

London Borough of Enfield

Cabinet: Part 1

Meeting date: 14 October 2020

Subject: Disposal of Surplus or Underperforming Assets

Cabinet Member: Cllr Mary Maguire

Executive Director: Sarah Cary

Ward: Various

Key Decision: KD5189

Purpose of Report

1. The list of assets identified in the Confidential (Part 2) Appendix are either:
 - surplus to operational requirements,
 - not “fit for purpose”, or
 - otherwise underperforming against the core principles of the Council’s ‘Strategic Asset Management Plan’ (‘SAMP’) 2019-2024 s.1.3.
2. Strategic Property Services are authorised to dispose of the assets and achieve “Best Value”.

Proposals

3. That the Council proceeds with the disposal of the assets listed as Wave 1 and Wave 2 in the Confidential (Part 2) Appendix at the earliest opportunity, and in accordance with the Council’s ‘Property Procedure Rules’.
4. That the Director of Property and Economy has delegated authority to agree terms in consultation with the Portfolio Holder for Resources & Procurement and the Executive Director of Resource and in accordance with the Councils Property Procedure Rules
5. That Director of Property and Economy has delegated authority to appoint external property consultants as necessary to implement the decisions in accordance with the Council’s Procurement Rules.

Reason for Proposals

6. The assets listed in the appendix are no longer required for operational purposes or are underperforming and therefore identified as surplus and

released for sale to reduce the Council's borrowing requirements and/or contribute towards the Council's Capital Programme.

Relevance to the Council's Plan

7. The capital receipts obtained from these sales will deliver much-needed capital receipts for the Council and thereby helping generally to fund Council services which contribute to a strong and healthy community.
8. It will also support delivering services from fewer and better equipped buildings that are energy efficient, well-maintained, supported with the right technology and in the right locations for the benefit of our communities.
9. Sales will also lead to redevelopment which will support building more and better homes for local residents and creating more and better jobs.

Background

Why the need for Asset Sales?

10. As set out in the Strategic Asset Management Plan (agreed by Cabinet in June 2019) the Council seeks to be, "... optimising the use of land and property assets to support the delivery of front-line services and corporate objectives... drive down our exposure to cost and increase our ability to create and maintain long-term income streams." The SAMP set out a number of core principles in order to reshape the Council's property portfolio which have influenced the proposals set out in this report.
11. In July 2020, the Medium Term Financial Strategy was agreed at Cabinet, this included the "in year response to the financial pressures arising because of Covid19". A number of actions were set out in the report including to, "Accelerate the identification of properties that can be sold on the open market (not to HRA as this does not provide flexibility) which can be re-invested to reduce borrowing costs, fund transformation." The financial impact of the Covid-19 pandemic and the shortfall of funding from central Government has resulted in an urgent need to focus the Council's attention raising capital receipts and reducing revenue expenditure on underperforming assets.
12. Central Government will have cut funding to Enfield Council by 60% in real terms since 2010. The Council has already delivered £193m savings over the last decade and now faces extraordinary financial challenges as a direct result of Covid19 pandemic. As funding from central Government is inadequate to meet cost pressures, Enfield has three main avenues for alternative income production; Council Tax, Business Rates and income generation, in particular from owned property assets. Property assets are an essential source of income for Enfield, which must be optimised to contribute positively to the overall budget.

13. In addition, other legislative changes are forcing the need for urgent reviews of the Council's asset base including the 'Minimum Energy Efficiency Standards' ('MEES') legislation, aligned with the Council's declaration of a Climate Emergency (and the need to reduce carbon emissions and revenue costs in inefficient buildings) and more recently the changes to the Use Classes Order.
14. The Council has an ambitious transformation agenda through the 'Build the Change' programme, it needs capital receipts to fund capital programmes and requires 'fit for purpose' accommodation within the operational programme to deliver first-in-class services. This transformation will release some operational property which will then be surplus to requirements, and a cost burden to the Council whilst it is still retained.
15. The Council's non-operational estate also needs to deliver an acceptable 'return on investment' as set out in the Commercial Strategy and therefore the recycling of capital receipts from sales of underperforming assets into the acquisition of new performing assets also has an important place within the SAMP.

Disposals Programming

16. In identifying a first wave of potential disposals priority has been given to:
 - Vacant, non-income producing assets,
 - Adjacent to proposed development sites or where a special purchaser has been identified, and
 - Assets which will not increase disproportionately in value with further investment by the council through either the securing of planning or refurbishment, for example.
17. The anticipated value of gross receipts (adjusted for risk) for Wave 1 is anticipated to be circa £7.0m and these receipts will be targeted for the current financial year.
18. In identifying a second wave of potential disposals we have considered:
 - Assets that require either enabling works or planning consent to enhance the sale value or relocation of an existing service or occupier to deliver vacant possession.
19. The anticipated value of gross receipts (adjusted for risk) for Wave 2 is anticipated to be circa £8.2m and these receipts will be targeted for 2021/22.
20. Work is ongoing in relation to further opportunities for disposal or redevelopment to generate income and further reports will come before Cabinet in due course.

Social Value

21. Recent experience has demonstrated that there is currently a healthy demand from Enfield community groups which require accommodation for socially based activities. These groups can offer wider social benefits which aren't traditionally reflected in bid scoring which is more heavily weighted towards short term financial outcomes.
22. In addition to an evaluation matrix which better reflects the outcomes sought within our Corporate Plan, steps are also being taken to feedback to community groups how best to present their case to the Council when bidding and ensuring they understand the evaluation criteria and how these will be applied. Guidance for such bidders will be produced at the earliest opportunity. The Council will also adopt the published MHCLG guidance on Social Value.

Resourcing

23. The disposal programme will largely be delivered by existing Council resources from SPS, working closely with Legal and Finance. However, some activities will need to be provided by external property consultants including the preparation of due diligence and marketing packs in order to meet the desired timescale. They will also assist with planning advice and applications should the need arise.
24. External property consultants will be procured in accordance with the Council's 'Contract Procurement Rules' ('CPRs').

Summary and Recommendation

25. It is recommended that Cabinet approves the disposal of the assets identified in the confidential Appendix.

Safeguarding Implications

26. None.

Public Health Implications

27. The Public Health department takes note of the intended disposals listed in the confidential Appendix and it is our assessment that these do not present any Public Health Implications.

Equalities Impact of the Proposal

28. An equalities impact assessment is neither relevant nor proportionate for the approval of this report.

Environmental and Climate Change Considerations

29. The sale of these assets as part of a property consolidation programme will result in a decrease in the Council's overall energy consumption and therefore the Council's CO₂ emissions should similarly reduce.

Risks that may arise if the proposed decision and related work is not taken

30. If the Council do not undertake regular reviews of its property holdings and dispose of surplus or underperforming property then there are ongoing risks in relation to site security, and increased revenue costs from reactive and planned maintenance associated with void property. In addition, there is the risk of reduced capital funding available for the Council's Capital Programme for other projects, and/or a risk of an increased cost of borrowing.

Risks that may arise if the proposed decision is taken and actions that will be taken to manage these risks

31. These comprise:

Risk	Mitigation
Sales will not complete due to proposed buyers failing to proceed with the purchase.	Undertaking due diligence on the buyer prior to seeking authority to dispose and ensuring that provisional Heads of Terms are agreed.
Reduction in receipts owing to the Council deciding to withdraw an asset from sale without a comparable value replacement.	Strong justification needing to be made to withdraw a property from the disposal programme with ultimate decision taken at executive level.
Inability to deliver the programme to intended timetable through the Council withdrawing, reducing, diverting, or re-prioritising staff to other work.	Relevant staffing is suitably funded and their capacity to attend to the disposal programme is ensured by senior management whilst it is being delivered.
Reduction in receipts owing to a downturn in market conditions/values, or anticipated Special Purchaser value cannot be realised.	Acceleration of the programme so that where anticipated receipts are significantly below expectations, alternative options are considered
Delay in a disposal owing to an unforeseen serious defect with the asset or title such that it cannot be resolved within the plan period.	Acceleration of the programme to bring forward other properties to make up the difference.
Delay in a disposal owing to the re-provision of accommodation for service groups located within assets deemed surplus cannot be delivered within the intended timetable.	Ensuring robust business case and works/decant timetable for the subject property which include adequate contingency periods.

Financial Implications

32. As set out in the body of the report, the Medium Term Financial Strategy incorporates a number of immediate actions in response to the exceptional financial pressures directly arising from Covid19. Accelerating the programmed

review of property disposals, is one of a number of steps being taken to strengthen the Council's financial resilience.

33. The planned disposals will generate a capital receipt for the Council. The capital receipt will be available to fund the Council's Capital programme, thereby reducing the need to borrow. The Government has also granted additional flexibilities on the use of capital receipts.
34. The greater flexibility was introduced in 2016/17. It allows Local Authorities to invest capital receipts in revenue projects of a transformational nature that will deliver ongoing savings. This flexibility exists until 2021/22.
35. The Capital receipts flexibility efficiency statement included in the current approved Medium Term Financial Plan (KD5076) lists projects with a total value of £2.405m, that will be funded from Capital receipts in 2020/21.

Legal Implications

36. Pursuant to S.123 of the Local Government Act 1972 the Council has the power to dispose land in any manner it wishes, subject to certain provisions.
37. The Council has the statutory duty to obtain the best price reasonable subject to certain exemptions.
38. In accordance with the Council's Property Procedure Rules, the inclusion of the property on the disposals programme shall requires approval either by the appropriate Cabinet members, or by Cabinet itself.
39. In accordance with the Council's Property Procedure Rules, given the cumulative value of the land, approval of the disposal will be required from the Council's Director of Resources.
40. All disposals should be made on a competitive basis, unless justified and approved otherwise, as required by the Property Procedure Rules.
41. Contracts for sale will be in a form approved by the Director of Law and Governance.
42. The recommendations contained within this report are within the Council's powers and duties.

Workforce Implications

43. There are no workforce implications.

Property Implications

44. These are contained in the report.

Other Implications

45. None.

Options Considered

46. Do Nothing. This is not an option as property which is vacant will deteriorate. In addition, the Council is incurring significant holding costs in terms of security and outgoings and opportunity cost.
47. Disposal, with all identified properties sold immediately in a single wave without any effort to optimise potential value. Although this will generate a much-needed capital receipt and reduce borrowings/contribute towards reserves and/or the Council's Capital Programme, the sum of the capital receipts will be much reduced from the "fire sale" approach.
48. Disposal, with all identified properties sold in a phased approach so that efforts can be made to maximise potential value. This will optimise sale receipts that will be significantly greater in value than those generated by a "fire sale" approach.

Conclusions

49. It is in the Council's best interests for the identified properties to be disposed in a phased programme to optimise sale receipts.

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Appendix

See separate Confidential (Part 2) Appendix

Background papers

None