

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
CABINET MEMBER:	Councillor Stuart King - Cabinet Member for Croydon Renewal Councillor Callton Young - Cabinet Member for Resources and Financial Governance
WARDS:	Coulsdon Town
<p>CORPORATE PRIORITIES 2020-2024</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 grant of a long lease and subsequent disposal of a Council asset in line with the Interim Asset Disposal Strategy. The proposal will deliver either a long term revenue benefit or, if the Council decide to sell the asset with the benefit of the lease, a significant capital receipt. This disposal is 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 receipt 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.: 6121RFG</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 Letting of the former CALAT building in Malcolm Road, Coulsdon to Epsom and St Helier University Hospitals NHS Trust for a term of 25 years</p>	

- 1.2 Approve the subsequent sale of the freehold interest once the lease has been completed
- 1.3 Approve the grant of a new reversionary lease to Coulsdon Community Centre for a term of 25 years to follow on from their existing lease which is due to expire in 2026

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 property included within this report has been identified as surplus within the context of the disposal strategy and was included in the initial tranche.
- 2.3 The above proposals have followed the governance process as set out within the strategy and has been approved by Place DLT and ELT.
- 2.4 The approved business case is 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 letting and potential subsequent disposal of the former CALAT building being recommended for disposal fall within the following categories:

Surplus assets released by service areas

4. DETAIL

4.1 This asset forms part of a larger site that was formerly used by Croydon Adult Learning and Training (CALAT) Service, vacated in 2016. Following closure of the centre the site was declared surplus and under consideration to Brick by Brick (BBB) as a potential development site but this was not taken forward. The part of the site that is currently under offer relates to the former CALAT building as identified on the attached plan edged Red. The part of the site edged Blue is being sold separately for the development of a new health centre and was agreed by Cabinet in July 2021.

4.2 this property has not been marketed, as it is subject to a community use under planning policy (and is also locally listed) and two proposals have already been identified, where the Council could consider disposal/use and satisfy its obligations under s123 of LGA 1972.

The two disposal options that have been considered are:

- Use as a community centre – this was the original BBB proposal to allow the sale of the existing Community Hall site for housing
- Use as a Renal Dialysis Centre – this has come forward more recently due to an urgent need and shortage of suitable alternative sites in the area.

4.3 **OPTION 1: Relocation of Community Centre and residential development on existing site (Barrie Close)**

4.3.1 The original BBB proposal considered relocation of the existing Coulsdon Community Centre, to this site, therefore allowing the existing site at Barrie Close to be redeveloped to provide 33 residential units. The new building proposed for the CALAT site would make use of the existing building and also include an element of new build to create a new theatre. BBB obtained planning consent for this proposal (17/06217/FUL), which has now expired. The planning for both the Barrie Road and CALAT sites are linked as the Community Centre needs to be re-provided before any residential development at Barrie Close under consent 17/06216/FUL (also now expired) could be commenced.

4.3.2 As part of this exercise, BBB obtained detailed costings for the work to create the new Community Centre from chartered quantity surveyors in April 2018, this cost advice estimated of £2.477m for the proposed scheme. This has not been updated but allowing for the considerable increase in building costs that has been experienced over the last 3 years it is not unreasonable to expect this figure to have increased and could now be closer to £3m The Department for Business, Energy and Industrial Strategy's (BEIS) Monthly Statistics of Building Materials and Components report for July suggests that "the cost of materials for repair and maintenance work rose 2.1% between May-June 2021, and increased by 15.6% between June 2020 and June 2021"

4.3.3 A RICS Red Book Valuation has been undertaken by external surveyors for the Barrie Close site, based on the planning consent that had been obtained by BBB but reducing affordable element to 36% (12 units) to reflect viability assumptions that a private developer would need in order to make this form of development commercially viable, this suggested a value is in the region of £2.35m. A copy of the valuation has been included under Appendix B in the Part B report.

4.3.4 A review has also been undertaken by local marketing agents to get a “market” view , which suggests that given the good current demand, a higher value may be achievable and whilst not having undertaken a formal marketing process to illicit actual market interest, they did have concern over the impact of the linked requirement of re-providing the community centre with no guarantee on costs and ability to fully deliver a re-provision within the cost estimate, this risk would be priced into any offer, as well as the potential delays and then the market conditions at that time in the future. This may significantly increase the build and financing periods likely to cause issues for many regional developers, the preeminent sector that are likely to be interested in the Barrie Close site.

4.3.5 Whilst it is anticipated that this option will at least be cost neutral, it is unlikely to provide a substantial capital receipt.

4.3.6 The proposed residential development of 4 x 1 bed, 12 x 2 bed and 17 x 3 bed properties is would generate future Council tax benefits of c£65,000pa. It should be noted the proposal under option 2 would generate a likely Business rate assessment of c£50,000 of which the Council would benefit from c£17,000 plus the existing Community Building attracts 100% relief and therefore there is no income expected. The additional housing would generate extra costs for the Council and therefore the net benefit will be reduced.

4.3.7 Although discussions took place between BBB, the Council and the Community Centre, with draft heads of terms agreed, there are no legal documents in place to commit the Council to this proposals. In light of the issues that BBB have encountered this does also substantially change this position. The proposed lease offered to the Community Group was for 25 years at a rent in line with their current rental, but for a new facility with the lease on a full repairing basis rent so there would be no direct financial benefit to the Council for this site.

4.3.8 As this is not a straightforward residential development the likely timelines to developing the site are expected to be:

1. Obtain consent for both sites (9-12 months)
2. Build out the new community centre (12+ months)
3. Build out the housing (12 months after the community centre has relocated)

It could be expected therefore that the community centre would not be relocated for a further 18-24 months and the housing at least a further 12 months from that date

4.4 OPTION 2: Renal Dialysis site on Malcolm Road

- 4.4.1 This option is for a lease of the existing building to be granted to Epsom and St Helier University Hospitals NHS Trust, in its existing condition, to be converted for use as a Renal Dialysis centre. There is currently no dialysis facility in the local area, following the recent closure of the facility at Capella Court, Purley in 2020. Over the last 12 months patients have faced considerable extra travel with most having to attend St Helier or St George's Hospital. The previous site was on the top floor of an office building and did not provide easy access, as many patients are infirm by the nature of their medical conditions. The Trust are therefore keen to find a long term relocation site which provides ground floor accommodation.
- 4.4.2 The Trust undertook a site search within the south of the borough to identify suitable opportunities for a new renal dialysis unit, which commenced in quarter one of this year. The Trust identified numerous sites and these were reviewed with the senior team responsible for providing this service. Although the Trust identified a number of possible sites none were found to be as good as the Ullswater site in the early part of the search. The Trust then became aware of the CALAT building on Malcolm Road, Coulsdon. After the initial site visit it was concluded that the building offered much more than the Ullswater site in terms of ability to deliver the service, location, parking, access to transport hubs and the whole patient experience.
- 4.4.3 Following the initial search The Trust submitted a planning application for a change of use for the unit in the Ullswater Crescent Industrial Estate. This was refused as the proposal is contrary to both local and regional policy around the loss of B8 industrial use within a strategic industrial location. In addition to concerns surround pure planning policy, the suitability of having a dialysis centre within an industrial estate from the perspective of treating vulnerable patients was also of concern. The Trust have lodged a protective appeal against the decision but agreed to delay taking the appeal forward until a decision has been made regarding the CALAT site.
- 4.4.4 As a result of the planning issues, the Trust approached the Council to seek alternative accommodation solutions, with discussions then identifying that a far more suitable solution may be the re-use of the former CALAT main building. The Trust have carried out detailed investigations, had their dedicated conversion scheme fully costed, obtained a certificate of Lawful Use from the planning authority and have received sign off to their business case from the Trust and CCG, but the window of funding is only dedicated for the current financial year, which may require an NHS re-submittal should they not secure the facility soon.

4.4.5 Following this initial work, draft Heads of Terms have now been agreed and the proposed terms are:

- Tenant - Epsom and St Helier University Hospitals NHS Trust:
- Lease for a term of 25 year lease subject to breaks at years 15 and 20
- Rent agreed in line with District Valuer assessments
- Rent free of 24 month to allow for the basic repairs required to the main fabric of the premises
- Rent reviews every 5 year based on CPI increase (with the base date to be taken from 12 months after the lease date)
- Lease to be on full repairing and insuring basis
- Tenants to undertake full conversion and repair works at their own cost

These have now been approved by their board, they are ready to proceed should this option be approved.

4.4.6 Once the lease is in place the Council would have a choice as to whether to benefit from the revenue income, or dispose of the freehold, with the benefit of the lease to the NHS (investment sale), which currently is an attractive proposition. It is considered very unlikely that the NHS would break the lease due to the level of capital investment they would undertake and, the ongoing need for dialysis treatment and the fact that this premises is substantially more suitable than their previous occupation together with the lack of alternative options

4.4.7 The Trust have confirmed that in respect of the costings for the two sites, Malcolm Road appears to be 10% more economical than the Ullswater option. The time frames for conversion for each building are however fairly similar at about 6 months.

4.4.8 Under this option there is also a recommendation to grant a new reversionary 25 year lease to the Community Centre Trustees (terms to be agreed). This will follow on from the expiry of their existing lease and give them more long term certainty Their existing lease expires in March 2026, is a contracted out type lease, so they could loose possession of their occupation as there is no automatic right to renew. This could present issues for the Trustees, as this is a thriving centre with over 60,000 visits a year. Whilst it is unlikely the Council would not come to some arrangement, this option secures the longer term future enabling the Trustees to fully and properly plan, as well as having a longer term lease which they could leverage to secure alternative additional forms of grant funding, plan their commercial activities with greater certainty and invest in the facility to ensure it is fit for purpose. Under the previous proposal to relocate the Community Centre to the new premises they had been offered a 25 year lease, under similar considerations.

4.4.9 As the Trust have already obtained consent for their proposals and are under pressure to progress the development of a new centre, the period to completion of the lease is expected to be within 2 months of receiving cabinet approval.

4.5 Since the last occupational use by the Council, the site has been subject to antisocial behaviour, fly tipping and rough sleeping in the outbuildings, regularly requiring Police intervention. To mitigate H&S risks the Council have used a

guardian company who have placed 8 guardians in the property. However they have recently served notice to terminate the occupation of this property as considerable work has been identified as being necessary to comply with current fire regulations, to replace the boiler and carry out other repairs including the roof. These works make it uneconomic to continue with this approach to secure the building. In the short term it is proposed to place metal sheeting to the windows and doors and install an alarm system. This will incur an up-front cost of c£1,500 plus a weekly charge of £656, plus additional management time and potential other expenses, therefore it is important to minimise the period the property will be vacant.

- 4.6 The proposal under Option 1 is likely to require the asset to be held for at least a further 12 months in order to obtain the necessary planning consents. As any offers are likely to be conditional on planning, it is unlikely that the developer will want to pick up these costs and therefore they will either fall direct to the Council or the developer will look to reduce his bid to reflect this additional risk. On this basis it may be worth assessing the cost of the necessary works to continue occupation by the guardians or look to purchase the security equipment outright at a cost of £23,500. Under option 2, given that the Trust have already obtained consent for their proposal, including planning confirmation, the transfer of the site to them could be very swift and therefore minimise the holding costs.
- 4.7 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.
- 4.8 For this site there is a clear social benefit for both options. However, the proposal to grant the lease for the use as a dialysis centre additionally has a clear financial benefit, maximises the potential value for the site both as a social use to provide essential healthcare facilities and providing a financial return to the Council. To demonstrate that Best Consideration is being achieved, both options have been reviewed by an independent external valuer, as part of the considered disposal process, and the opinion of a regional agent has been obtained.

5. CONSULTATION

- 5.1 External consultation has taken place with the Community Centre Trustees and a representative of the local residents associations

5.2 Ward councilors have been informed of the intention to dispose of these assets and various meetings have been held with them as part of the consultation exercise. Consultation has taken place with the Council's senior leadership team and Cabinet Members.

6. PRE-DECISION SCRUTINY

6.1 The proposed disposal has not been presented to Scrutiny and their recommendations have been followed as part of the disposal process

7. FINANCIAL AND RISK ASSESSMENT CONSIDERATIONS

7.1 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 will be no capital expenditure incurred to release this asset But the disposal will generate revenue savings through removing future running costs i.e. business rates, premises costs, security, utilities etc).

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.

7.2 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.

Failure to act quickly with Option 2 may lead to NHS not securing funding or too choose their alternative site which is felt by all concerned to be unsatisfactory, but would provide NHS certainty of a much needed facility soon.

7.3 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.

7.4 Approved by: Matt Davis, Interim Director of Finance.

8. LEGAL CONSIDERATIONS

- 8.1 The Interim Head of Commercial and Property Law comments on behalf of the Interim 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 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).
- 8.2 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.
- 8.3 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.

Nigel Channer, Interim Head of Commercial and Property Law on behalf of the Interim Director of Law and Governance & Deputy Monitoring Officer

9. HUMAN RESOURCES IMPACT

- 9.1 The proposed disposal is for a vacant property and therefore has no direct impact on staffing levels, restructuring or recruitment.
- 9.2 Approved by: Gillian Bevan, Head of Human Resources (Resources & ACE).

10. EQUALITIES IMPACT

- 10.1 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 and therefore the disposal will not have a direct impact individual's rights. Under Option 1 the proposed housing development would create 4 homes that would be suitable for wheelchair use and therefore potentially benefit individuals with disabilities and those with long term healthcare need. However, the development of the dialysis centre will also be an advantage to those seeking this specialist treatment and greatly reduce travel times which would have a positive impact on their health and also on the wellbeing of carers supporting individuals undergoing treatment.
- 10.2 An equalities impact assessment has been undertaken for this asset disposal collectively, and the action being taken to offset the impact on affected protected groups is noted.
- 10.3 Approved by: Denise McCausland, Equality Programme Manager.

11. ENVIRONMENTAL IMPACT

- 11.1 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.

12. CRIME AND DISORDER REDUCTION IMPACT

- 12.1 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.

13. REASONS FOR RECOMMENDATIONS/PROPOSED DECISION

- 13.1 The recommendation to adopt option 2 has been taken having fully considered the likely benefits to both the local area and from a financial perspective within this report are in line with the adopted Interim Asset Disposal Strategy and are being taken in a considered and transparent disposal process that is in line with governance expectations
- 13.2 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.
- 13.3 In addition to the financial benefits the disposals will help to deliver wider social benefits through helping to support partner organisations to secure a new Health Centre and enhanced SEN school provision.

14. OPTIONS CONSIDERED AND REJECTED

- 14.1 Both options are in line with the process set out in the Interim Property Strategy and the site has already been declared surplus so there is no alternative Council use 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.
- 14.2 The two principle options for the site have been considered within the report Alternative uses for housing or other forms of development for this site are likely to be extremely restricted due to the current planning designation for the site and the clear, viable community demand that has been demonstrated. Wider marketing is therefore not considered to be necessary. The disposal of the site is therefore recommended

15. DATA PROTECTION IMPLICATIONS

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

NO

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

NO

- 15.3 Approved by: Steve Wingrave, Head of Estates, Asset Management & Facilities.

CONTACT OFFICER:

Steve Wingrave, Head of Estates, Asset Management & Facilities. Ext 61512.

APPENDICES TO THIS REPORT:

Appendix 1 - Equalities Report

BACKGROUND DOCUMENTS:

Background Document 1 - Location Plans for Part CALAT site Malcolm Road Coulsdon