

For General Release

REPORT TO:	CABINET 18 February 2021
SUBJECT:	Interim Asset Disposal Strategy
LEAD OFFICER:	Shifa Mustafa, Executive Director of Place Ozay Ali, Interim Director of Homes and Social Investment
CABINET MEMBER:	Councillor Stuart King Deputy Leader and Cabinet Member for Croydon Renewal Councillor Callton Young OBE Cabinet Member for Resources and Financial Governance
WARDS:	All
CORPORATE PRIORITY/POLICY CONTEXT/ AMBITIOUS FOR CROYDON Croydon Renewal Plan – the recommendations in this report are in line with the new corporate priorities and new way for renewing Croydon Medium Term Financial Strategy	
FINANCIAL IMPACT This paper is seeking approval of the Interim Asset Disposal Strategy and the initial tranche of assets for disposal. Whilst the actual disposals will lead to significant revenue savings and capital receipts these will be reported as part of the individual disposals. Overall it is estimated that if all the sales are completed for the initial tranche an initial capital receipt of £7m is anticipated subject to detailed valuations and market conditions at the time of disposal. However, to reflect the potential variance in sale price and timings a more prudent approach has been adopted within the MTFs budgets and a figure of £4.2m has been reported within the Finance section of this report	
FORWARD PLAN KEY DECISION REFERENCE NO.: 0821CAB 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.	
The Leader of the Council has delegated to the Cabinet the power to make the decisions set out in the recommendations below	
1. RECOMMENDATIONS The Cabinet is recommended to: 1.1 Approve the Interim Asset Disposal Strategy and note the first tranche of proposed sales which is set out in appendix A to this report	

- 1.2 Approve the proposed list of assets for disposal and to progress the marketing of the initial tranche of asset disposals as set out in appendix 3 of Part B of this report including specific approvals for:
 - i. Valuation fees for the proposed disposals
 - ii. Other cost of sales budgetary requirements as included in appendix 3.
- 1.3 Approve the proposed approach for the disposal and marketing of the Croydon Park Hotel as detailed in section 8 of this report
- 1.4 Note the requirement for additional resource to successfully manage and achieve this major project

2. EXECUTIVE SUMMARY

- 2.1 This Interim 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 an initial tranche of assets that have been identified in Appendix A. This will be further developed and included within a more detailed Asset Management Plan which will be reported to full Council to ensure proper governance and transparency in respect of all asset disposals. This interim strategy, in combination with the new Corporate Asset Management Plan which is expected to be completed in 2021/22 financial year, will ensure the best use of the Council's assets and will complement the Croydon Renewal Plan and Medium Term Financial Strategy [MTFS]
- 2.2 It is clear that the Council is in 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.
- 2.3 The proposed Strategy will allow the Council to consider and approve identified disposals, in advance of the adoption of the Corporate Asset Management Plan.
- 2.4 As a key Investment asset, the Croydon Park Hotel has been identified for early disposal following the former tenant going into administration. This is a valuable asset that has significant holding costs and therefore an early decision as to its disposal is required. Full consideration of the proposals is detailed in section 8 of this report.

3. Wider policy considerations

- 3.1 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 the additional benefit from regeneration
- Reputational issues from having vacant assets

3.2 The assets to be disposed of will generally fall within seven main categories:

- Surplus vacant sites to include properties in disrepair and surplus tenanted properties - these form a large proportion of the initial tranche as “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 – largely comprising of former Brick by Brick sites

4. Governance requirements of this strategy

4.1 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 follow a defined process.

4.2 Once an asset has been identified for potential disposal it will be formally declared surplus. This will require formal sign off initially by the Executive Director for the service area and then all other Executive Directors to ensure there are no other internal requirements for the asset that might provide better financial returns than a straight sale.

4.3 A business case will be prepared and signed off by the Executive Leadership Team (ELT) to allow marketing to commence for the asset. This process will involve early engagement with both ward councillors and the relevant cabinet member to inform them of the proposed disposal. The business case report will include a minimum set of requirements, including:

- a) A business case summary template
- b) The financial case for a disposal
- c) Proposed timing of the disposal
- d) Confirmation that the asset has been declared surplus
- e) Confirmation of consultation with ward councillors and cabinet member

- f) Impact/risks of the disposal – financial, reputational, political, and operational.
- g) Evidence of an independent valuation to show that **best consideration** requirements are fully complied with
- h) A valuation of the asset by an independent RICS Registered Valuer
- i) A market assessment by a suitably qualified agent familiar with the local market/asset type including recommended method of disposal
- j) Sign off 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.
- k) Cost of sales and any budgetary approval required
- l) 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
- m) Finance and legal sign off

4.4 Once approved by ELT and Capital Board marketing will be undertaken in line with the reported process within the business case. Following receipt of an acceptable offer the disposal will be referred back to ELT, the Cabinet Member for Resources and Financial Governance and Cabinet in line with the Financial Regulations as they related to disposal of assets.

5. **Best Consideration – definition**

5.1 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 can be permitted, where the variance does not exceed £2m if there are clear economic, social or environmental benefit in line with the terms of the General Disposal Consent (England) 2003 or otherwise where the Secretary of State has provided a specific consent on the basis of a Council request.

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

6. **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

6.1 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, including prior consultation with ward councillors and the relevant cabinet members

2. Final version of Business Case report to ELT
 3. Capital Board approval
 4. ELT final approval
 5. Cabinet approval or Cabinet Member approval, where required in line with the Financial Regulations and Leader's Scheme of Delegations
 6. Sale progress to be reported to ELT as part of a monthly sales update by the Place directorate
- 6.2 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.

7. Disposal of Assets

- 7.1 It is recommended that where possible key local agents are used for the disposal of non-specialist assets as they will be best placed to understand the market, demand and major purchases within Croydon. The appointment of a single local agent to work with the Council across a number of the smaller sites will help to achieve a structured marketing approach that will help maximize value and allow assets to be linked where appropriate.
- 7.2 For larger sites or specialist assets it may be more appropriate to appoint major consultancy firms or specialist agents who will have the expertise and wider market coverage required for this type of disposal
- 7.3 Approval of this report will give an in principle decision to progress the marketing of the assets listed in Appendix A of this report. The assets contained within Appendix 3 of the Part B report are properties that have been initially identified for disposal may be subject to change as further investigation are undertaken and new properties may be added following a wider review. However the final disposal of any asset cannot be progressed until a full business case has been completed and the correct approval has been obtained through ELT/Cabinet in line with the governance set out in the strategy.

8. Croydon Park Hotel

- 8.1 Following the termination of the existing tenancy by KPMG acting as Administrators for the Tenant in June 2020, and following a decision at the Asset Board in September 2020, the Council has examined numerous options for the hotel, and these are summarised in Appendix 2 of this report.
- 8.2 ELT has given consideration and rejected, on business case grounds, the following options for the hotel:
- **Leasing as a hotel** – Given the pandemic there is no strong demand for hotels in the current market that provides a viable letting in the short to medium term. The Council did receive some expressions of interest, but concluded that this method of potential disposal would not deliver best consideration

- **Student Accommodation** – There was interest from a London based university, but the level of rent free period demanded (5 years) was too high coupled with a very long lead in period.
- **EATA use by the Council** – this option was preferred by members and our teams and considerable work was done to examine the business case, risks and deliverability of this option. After very careful consideration, officers concluded at ELT on 18th January 2021, that this was not a viable option.
- **Speculative “offers”** – the Council has received many expressions of interest from a very wide variety of potential parties. We have kept a record of these approaches and in the event of a marketing exercise, we will pass these details onto the appointed real estate marketing firm

Proposed approach

- 8.3 To mitigate costs and other risks, officers recommend that the Council appoints a specialist real estate advisory firm to prepare and delivery a marketing approach that would deliver best consideration.
- 8.4 A detailed brief for the appointment of the advisory firm has been approved by ELT and initial discussions have been held with lead UK advisors for hotel assets from two leading advisory firms, in the form of a soft market assessment of the intended approach.
- 8.5 Those discussions confirm that a sale as a hotel in the current market will not deliver best consideration, as hotels are likely to fall in value until 2025. The initial advice is to prepare a marketing strategy that will attract investors/developers who would be prepared to pay a premium for the development potential of the site.
- 8.6 Officers are seeking approval for:
1. The proposed appointment of real estate advisors to prepare the marketing strategy for approval by the Council to be procured under the Council’s Tender and Contract Regulations.
 2. Subject to approval of the strategy, the Council will then seek to appoint the firm to manage the sales process and present bids/offers for the Council to approve also to be procured under the Council’s Tender and Contract Regulations.
- 8.7 The likely timescale for progressing this work is set out below:

9th February 2021 – Scrutiny for Croydon Park Hotel

18th February 2021 - Cabinet decision (subject to call in) to delegate to officers the responsibility to commence the appointment of a specialist real estate advisory firm

12th March 2021 – deadline for receipt of proposals from Tier 1 advisory firms

19th March 2021 – ELT approval to appoint preferred bidder

1st April 2021 – appoint preferred bidder

April – August 2021 – marketing period

31st August 2021 – deadline for offers from potential purchasers

- 8.8 As part of the governance reporting of the above process a monthly update will be provided to ELT.
- 8.9 The purpose of the plan set out above is to provide assurance that sales progress is scheduled and monitored by the leadership at regular points throughout the process. The update reports will contain:
- Sales progress reports from the advisory firm
 - Management commentary on the sales progress report
- 8.10 It is important to stress that all decisions will be in accordance with existing delegated authorities, financial regulations and standing orders.
- 8.11 After the sales process has closed on 31st August 2021, the advisory firm will submit a report for consideration by the Council that will then be tabled for Cabinet consideration at its meeting in September 2021

9. Resource Requirements to Implement this Strategy

- 9.1 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 be externally valued as part of the “best consideration” approach but in certain circumstances, subject to prior approval from the Executive Director Place, an internal valuation undertaken by a suitably qualified RICS registered valuer may be acceptable.
- 9.2 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.
- 9.3 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.
- 9.4 Initial budget costs are set against the first tranche of properties to indicate disposal and relocation costs but do not reflect the need for an additional project management resource.

10. Types of Corporate Assets

- 10.1 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

10.2 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.

10.3 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

11.1 In addition to the corporate assets the Interim Asset Disposal Strategy will also cover sale of surplus HRA land which will follow the same process as detailed above.

11.2 Subject to the ongoing review of Brick by Brick, the Council may decide to dispose of some of the sites within existing pipelines that have not yet been transferred to BBB. Many of these will fall within housing estates

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

12. Public Open Space, Highways Land and Common Land

12.1 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. CONSULTATION

13.1 No external consultation has been undertaken in connection with the Interim Strategy.

- 13.2 Before the disposal of some assets, consultation will be required to meet the Council's legal obligations and also in connection with the marketing and disposal of assets.
- 13.3 Full consultation has taken place with members and the Council's senior leadership team.

14. PRE-DECISION SCRUTINY

- 14.1 The proposed strategy has been presented to Scrutiny and their recommendations have been adopted within this report

15. FINANCIAL AND RISK ASSESSMENT CONSIDERATIONS

15.1 Revenue and Capital consequences of report recommendations

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 of the assets. The capital expenditure incurred to decant some of these corporate properties, relocate staff to existing accommodation and adaptations of existing properties is factored in the net capital receipts in the table below. The running costs of these properties i.e. business rates, premises costs (cleaning, security, utilities etc) will be reduced, net of the loss of rental income streams is taken into consideration in the revenue savings in the table below.

The decision to dispose off an asset will consider 'best consideration' i.e. delaying a disposal if the outcome is more beneficial with respect to its market price so the Council is able to maximise its capital receipts.

15.2 The effect of the decision

Savings and Capital Receipts Included within the MTFS Budgets

Savings and capital receipts generated from asset disposals				
				£000
	21/22	22/23	23/24	24/25
Revenue Savings	£126.38	£451.88	£111.75	
Capital receipts	£4,230	£18,237	£19,994	£5,988
Savings in:				
Interest Costs	£69	£295	£162	£98
Minimum Revenue Provision	£156	£672	£737	£221

The figures in the above table are those that have been adopted within the MTFS and adopt a more prudent approach to reflect the uncertainties at this stage regarding the actual sales receipts and timings for the initial disposals

and therefore differ from the estimated capital receipts outlined in Appendix 3 of the Part B paper

An assumption has been made that the cash receipt could replace borrowing over 20 years which incurs annual interest costs and a minimum revenue provision. This is reflected in the table above.

15.3 **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.

15.4 **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: Geetha Blood Interim Head of Finance for Place, Gateway, Strategy and Engagement on behalf of the Director of Finance, Investment & Risk

16. **LEGAL CONSIDERATIONS**

- 16.1 The Head of Commercial and Property Law comments on behalf of the Director of Law & Governance 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. 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).
- 16.2 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 seeks to ensure that consideration is given as to potential other Council uses of land before it is recommended for disposal.
- 16.3 As set out earlier in the report, where land considered for disposal forms part of an open space before disposing of the land the Council needs to publicise the

intention to do so for two consecutive weeks in a local newspaper circulating in the area in which the land is situated, and consider any objections to the proposed disposal which may be made.

Approved by: Sean Murphy, Head of Commercial and Property Law on behalf of the Interim Director of Law and Governance & Deputy Monitoring Officer

17. HUMAN RESOURCES IMPACT

- 17.1 The proposed Interim Asset Disposal Strategy does not have any direct impact on staffing levels, restructuring or recruitment. However, some of the proposed building closures will require the relocation of staff and may require a different service delivery model. These factors will be considered in line with specific disposals that require such action to ensure that they are in line with the Council's personnel policies or other human resources matter.

Approved by: Sue Moorman, Director of Human Resources

18. EQUALITIES IMPACT

- 18.1 Within the initial tranche the majority of the sites comprise of vacant land or buildings and therefore the disposal will not impact individual's rights. The Equalities Analysis is used to inform the final decision to identify any impact on the changes on groups that share protected characteristics, evidence how we arrived at decisions that affect council staff, local people who use our council services and the wider community and help us to comply with the requirements of the Equality Act 2010.
- 18.2 An equalities impact assessment will be undertaken for individual disposals to ascertain the potential the impact they will have on groups that share protected characteristics.

Approved by: Yvonne Okiyo Equalities Manager

19. ENVIRONMENTAL IMPACT

- 19.1 The proposed strategy does 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. In many cases the sale of redundant buildings and land will lead to new development that will enhance the local areas and lead to improved building and energy efficiency.

20. CRIME AND DISORDER REDUCTION IMPACT

- 20.1 The disposal of vacant sites and redundant buildings should help to improve antisocial behavior and crime around the sites as the buildings and sites will either be re-used or redeveloped.

21. REASONS FOR RECOMMENDATIONS/PROPOSED DECISION

- 21.1 The adoption of the Interim Asset Disposal Strategy and recommendations within this report will help the Council to deliver a considered and transparent disposal process that is undertaken in line with strict governance requirements
- 21.2 This will help to ensure that assets are disposed of in a timely manner securing the best financial outcomes for the Council and helping to meet the requirements set out in the MTF5.
- 21.3 The need for consultation with all Executive Directors prior to commencing disposal will also allow other, potentially more beneficial options to be considered prior to disposal to ensure no opportunities are missed to improve service delivery.

22. OPTIONS CONSIDERED AND REJECTED

- 22.1 In respect of the Strategy the only real options are:
Not to adopt an interim strategy – this would offer significant risks through the lack of a consistent approach and formal governance. Piecemeal disposals may also not capture all potential benefits that a wider programme has to offer. This option is therefore not recommended
- 22.2 To include the strategy within the wider Asset Management Plan – this would lead to significant delay and may prevent the disposal of assets in the next financial year whilst the Plan is developed and adopted. This would therefore not deliver the required financial contributions to help address the immediate financial position of the Council and requirements of the MTF5. This approach is therefore not recommended

23. DATA PROTECTION IMPLICATIONS

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

NO

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

NO

Approved by: Ozay Ali Interim Director of Homes and Social Improvement

CONTACT OFFICER:

Steve Wingrave Head of Asset Management and Estates ext 61512.

APPENDICES TO THIS REPORT:

Appendix 1 – Interim Asset Disposal Strategy

Appendix A – list of assets recommended for disposal in Tranche 1
Appendix 2 – Summary of Options considered for Croydon Park Hotel

BACKGROUND DOCUMENTS:

None