

Decision maker Cabinet	DATE: 17 March 2021	ITEM NO 8
TITLE Process to administer the second sale of Discount Market Sale properties	WARD(S) Eltham West Woolwich Riverside	
CHIEF OFFICER Director - Regeneration, Enterprise & Skills	CABINET MEMBER Housing	
LEAD OFFICER: Assistant Director of Regeneration	IS THE FINAL DECISION ON THE RECOMMENDATIONS IN THIS REPORT TO BE MADE AT THIS TIME? Yes	
DECISION CLASSIFICATION Non-Key		

1. **Decision required**

Cabinet is requested to:

- 1.1 Agree in principle to the disposal of the Council's equity in Discount Market Sale (DMS) properties at Kidbrooke and Royal Arsenal Riverside at the point of second sale, based on the strategic financial assessment at Appendix 1.
- 1.2 Agree to delegate to the Director of Regeneration Enterprise and Skills authority to agree individual terms of second sales of all discounted market sale properties within those developments.
- 1.3 Approve the process to administer the second sale of discounted market sale properties at the Berkeley Homes developments at Kidbrooke and Royal Arsenal Riverside, as set out in Appendix 2.

2. **Links to the Royal Greenwich high level objectives**

- 2.1 This report relates to the Council's agreed high-level objectives as follows:
 - Delivering homes through economic growth

The report recommends that Cabinet agree a process for disposal for second sale of one and two bedroom discounted market sales properties in Kidbrooke and Royal Arsenal Riverside on the basis of a strategic financial assessment at Appendix 1

- A strong, vibrant and well-run Borough

The report recommends that the strategic financial assessment provide the basis for an in principle decision to dispose of all DMS properties at the point of second sale, as they do not represent the best use of Council funds.

3. **Purpose of Report and Executive Summary**

- 3.1 The Royal Borough of Greenwich is committed to delivering, managing, maintaining and increasing the supply of quality affordable housing for residents of the Royal Borough. The strategic financial assessment at Appendix 1 shows that purchase of the DMS properties at the point of second sale yields a negative NPV over a 30-year period if the properties were purchased to provide general needs housing stock in the HRA. It would, therefore, be more cost effective to dispose of the Council's equity. Housing and Safer Communities support an in-principle decision to dispose of the DMS properties at the point of second sale. The strategic financial assessment provides the basis for the proposed disposals process at Appendix 2.
- 3.2 The report sets out a process for the disposal of RBG equity in discounted market sales properties in Kidbrooke and Royal Arsenal Riverside. Current market values of one and two bedroom flats vary from £360,000 to £530,000, and the Council's equity share would therefore range from £72,000 to £159,000 in relation to current values. Of the existing total of 64 discounted market sale properties across the two developments there have been two second sales at Kidbrooke and four second sales at Royal Arsenal Riverside (although only two of these have proceeded through to completion). Since the properties are studio, one and two bedroom flats aimed at first time buyers, it is expected that the majority of the properties will be put on the market for a second sale within five to ten years. Cabinet is asked to approve the proposed disposal process at Appendix 2 and authorise the Director of Regeneration, Employment and Skills to agree individual second sales of all discounted market sales properties in Kidbrooke and Royal Arsenal Riverside.

4. **Introduction and Background**

- 4.1 Part of the affordable housing provision at Royal Arsenal and Kidbrooke Village, includes a portion of homes which are sold at a discount from their market value. These properties are known as discount market sale (DMS) properties.
- 4.2 To date 40 properties have been sold under this initiative at Royal Arsenal, and 24 at Kidbrooke Village. There will be further DMS properties built in future phases of the two developments. The properties are marketed by Berkeley Homes, and are mainly studio and one bed flats, with some two bedroom flats.
- 4.3 The properties at Kidbrooke Village are sold with a 30% market discount, and are sold at Royal Arsenal with a 20% market discount.
- 4.4 The requirements and processes which apply to the sale of the DMS properties, including upon subsequent disposals are set out in the consolidated Section 106 Agreement for the Kidbrooke development, which was made between (1) the Council, (2) Berkeley Homes (East Thames Ltd) and (3) Berkeley Homes PLC, and dated 18th December 2019; and the Section 106 Agreement for Royal Arsenal Riverside between (1) the Council, (2) Berkeley Fifty-Five Ltd and (3) Berkeley Homes (East Thames) Ltd dated 19th June 2013 (“the S106 Agreements”).
- 4.5 The strategic financial assessment at Appendix I shows a negative Net Present Value (the discounting of all expenditure and income to show the true cost of an investment decision) over 30 years if RBG purchased the remaining equity in the DMS properties and retained them as part of the Council’s housing stock, as follows:

Development	Bed Size	HRA Stock NPV
RA	1 bed	-£142,423.00
RA	2 bed	-£191,699.00
KV	1 bed	-£107,841.00
KV	2 bed	-£179,171.00

- 4.6 The Council’s Scheme of Delegation requires Cabinet approval to the sale of land and property assets above £100,000, where not in the disposals programme. Current market values mean that the Council’s 30% equity in a two bedroom property in Kidbrooke is worth £159,000, and Cabinet would need to authorise the disposal of the Council’s equity on an individual basis. However, Housing and Safer Communities have advised that they support the disposal of the Council’s equity in all Kidbrooke and Royal Arsenal Riverside

DMS properties on the basis of the strategic financial assessment at Appendix I. This report therefore recommends that Cabinet delegate to the Director of Regeneration, Enterprise and Skills the authority to agree disposal terms of individual DMS properties.

- 4.7 Appendix 2 sets out a proposed process for the disposal of the Council's interest in discounted market sales properties in Kidbrooke and Royal Arsenal Riverside.

5. **Available Options**

- 5.1 Option 1: Reject the strategic financial assessment and the draft process to administer the second sale of the DMS properties.
- 5.2 Option 2: Amend the strategic financial assessment and draft process to administer the second sale of the DMS properties.
- 5.3 Option 3: Approve the strategic financial assessment and draft process to administer the second sale of the DMS properties.

6. **Preferred Option**

- 6.1 Option 3 is the preferred option. Approving the proposed disposal process will enable the Council to fulfil its legal obligations to administer the second sales of the discounted market sale properties in the most efficient way.

7. **Reasons for Recommendations**

- 7.1 It is important that RBG fulfils its legal obligations to administer the second sales of all DMS properties in an efficient way.

8. **Consultation Results**

- 8.1 A letter was sent to all the DMS owners at Kidbrooke Village in 2019, to advise them of the staff contact details regarding any sale of their property, and with an outline of the obligations which both parties have to follow under the relevant Section 106 Agreement.

9. **Next Steps: Communication and Implementation of the Decision**

- 9.1 The Housing New Supply Team will work with Legal Services, Finance and Valuations and Estates to implement the process effectively and ensure that the appropriate governance procedures are adhered to.
- 9.2 A letter and explanatory leaflet will be sent to all DMS owners at Kidbrooke and Royal Arsenal Riverside to advise them of the Council's decision and of the disposals process.

10. **Cross-Cutting Issues and Implications**

Issue	Implications	Sign-off
Legal including Human Rights Act	<p>The Council may dispose of an interest in land and property in any manner it wishes provided best consideration is obtained. If any disposal of an interest of more than 7 years is made at an undervalue then the consent of the Secretary of State will be required, unless the disposal falls within a general disposal consent. It is proposed to dispose of the properties at market value which would be best consideration.</p> <p>Either the Leader of the Council, or the Cabinet, may delegate authority to the Director of Regeneration Enterprise or Skills to make the disposals under section 9E Local Government Act 2000.</p>	<p><i>Sangita Arya</i> <i>Assistant Head of Legal Services, (Property and Regeneration)</i> <i>15th February 2021</i></p>
Finance and other resources including procurement implications	<p>Cabinet are requested to agree to the in principle disposal of the Council's equity in a number of Discount Market Sale properties at Kidbrooke Village and Royal Arsenal Riverside, at the point of second sale, and to delegate the agreement of individual terms to the Director of Regeneration, Enterprise and Skills.</p> <p>The strategic financial assessment at Appendix I demonstrates that these properties, if purchased within the Housing Revenue Account as general needs stock, would provide a negative NPV and would require a significant HRA subsidy to make</p>	<p>Jason Coniam, Accountancy Business Change Manager, 9th February 2021</p>

	<p>them financially viable. Thus, the decision requested appears to demonstrate best value to the Council.</p> <p>The Council has a legal requirement under Section 123 of the Local Government Act to ensure best consideration when undertaking disposals, it is therefore essential the calculation of market value on a DMS unit is robust. The process provided at appendix 2 provides a strong procedure to ensure this is achieved.</p> <p>As capital receipts are realised following a second sale, these receipts will be used to undertake a voluntary repayment of debt in line with the receipts policy agreed as part of the Corporate Capital Strategy, as required.</p>	
Housing and Safer Communities	Housing considered whether these properties would be suitable for use as Temporary Accommodation. Although there is a significant need for properties within the borough it was the view that the service charge arrangements would complicate the use of these properties.	Richard Parkin Assistant Director of Housing Services 2/2/21
Valuation & Estates	Valuation & Estates will review the third party valuation reports provided to RBG by DMS prospective sellers and will advise the DRES Housing New Supply Team if the proposed figures are considered to represent best consideration (i.e. market value).	Simon Marsh Manager (Valuations and Estates) 3/2/21
Equalities	The decisions recommended through this paper have a remote or low relevance to the substance of the Equality Act. There is no apparent equality impact on end users.	Fran Toomey Interim Housing New Supply Manager 1/2/21

11. The following documents are to be published with and form part of the report:

Appendix 1: Strategic financial assessment

Appendix 2: Process for disposing of the Council's interest in the second sale of discount market sale properties at Kidbrooke and Royal Arsenal Riverside

12. **Background Papers**

- 12.1 Consolidated Section 106 Agreement for the Kidbrooke development between (1) the Council, (2) Berkeley Homes (East Thames Ltd) and (3) Berkeley Homes PLC, and dated 18th December 2019
Section 106 Agreement for Royal Arsenal Riverside between (1) the Council, (2) Berkeley Fifty-Five Ltd and (3) Berkeley Homes (East Thames) Ltd dated 19th June 2013

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