

<b>Report to:</b>	Strategy and Resources Committee	<b>Date:</b>	1 April 2019
<b>Report title:</b>	The Grove and The Old Rectory, Carshalton		
<b>Report from:</b>	Richard Simpson, Strategic Director of Resources		
<b>Ward/Areas affected:</b>	Carshalton Central		
<b>Chair of Committee/Lead Member:</b>	Councillor Ruth Dombey, Leader of the Council Councillor Sunita Gordon, Lead Member for Resources		
<b>Author(s)/Contact Number(s):</b>	Christopher Rhodes, Head of Asset Management 020 8770 6148		
<b>Corporate Plan Priorities:</b>	<ul style="list-style-type: none"> <li>• Being Active Citizens</li> <li>• Smarter Ways of Working</li> </ul>		
<b>Open/Exempt:</b>	Exempt appendix under Paragraph 3, Schedule 12A, Local Government Act 1972		
<b>Signed:</b>		<b>Date:</b>	19 March 2019

## 1. Summary

- 1.1 This report on two of the principal heritage buildings of Carshalton sets out the latest progress and recommendations in relation to the Old Rectory and the proposed strategy for The Grove now it is no longer in use by the Council.

## 2. Recommendations

The Strategy and Resources Committee is recommended to:

- 2.1 Note the revised costs associated with the repair of the Old Rectory and its enhanced conservation status;
- 2.2 Agree the grant of a long lease of the Old Rectory to Sutton Living Limited (SLL) for residential use only, by conversion to apartments for letting, subject to planning and Listed Building consent;
- 2.3 Agree the grant of a long lease of The Grove to Sutton Living Limited (SLL) for conversion to apartments for letting, subject to planning consent;
- 2.4 Note that the Assistant Director (Asset Planning, Management and Capital Delivery) will agree terms and take all steps necessary to effect the above recommendations, including arranging

for the sale price agreed with Sutton Living to be reviewed and certified by an independent firm of chartered surveyors;

- 2.5 Note that the Assistant Director (Asset Planning, Management and Capital Delivery) will carry out marketing, negotiate and agree long leasehold transfers of either or both properties to an alternative purchaser competent to deliver an appropriate scheme should it not be possible to secure a viable outcome through Sutton Living Limited; and
- 2.6 Note that leasehold transfers of either or both properties which restricts their use to rented apartments only impacts upon their values and that transfer to Sutton Living enables the provision of additional rented housing, ensures the retention of the Council's freeholds and enables a more effective control of the buildings. Committee is consequently requested to agree that either or both properties are transferred at less than the best consideration reasonably obtainable if necessary to effect the above recommendations.

### **3. Background**

#### The Grove

- 3.1 The Grove is a large former dwelling house built around 1840 and locally listed. Previous occupants include the Rector of Carshalton, who laid out the grounds forming the centre of what is now Grove Park. In 1924 the house and grounds were acquired by the then Carshalton Urban District Council. The Grove became the UDC headquarters and its grounds became Grove Park.
- 3.2 Carshalton UDC was merged into the London Borough of Sutton in 1965 and plans began to be formulated for the current Civic Centre. The Grove continued to be used as a satellite Council office. This has now ceased as part of workspace rationalisation and it is necessary to find an alternative use.

#### The Old Rectory

- 3.3 Reports on the Old Rectory have been presented to Committee on several previous occasions. Most recently Strategy and Resources Committee in October 2016 authorised transfer to SLL for a mixed use scheme consisting of four residential apartments and a unit for commercial letting.
- 3.4 Since that time, SLL has struggled to secure a financially viable scheme in light of increasing build costs and, most recently, the change in the building's listed status from Grade II to Grade II\*. This is a considerably higher level of protection and afforded to less than 10% of the country's listed buildings. It means a greater level of scrutiny of any development proposals, and with that, higher risk and expenditure for a developer.
- 3.5 Costs were estimated at around £550K in mid-2016 but that amount has now increased to just over £1m taking into account relevant factors such as the listing. The approach has been to reserve this property for letting rather than sale and thereby retain ownership and control. SLL

reports that viability, which has always been marginal for letting rather than sales, is compromised still further by the increased listing protection and the requirement to provide a unit for non-residential use. SLL was not able to commit to continue with the project on that basis.

#### **4. Issues**

##### The Grove

- 4.1 The major factor is the position of this building within Grove Park, which was once its garden. Its use as an office has worked relatively well as the whole area was under the Council's direct occupation and control. Inevitably this cannot continue to be the case, as the Council withdraws from office accommodation which is no longer suitable. Issues include vehicle traffic, security, access out of hours, maintenance and external space for any future uses of The Grove.
- 4.2 Vehicle traffic has long been prohibited in the Park except for essential maintenance, deliveries and emergency vehicles. It is felt that this must continue in order to maintain the Park amenity for its users. Car parking is available very close to The Grove in the pay and display area accessed from Carshalton High Street. Future occupiers of the building would be able to use this car park.
- 4.3 Security of the Park is currently maintained by closure and locking of gates at dusk although the boundary is not impenetrable. These opening hours would be likely to be insufficient for any commercial or residential use of The Grove. In practical terms it is difficult to prohibit all access out of hours especially with other buildings within or adjoining the Park having different uses. A solution would be to set out in lease terms that occupiers must abide by Park regulations including a ban on accessing areas other than those immediately adjacent to the building except in line with regulations set by the Council from time to time.
- 4.4 Currently the identified boundary of the Park extends to the walls of the building. Public access and maintenance follow suit. A small area of defensible external space would be desirable for security and privacy. It is hoped to define part of the surrounding hard landscaped area and flower beds as private to the property. This would be subject to further detailed proposals but has already been flagged with the Friends of Grove Park along with the proposals for a change of use.
- 4.5 The building contains many period features and unusually for an office conversion the original layout has to a large extent been retained, with further subdivision in some cases. A significant number of original fireplaces remain and these together with other architectural features would be desirable for some types of future use.
- 4.6 The original drawing room was repurposed by Carshalton UDC to be its Council chamber and lost its fireplace at that time to the installation of wall panelling. The CUDC honours board is fixed to the panelling and it is proposed to remove this for retention as a Civic artefact. The panelling itself is understood to be a post-WW2 installation and as such not consistent with the

original features of a century earlier. At the same time the CUDC history is part of the borough's own heritage.

- 4.7 The Grove is subject to a number of planning constraints in addition to being locally listed. These include the Carshalton conservation area and the historic park/garden in which the property stands which is also classified as Metropolitan Open Land and a Site of Importance for Nature Conservation. It is recommended that any proposals including a change of use be conditional upon planning consent.
- 4.8 A wide range of future uses for the property have been considered. These included continued office use, alternative commercial uses, leisure or community uses and a return to the building's original residential use. For residential use it would be necessary to divide the building into apartments because of the lack of demand for single family homes of this size.
- 4.9 Analysis was undertaken using the Building Utilisation Implementation Board protocol, previously adopted by Committee for such cases. The Board considered the full analysis and the two best options in overall terms were retention for letting and conversion back to residential use.
- 4.10 Letting would require the identification of a tenant or tenants and it was not possible to be confident in achieving this given the location and layout of the building. The cellular layout is not suitable for modern commercial use except for a large number of small businesses. That would require a time- and cost-intensive management regime with no guarantee of demand. Demand for a hotel could not be identified.
- 4.11 A feasibility for remodeling the building into dwellings suggest that conversion into apartments is possible. Kitchens and bathrooms would obviously be required and the building has some of this servicing already with WC and kitchen facilities.
- 4.12 Sutton Living Ltd is keen to explore the potential to carry out a conversion of the property to residential use. The advantage of this to the Council would be retained control and ownership not only of the freehold but, through SLL, also the leasehold subject to SLL's future plans. In the foreseeable future this is the only satisfactory way to ensure that the leasehold will not be subject to enfranchisement, with further loss of control by the Council. It is proposed that SLL carry out such a scheme for letting only rather than sale, and thereby contribute to the mix of housing tenures locally available.
- 4.13 It is recommended that should SLL not be able to carry out a viable scheme, an alternative be secured through marketing the building to developers. This would need to include an assessment of their capacity to obtain planning consent and carry out a suitable conversion.
- 4.14 There is a significant risk that the lease of the building or areas within it could be enfranchised in the future. This would mean extensions of any lease or, if a qualifying number of the lessees were to act together, the compulsory sale of the freehold. Control over the building would be lost except by whatever measures could be imposed in a freehold transfer. The ability to require occupiers to abide by park byelaws would also be diminished.

- 4.15 Given the constraints on market value arising from the letting model, and potentially from other factors such as conditions in a lease, it is recommended that Committee pre-emptively approve a long leasehold transfer at less than the best consideration reasonably obtainable. This is related to the Council's statutory duty under the Local Government Act 1972 s123 and the discretion allowed to local authorities to sell or lease assets for a sum below the market value by up to £2m. The estimated market value of the property is reported in exempt Appendix B.
- 4.16 A value of the lease for the property is yet to be agreed with Sutton Living. Arrangements will be made for the lease value to be independently reviewed and certified by a firm of chartered surveyors.
- 4.17 The former outbuildings known as The Nest and The Annexe will remain in operational use for the foreseeable future and be excluded from any disposal. It is felt that they would not add significantly to the attraction of the property to a developer. Services and utilities will need to be separated.

#### The Old Rectory

- 4.18 The original proposal was for mixed residential and commercial use and this was felt to improve protection from enfranchisement. SLL were required to refurbish part of the building for commercial use and hand it back to the Council for letting.
- 4.19 The unit for letting was therefore a cost pressure on the SLL scheme without producing revenue for the company as the income from letting would accrue directly to the Council. This was considered to be viable at the time of the last Committee report but increased costs meant that SLL had to re-think their approach.
- 4.20 An additional cost pressure for SLL is the requirement for residential property to let rather than for sale. This was, and is, considered important in order to influence the future of the building as well as contributing to the mix of tenure offers in the locality. However the overall returns from letting in current market conditions are less than those from sales.
- 4.21 The cost of refurbishing and converting the Old Rectory was estimated in 2016 at around £550,000. An alternative proposal by Carshalton Old Rectory Association (CORA) had been costed by them at circa £150,000. A period of rising build costs then followed and SLL was unable to be satisfied that a conversion of sufficient quality could still be carried out for the original estimate.
- 4.22 Historic England in late 2018 confirmed a change in the Old Rectory's listed status from Grade II to Grade II\*. This puts the building in the top 10% of heritage properties nationally and in the same protection category as Lumley Chapel, All Saints Carshalton, All Saints Benhilton and Whitehall, Cheam in the borough. The increased level of listing was due to Historic England inspecting the interior, which they had not previously done; the former Grade II status was based on an external inspection only.

- 4.23 Internally the Council had already undertaken a detailed conservation study which was the basis of the scheme proposed in 2016. This highlighted the most significant features of each room in a similar way to the new list entry by Historic England. It was never intended to carry out a wholesale removal of historic internal fittings. Thus the overall impact of the listing is hoped not to make too great a difference to the conversion, although the level of protection and scrutiny applied to a building of such importance will be higher.
- 4.24 SLL have obtained detailed costings by specialists of the cost of converting the property in light of the latest conservation constraints and prices. This is now estimated at just over £1m in total. SLL is prepared to proceed on this basis, but because of the restriction to managed residential lettings only, the long term returns do not enable them to pay a premium initially or carry the cost of providing the commercial unit for letting. External review of the transfer price will be obtained in order to certify the position.
- 4.25 Retention of the property by SLL by way of a long lease with the freehold remaining in Council ownership would give the highest available level of control and protection of the building while enabling profits and returns ultimately to come back to the Council through its 100% ownership of SLL. There is a risk that economic factors in the near future would have a negative impact on both the property market and build costs, for instance the availability of materials and labour. The scheme could still potentially prove not to be viable for SLL.
- 4.26 In case it should not be possible to proceed with SLL, Committee is recommended to approve transfer of the Old Rectory to an alternative developer or investor taking account of their ability to deliver a suitable scheme. Such a transfer would be by way of a long lease but there would be a risk of enfranchisement in the future. This would mean extensions of any lease or, if all the lessees were to act together, the compulsory sale of the freehold. Control over the building would be lost except by whatever measures could be imposed in a freehold transfer.
- 4.27 Given the constraints on market value arising from the letting model, and potentially from other factors such as conditions in a lease, it is recommended that Committee pre-emptively approve a long leasehold transfer at less than the best consideration reasonably obtainable. This is related to the Council's statutory duty under the Local Government Act 1972 s123 and the discretion allowed to local authorities to dispose of assets for a sum below the market value by up to £2m. The estimated market value of the property is reported in exempt Appendix B.
- 4.28 The Old Rectory has continued to be occupied throughout recent times but not all parts of the building are in use and deterioration is inevitable if a permanent solution cannot be found. A range of potential outcomes is therefore proposed in order to enable the future preservation of this heritage building. A recent meeting with representatives of Carshalton Old Rectory Association to discuss options for the building has reiterated its importance in and to the community.

## **5. Options Considered**

### The Grove

- 5.1 The BUIB process considered options which are set out above. These included long leasehold transfer, retention for letting, retention for use by the Council as well as a do-nothing option.
- 5.2 The preferred options from this process were retention for commercial letting and long leasehold transfer. It was not possible to identify a viable means of retention for commercial letting and transfer to the private sector would put the property at risk from enfranchisement and resulting loss of control.
- 5.3 Transfer of the building to Sutton Living is therefore considered the best option overall and letting rather than sale of units will enable control of the property, future profits through SLL and a beneficial impact on the mix of residential tenures available locally.
- 5.4 Doing nothing would leave the Council liable for the running costs for the building without a viable use. It is felt that the qualities and location of the property lend themselves very well to residential use and that an apartment in a suitable conversion of The Grove would be highly marketable.

#### The Old Rectory

- 5.5 It has regrettably not been possible to pursue the original Committee resolution due to changing economic drivers and external factors outside the Council's control such as the revised listing. This is despite considerable efforts over two years to proceed on that basis. It is now necessary to choose an alternative or risk a further period during which the fabric of the building would deteriorate.
- 5.6 Transfer to a purchaser other than SLL would carry the risk of enfranchisement and the property falling outside the Council's ownership. While this would potentially be acceptable if it were the only way to preserve the building, it is not the preferred solution.
- 5.7 Continuing to insist on a commercial unit has proved unacceptable to SLL because the refurbishment costs are a drain on their cash flow for the project but without any return. This has been magnified by the recent increase in costs generally.

## **6. Impacts and Implications**

### Financial

- 6.1 The report is requesting for the grant of a long lease to Sutton Living Limited (SLL), the Council's wholly owned private development company, for conversion of both Old Rectory and The Grove to apartments for letting, subject to planning and Listed Building consent.
- 6.2 The Old Rectory's listed status has changed recently from Grade II to Grade II\* and this extra level of protection comes with higher risk and expenditure for a developer.

- 6.3 As a result of paragraph 6.2, SLL are proposing that the transfer be made at nil cost to them in order for the conversion proposal to be viable. This proposal if approved would therefore result in the loss of estimated capital receipts from the outright disposal of The Grove and Old Rectory respectively.
- 6.4 If the assets were sold to a private developer, the estimated capital receipts to the Council is shown in the exempt Appendix. However, this comes with the loss of freehold and capital appreciation which the transfer to SLL in the form of a long lease offers.

#### Legal

- 6.6 The Council has a general power to dispose of land under section 120 of the Local Government Act 1972 for any of its functions; or for the benefit, improvement or development of the Council's area.
- 6.7 S.123 of the Local Government Act 1972 provides that except with the consent of the Secretary of State, a local authority shall not dispose of land (otherwise than by way of a short tenancy being a tenancy not exceeding seven years) at less than the best consideration that can be reasonably obtained.
- 6.8 Under the Local Government Act 1972: General Disposal Consent (England) 2003, local authorities are given general consent to dispose of land (otherwise than by way of a short tenancy) where (a) the local authority considers that the purpose for which the land is to be disposed will help it to secure the promotion or improvement of the economic, social or environmental well-being of its area and (b) the difference between the unrestricted value of the interest to be disposed of and the consideration accepted (the undervalue) is £2,000,000 or less.
- 6.9 Consideration must be given as to whether there is any risk to the Council in relation to state aid. The requirements for state aid to apply are set out in S.107(1) of the Treaty of the Functioning of the European Union. The criteria for state aid is that there is aid provided by the state to certain undertakings that has the effect of creating a selective advantage that distorts or has the potential to distort competition or trade within the EU.
- 6.10 Under S123(2A) Local Government Act 1972 the council may not dispose of any land consisting or forming part of an open space unless before disposing of the land they give notice of their intention to dispose, specifying the land in question, to be advertised for two consecutive weeks in a newspaper circulating in the area in which the land is situated, and consider any objections to the proposed disposal which may be made to them.

**7. Appendices and Background Documents**

<b>Appendix letter</b>	<b>Title</b>
A	Plans
B	Exempt appendix

<b>Background documents</b>
None

<b>Audit Trail</b>		
Version	Final	14 March 2019
<b>Consultation with other officers</b>		
Finance	Yes	Jide Fawunmi
Legal	Yes	Lucy Mickleburgh
Head of Parks	Yes	Mark Dalzell
Equality Impact Assessment required?	No	N/A

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