



Report for: Cabinet

Date of Meeting: 15 February 2024

Subject: Disposal of a freehold council interest:
Vernon Lodge, 654, Kenton Lane, Harrow,
Middlesex, HA3 7LH

Key Decision: Yes

Responsible Officer: Dipti Patel – Corporate Director Place

Portfolio Holder: Cllr Norman Stevenson - Portfolio Holder for
Business, Employment & Property;
Cllr David Ashton - Portfolio Holder for
Finance & Human Resources.

Exempt: Public with exempt Appendix 1 in that it
contains exempt information by virtue of
Paragraph 3 of Schedule 12A to the Local
Government Act 1972 as it contains
information relating to the financial or
business affairs of the Council

Decision subject to
Call-in: Yes

Wards affected: Belmont

Enclosures: Appendix 1 (exempt)

Section 1 – Summary and Recommendations

- This report recommends the sale of the freehold interest at Vernon Lodge, 654, Kenton Lane, Harrow, Middlesex, HA3 7LH (“the property”)

The property is vacant and has been identified as being surplus to the Council’s service needs. The costs of bringing the property back into use is significant. It is no longer economically viable and there is no alternative use identified at a lesser cost. Following a formal appropriation to the General Fund, the proceeds from the sale of this property will contribute to the capital receipt requirement in the three year Medium Term Financial Strategy (MTFS) and Capital Programme. A full open marketing exercise will be undertaken to ensure best value is achieved and the council complies with its fiduciary duties.

Recommendations:

Cabinet is requested to:

1. Give authority to appropriate the property from the Housing Revenue Account (HRA) to the General Fund (GF), seeking all necessary consents as required.
2. Declare that the property is surplus to the Council’s requirements.
3. Delegate authority to the Corporate Director of Place, following consultation with the Portfolio Holder for Business, Employment & Property, to market the property, negotiate terms and approve the final terms of the disposal, and to enter into the contract and any associated documentation in connection with the disposal, subject to the sale of being on the basis of best consideration reasonably obtainable.
4. Delegate authority to the Corporate Director of Place, following consultation with the Portfolio Holder for Business, Employment & Property, to procure specialist agent or agents to market the property where required.

Reason: The appropriation of the property from the Housing and Revenue Account to the General Fund is recommended as the property is no longer used for housing purposes. Following on from this disposal of the property is recommended as the property is deemed surplus to the Council’s service needs. The sale will reduce the ongoing revenue cost burden as well as providing a capital receipt.

Section 2 – Report

1. Introductory paragraph

- 1.1 The new Corporate Property Strategy (approved at Cabinet in July 2023) provides much needed strategic direction, providing a platform for decision making, both to retain buildings, and when required, to release buildings through a targeted disposal programme. The Council needs to modernise its buildings to ensure they are fit for purpose and energy efficient. We cannot afford to invest in all our buildings and we will need to reduce the size of our estate, ensuring we retain buildings in the right locations, which are efficient to run, to deliver crucial services to residents. To achieve this, we will release costly and inefficient buildings and use the savings and receipts to reduce the burden of our tax payers and invest in our existing estate.
- 1.2 In identifying a first set of potential disposals, priority has been given to:
- Vacant, non-income producing assets
 - Assets which have the potential for more intensive use/redevelopment through the planning system, and therefore the recycling of capital receipts from sales of underperforming assets into existing but better performing assets.

2. Ward Councillors' comments

Ward Councillors are supportive.

3. Options considered

Option 1: Do Nothing.

The property is currently vacant and will continue to deteriorate. In addition, the Council is incurring holding costs in terms of security, outgoings and the opportunity cost.

Option 2: Direct delivery of housing by LB Harrow

This option has been considered but ruled out: The Council is bringing forward new housing through its partnership with Wates Residential via the HSDP. There is no identified funding source or capacity to deliver a medium-sized scheme in this location. Similarly, the Council has no other plans or budget for direct delivery of a school (too small) or other uses at this site.

Option 3: Refurbish and utilise for service delivery

This former hostel was used as emergency accommodation for homeless households which became unsuitable for use during the pandemic and has now been vacant for at least three years. It is in a dilapidated condition and is the subject of frequently fly tipping, graffiti and other anti-social behaviour.

Housing Services have concluded that the location is less suitable for a homeless hostel and a previous planning application to redevelop it for emergency accommodation was withdrawn. The Council has no emergency accommodation within its ownership in Harrow and relies on using privately owned nightly paid accommodation. However, other sites, within the Council's ownership, are better suited for this and are being actively considered.

Option 4: Apply for planning permission for a particular use prior to sale. This has been ruled out because although it would help clarify potential planning issues, it would be resource intensive and generate considerable costs. The Council cannot influence what is to be built as landowner (that is for the planning system) and, moreover, any new owner would not be obliged to carry out the approved scheme and could apply for a new permission.

Option 5: Dispose on the open market

Sell the property on the open market through informal tender, with the benefit of a planning brief which would provide guidance on acceptable potential future uses of the site, as well as the appropriate scale and massing of any development. The Council will procure marketing advice from property agent(s) to ensure the site is sold in the most appropriate way for the market and planning conditions, and type of asset. Following an appropriation of the property from the Housing Revenue Account to the General Fund, the proceeds from the sale will contribute to the capital receipt identified in the MTFs for 24/25. Proceeding with this option will form a vital part of the future capital investment in the borough including reinvesting the capital proceeds in new, fit for purpose accommodation. This is considered the most cost-effective approach and is the recommended option. The agents will provide their view of the selling price, and as the campaign will be open and widely targeted, so there is no practical need to undertake a valuation prior because the bids will demonstrate the market value of the property. Overage will be included in the marketing particulars to ensure the Council has the benefit of potential future uplift in values.

Whilst Option 5 is recommended, this is on the basis that a sale represents the best consideration reasonably obtainable.

4. Risks

Risks included on corporate or directorate risk register? **No**

Separate risk register in place? **No**

The relevant risks contained in the register are attached/summarised below.
Yes

The following key risks should be taken into account when agreeing the recommendations in this report:

Risk Description	Mitigations	RAG Status
If the recommendation(s) of the report are not agreed, anticipated revenue savings and capital receipts (to be re-invested in the Council's estate) that are identified for the MTFS for 24/25 would not materialise	<ul style="list-style-type: none"> ▪ Agreement to the report's proposed recommendation(s) will mitigate this risk 	GREEN
Sale will not complete due to proposed buyer failing to proceed with the purchase.	<ul style="list-style-type: none"> ▪ Undertaking due diligence on the buyer prior to seeking authority to dispose and ensuring that provisional Heads of Terms are agreed. ▪ Maintaining competitive tension throughout and/or securing buyer 'tie-in' through non-refundable deposits etc. 	AMBER
Reduction in receipts owing to a downturn in market conditions/values	<ul style="list-style-type: none"> ▪ Acceleration of the programme so that where anticipated receipts are significantly below expectations, alternative options are considered 	AMBER
Delay in a disposal owing to an unforeseen serious defect with the asset or title such that it cannot be resolved within the financial period.	<ul style="list-style-type: none"> ▪ Commence pre-marketing due-diligence, including legal searches as soon as possible. 	AMBER

5. Procurement Implications

5.1 The disposal programme will largely be delivered by existing Council resources in Corporate Estates, 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. Any external property consultants will be procured in accordance with the Council's Contract Procedure Rules.

6. Legal Implications

6.1 In contemplation of the Council's ability to appropriate the property from the Housing Revenue Account (where it is currently held) to the General Fund, the Council has the power to do this pursuant to section 122 Local

Government Act 1972 (“Section 122”). Section 122 states that a Council may appropriate for any purpose for which the Council is authorised, any land which belongs to the Council and is no longer required for the purpose for which it is held immediately before the appropriation, subject to the requirement to obtain Secretary of State consent (if required). As the property is no longer considered appropriate for housing purposes, the Council may exercise its power under section 122 Local Government Act 1972.

With regard to subsequent disposal of the property, pursuant to Section 123 of the Local Government Act 1972 the Council has the power to dispose of land in any manner it wishes, subject to certain provisions. The Council has the statutory duty to obtain the best price reasonably obtainable subject to certain exemptions.

6.2 When considering the duty under section 123, what is reasonably obtainable in any particular case depends entirely on the facts of the transaction. Case law has determined that whilst there is no absolute requirement to market the land or obtain an independent valuation, if valuation evidence is obtained, it should be up to date and that there should not have been any material and significant changes in circumstances since it was obtained. In addition, obtaining proper professional advice throughout the process on how to maximise its receipts is a material consideration and the Council should limit itself to taking account of those elements of a transaction which are of commercial or monetary value and should disregard irrelevant factors such as “job creation” when assessing whether it is obtaining the best consideration reasonably obtainable. The deliverability or credibility of a bid are commercial factors which are relevant to an assessment.

6.3 A report on title will be commissioned to ascertain whether there are any impediments to the disposal of the asset.

6.4 If it is intended for the property to be developed and the Council disposes of the freehold, it will no longer have control over its use as land owner. Any future development will be subject to planning permission, as required. An overage clause would likely be appropriate in the sale contract. Overage is a means by which a seller can receive additional funds after the sale has been completed if an agreed event takes place, for instance the value of the property increases within a set period of time.

7. Financial Implications

7.1 The appropriation of a housing asset from the HRA to the general funds would require the debt financing costs to be transferred as well. Vernon lodge hostel debt financing costs have always been charged to the general fund and the property has never been included within the Councils HRA stock records. This means there are no debt financing charges to be transferred to the general fund. The HRA land the hostel resides on will also be transferred to the general fund.

The MTFS assumes revenue savings from the application of capital receipts to fund the Capital Programme as well as transformational costs under Capital Receipts Flexibility Scheme. These are summarised in the table below.

	2023/24	2024/25	2025/26
	£'000	£'000	£'000
Applying capital receipts to fund the Capital Programme	-1,700	-1,300	-1,300
Capital Receipts Flexibilities	-1,250	0	1,250

7.2 The Council is currently holding a number of accrued capital receipts (£4.5m) and will receive a further sum estimated at £15.4m from the sale of properties at Leefe Robinson Mews (formerly known as Haslam House) and Pinnora Mews (formerly known as Waxwell Lane Car Park) together with the potential proceeds from the two approved disposals pursuant to the July 2023 Cabinet decision. The capital receipts in hand and those due will be used to fund short life assets in the Capital Programme and will realise revenue savings against the capital financing budget over the three years of the MTFS.

7.3 In 2016 the government announced the Capital Receipts Flexibility Scheme to support local authorities to deliver more efficient and sustainable services by allowing them to spend up to 100% of their fixed assets receipts on the revenue costs of reform projects. The flexibility has been extended on numerous occasions and is currently in place until 31 March 2025.

7.4 The 2024/25 Budget and MTFS to 2026/27 assumes that the cost of Regeneration Team of £1.250m is funded under the Scheme for both 2024/25 and 2025/26, because the nature of this spend meets the capital flexibility criteria. This sum is re-instated in 2026/27.. Therefore, the first call on the capital receipts generated through this report will be used to support this.

7.5 The property is currently vacant, so there is no loss of rental income from the disposal. The proposed disposal will also reduce the on-going revenue cost burden in General Fund including security costs. Since 2020, the Facilities Management team has spent £26k on maintaining and securing the building.

8. Equalities implications / Public Sector Equality Duty

8.1 The property will be openly marketed. All opportunities to promote equality are addressed through an open marketing process (e.g. signboards, information on the LB Harrow website, agents' websites etc). Moreover, the proceeds will be reinvested in the Council's capital programme which includes programmes and schemes which will improve the prospects for people across the Borough. Whilst the site was historically used for specific service users, the property is not considered suitable for continued use and it is considered that it would be better both financially and practicable to sell the asset and invest in other buildings or uses.

9. Council Priorities

A place where those in need are supported

Sales receipts will contribute to our capital programme which will help create better spaces for our most vulnerable residents.

Section 3 - Statutory Officer Clearance

Statutory Officer: Sharon Daniels

Signed by the Interim Chief Financial Officer

Date: 12 January 2024

Statutory Officer: Amanpreet Lally

Signed on behalf of the Monitoring Officer

Date: 12 January 2024

Chief Officer: Dipti Patel

Signed by the Corporate Director

Date: 13 January 2024

Head of Procurement: Nimesh Mehta

Signed by the Head of Procurement

Date: 12 January 2024

Head of Internal Audit: Neale Burns

Signed on behalf of the Interim Head of Internal Audit

Date: 12 January 2024

Has the Portfolio Holder(s) been consulted? Yes

Mandatory Checks

Ward Councillors notified: Yes

EqIA carried out: No

As the property will be openly marketed, this minimises any potential for discrimination or negative impact and all opportunities to promote equality are addressed through an open marketing process (e.g. signboards, information on the website, agents etc.).

Section 4 - Contact Details and Background Papers

Contact: Sophie Linton, Estates Manager,
Sophie.linton@harrow.gov.uk

Background Papers: none

Call-in waived by the Chair of Overview and Scrutiny Committee

No