at Imperial Way. The planning category falls within a tier 4 employment site and therefore under the current Local Plan is a protected use and the Local Planning Authority have under previous applications required an employment use to be retained.

Following the relocation of the service the site has been considered for redevelopment and some initial discussions with a potential developer for a 100% affordable scheme took place 3 years ago which led to an offer to purchase on a conditional basis at £1.4m. Due to planning issues with the proposed scheme and a question over viability, the potential purchaser withdrew their offer.

2.1.2 The site is continuing to be used by CES for storage, but they are aware that they will be asked to vacate on 3 months' notice once a sale has been secured. SHW have been formally instructed to market the site and particulars were distributed initially to residential developers and other potential user groups on 28th September 2022 and resent on 30th September, 20th October and 10th November 2022. 7 viewing dates were held and offers invited by 12pm Thursday 24th November 2022. A total of 12 offers were received and given the nature of the site these were all conditional on planning permission either for change of use or development. The offers ranged on value from £1.4m to £2.5m.

2.1.3 The top five offers are detailed in the Part B paper. The recommended offer is for the retention of the site as an employment use to provide vehicle repair and training facility for an insurance company. Although subject to planning permission and not the highest offer this is considered to be the one offering the lowest risk and most likely to secure a capital receipt within the next financial year which is important given the Council's challenging financial position.

2.2 58 Ashburton Road Croydon, CR0 6AN



Cabinet & Executive Template

- 2.2.1 58 Ashburton Road is an Edwardian 7 bed semi-detached house in Ashburton with accommodation in the roof space extending to a Gross Internal Floor Area of approximately 3,098 sq ft (288 sq m). Total site area 0.188 acres (0.076 hectares). The property's lawful planning use is C3-Residential however it is currently let as a therapy centre under a temporary change of use consent within use class D1 Non-Residential Institution.
- 2.2.2 The property has previously been used as a hostel for adults with mental illness but closed in July 2015 following consolidation within Croydon's Adult Care Commissioning Unit. The current tenants, Care to Listen, have been in occupation since December 2019 and their current lease expires in January 2027. It is let on an full repairing and insuring basis at an annual rent of £25,000. There is a tenant only break in January 2025.
- 2.2.3 Care to Listen were awarded a new 3-year contract in January 2022 with an option to extend this for a further 2 years until January 2027. Following discussion with the marketing agents to make sure this would not impact marketability, a new lease was granted in line with the commissioning contract to ensure the continued delivery of the counselling service to vulnerable residents. The lease provides the necessary protection to the tenant so that even if the asset is sold, they can still continue to deliver the service from the property for the remainder of the lease term.
- 2.2.4 The property has been assessed for disposal by the Council's retained agents SHW and it is considered suitable for potential residential development. A full marketing exercise will be undertaken prior to the recommendation of any disposal and the tenants have already been advised of the Council's intention to dispose of the asset during the course of this year.

2.3 **56 Craignish Avenue Norbury, London SW16 4RW**



- 2.3.1 This is a three-bedroom detached house located on the edge, but not forming part, of Norbury Hall Park and is located within a good size private garden. There are issues with subsidence around the main entrance on the Southwest corner of the building with fairly extensive cracking that will need to be remedied prior to any further occupation. Due to the requirement for these works, the Housing team have confirmed that they do not want to acquire the property.
- 2.3.2 It has very clear boundaries around the private garden area and therefore no Notices will need to be served for disposing of open space. It was previously a serviced tenancy and is held within the General Fund. The previous occupier

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has been rehoused into more suitable accommodation and this property has remained vacant since August 2022.

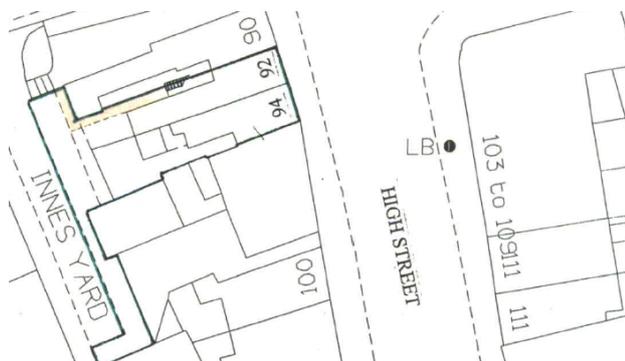
- 2.3.3 Due to the condition of the property, but also to recognise the property potential and excellent location, it is recommended that this asset should be sold at auction as this has previously been demonstrated to deliver the best value for such properties.

2.4 139 Wingate Crescent, Croydon CR0 3AP



- 2.4.1 This 1960's property comprises a two-storey semi-detached three-bedroom house. The property has been managed as part of the Council's housing stock held within the Housing Revenue Account (HRA) but has been vacant since 2013 due to major structural issues. A full appraisal has been carried out by the Housing team that considered a range of options including retain and refurbish, development or disposal. The appraisal showed that the property requires extensive structural repairs due to cracks to the internal and external walls to the rear and left-hand side, due to structural movement. The property would also require new ground floors, total refurbishment and redecoration.
- 2.4.2 Due to the cost of the required works it has been agreed that the property is unsuitable for retention within the housing stock. Due to the structural issues, it is likely to prove difficult to arrange a mortgage and therefore it is recommended that this will achieve a better price through sale at auction. The property will require a cash buyer and therefore is ideal for auction.
- 2.4.3 Capital receipts from the sale of the asset will go into the HRA to help fund further residential property purchases to meet the needs of residents in line with the Housing Strategy.

2.5 92a High Street, Croydon .



- 2.5.1 This is a two storey flat located above a fast-food retail unit. The property comprises two rooms on the first floor with a further two rooms within the roof space with dormer windows. The second-floor accommodation is of restricted height with only the area by the dormer windows being full height. Access is via a metal staircase to the rear.
- 2.5.2 The Housing team have confirmed that the space is in need of refurbishment and due to the size and nature of the room layout and poor access it is no longer considered as suitable for council housing purposes without increasing the accommodation. This could only be achieved through adding an additional storey or replacing the roof with a Mansard type structure to provide the additional height. Given the other limitations of the site this is not considered to be practical or viable.
- 2.5.3 The property is held by the Council within the HRA under the terms of a 150-year lease from the 25 March 1994 at a rent of £1pa.
- 2.5.4 Due to the nature of the property it is again recommended that this asset is sold through auction.
- 2.5.5 Capital receipts from the sale of the asset will go into the HRA to help fund further residential property purchases to meet the needs of residents in line with the Housing Strategy.

3. CONSULTATION

Professional agents and auctioneers must be consulted together with RICS Registered Valuers to ensure that the most appropriate marketing and values can be achieved for the disposal of any asset in order to comply with the requirements to achieve best consideration.

Prior to any disposal, consultation with appropriate service leads and directors as well as CMT and ward councillors will have taken place.

Consultation with the Corporate Director Housing has been undertaken regarding the disposal of the HRA assets and will take place regarding use of the capital receipts to ensure that these are in line with the Housing Strategy

Where appropriate consultation with planning officers will be undertaken to provide additional information when marketing properties with any substantial development opportunities.

4. REASONS FOR RECOMMENDATIONS/PROPOSED DECISION

- 4.1 The disposals are required to support the requirements of the MTFs through the reduction in capital borrowing and annual revenue costs. The cost of holding and running assets is second only to staffing costs and therefore it is important to ensure that they are used in the most cost-effective manner. By adopting a more flexible disposal process, assets will be able to be sold in a more commercial way and secure the best possible values. With continued uncertainty within the wider macro-economic climate this is becoming increasingly important to allow the Council to compete within the wider commercial disposals market. It has been demonstrated from some of the earlier disposals, that any delays can lead to purchasers trying to reduce initial offer prices and, in some cases, withdraw from the sale.

5. OPTIONS CONSIDERED AND REJECTED

- 5.1 It is recognised that good practice for the disposal of any assets is essential to ensure that best consideration can be achieved. Providing some flexibility in respect of the final sale price and terms in line with the recommendations to help the Council adopt a flexible and commercial process to help secure the disposals to secure the best results.
- 5.2 For the individual disposals a number of options have been considered as detailed below:
- Boulogne Road – alternative offers were either on the basis of redevelopment for 100% residential development or for community use.
 - Based on the previous attempt to sell the asset it is known that there are significant planning issues for redevelopment for residential purposes given the existing protected tier 4 planning uses. Whilst these offers were higher, the likelihood of obtaining the necessary planning consent is considered unlikely and therefore a delay in the sale and a reduction in price is likely.
 - The two offers received from community groups were considerably lower and still conditional on planning. Whilst such uses may have a wider community benefit, the offer prices were considerably below that of the recommended purchaser.

- 5.3 For 58 Ashburton Road the asset could be retained as it is revenue producing. However, the financial benefit of a disposal at the red book valuation is significantly better than retaining the current income stream. Disposal is therefore the recommended option.
- 5.4 For the 3 residential disposals, consideration has been given to retaining these for use within the HRA. However, all 3 require substantial work and following feasibility work, none are considered as viable propositions. The sale proceeds for both 139 Wingate Crescent and 92a High Street will be returned to the HRA.

6. FINANCIAL AND RISK ASSESSMENT CONSIDERATIONS

- 6.1 Historic decisions regarding the capital programme mean that the Council's outstanding General Fund debt is disproportionately high compared to most councils. The revenue cost of financing that debt represented 14% of the Council's original 2022/23 net budget when most councils are in the range of 5-10%. General Fund debt in April 2022 was £1.3bn and with interest rates rising when debt is scheduled for re-financing, the development of a disposal strategy and the subsequent sale of assets is essential to mitigate rising cost pressures and reduce the overall cost to the Council.

Approved: Alan Layton, Interim Head of Service, Finance on behalf of the Corporate Director of Resources and S151 Officer

7. LEGAL CONSIDERATIONS

- 7.1 The Head of Commercial Property and Law comments on behalf of the Director of Legal Services & Monitoring Officer that:
- 7.2 There are various powers the Council may rely upon to dispose of its assets and the Council must comply with the legal framework, including established public law principles, in relation to disposal of land and property. Under Section 123 of the Local Government Act 1972, it has a statutory duty to sell land at the best price reasonably obtainable ("best consideration"), unless it has the consent of the Secretary of State.
- 7.3 Where land or property is used to deliver services, the Council must take a decision on changing or maintaining its existing service provision before disposing of assets that are used to provide these services. This could engage the public law duty to consult service users and other affected stakeholders.
- 7.4 The potential disposals will require decisions to be taken in accordance with the Financial Regulations and will require legal consideration as part of those decisions, including any prior consultation requirements or other restrictions relevant to the particular asset.
- 7.5 Disposals of properties held within the Housing Revenue account must also comply with Plans, Policies and Strategies which together make up the Housing Strategy.

- 7.6 The Executive Mayor has the power to exercise executive functions pursuant to s9E of the Local Government Act 2000.

Approved by Kiri Bailey, Head of Commercial & Property and Law on behalf of the Director of Legal Services & Monitoring Officer

8. HUMAN RESOURCES IMPACT

- 8.1 There are no Human Resources considerations directly arising out of this report. The disposal of the assets specified in this report have no direct human resources implications as they are vacant properties or in the case of Boulogne Road, being used as a temporary storage facility with the main workforce being based in the newly refurbished 3 Imperial Way unit. The impact for any future sales will be considered in individual reports recommending the asset sales.

(Approved by Gillian Bevan Head of HR Resources on behalf of the Director of Human Resources)

9. EQUALITIES IMPACT

- 9.1 The Council has a statutory duty to comply with the provisions set out in the Sec 149 Equality Act 2010. The Council must therefore have due regard to:

- (a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act.
- (b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it
- (c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

- 9.2 Equality analysis was undertaken on the disposal which identified a moderate adverse impact to a community group which provides services to adults affected by mental health illness. In mitigation, the organisation has been provided with a new lease which expires in 2027, giving some security of tenure. There is also a loss of 3 residential properties which will be offset by the acquisition of new properties. Over 200 properties have been acquired by the council over the past 18 months.

Approved by Denise McCausland Equality Programme Manager

10. ENVIRONMENTAL IMPACT

There are no significant implications or risks to consider. It is likely that, following disposal, properties will be redeveloped or refurbished which will enhance their building performance.

Approved by: Bob Fiddik on behalf of the Director of Commercial Investment

11. CRIME AND DISORDER REDUCTION IMPACT

11.1 There are no significant implications or risks to consider at this stage. The impact of individual disposals will be considered at the time and included within separate reports.

12. DATA PROTECTION IMPLICATIONS

12.1 **WILL THE SUBJECT OF THE REPORT INVOLVE THE PROCESSING OF 'PERSONAL DATA'?**

NO

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

NO

(Approved by: Steve Wingrave on behalf of the Director of Commercial Investment and Capital)"

CONTACT OFFICER: Steve Wingrave, *Assistant Director, Property Services*

APPENDICES TO THIS REPORT:

BACKGROUND DOCUMENTS – LOCAL GOVERNMENT ACT 1972
Draft Corporate Asset Management Plan
Corporate Property and Disposal Strategy