



Acquisition of the former Crown Public House Middlesbrough Council

For: Chief Executive

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Introduction and scope

- 1 The former Crown public house on Linthorpe Road, Middlesbrough is a heritage asset which was originally built in 1923. It has remained empty since the last business closed in 2015. Since then, it has changed ownership and its condition has deteriorated significantly. The property is now in a derelict state.
- 2 On 24 January 2023, the Council's Executive was asked to approve the purchase of the freehold interest in the property for £750k¹. The report to the Executive stated that the immediate priority was to 'ensure the control and protection of a locally important asset'. The report also stated that once the purchase was completed, a business case would be developed to restore and convert the building, to a commercially viable use.
- 3 The Executive approved the recommendation to purchase the property and the purchase was subsequently completed on 10 February 2023. Since that date, the full extent of the dilapidations has become apparent. The restoration and development costs are likely to be significant. No business case has ever been produced as required by the report to Executive.
- 4 The Council's current Chief Executive therefore requested an urgent review by internal audit of the process followed to acquire the property.

Scope and objectives

- 5 The purpose of this audit was to undertake a fact-finding review to establish the process followed to acquire the property and, if possible, the reasons why the risks relating to the condition of the property were not identified and mitigated. The scope of the audit was to establish:
 - a full chronology of events to the present day
 - the rationale for the acquisition
 - the manner in which the valuation was agreed
 - the basis of determining the present condition of the building and future liabilities
 - any legal matters arising or outstanding
 - the actions of officers and members in the acquisition process
 - the comprehensiveness of the business case against the 'Green Book' norm and whether it set out what the objectives were (for example future commercial viability)
 - the extent to which council policies and governance were or were not followed in the acquisition process

¹ The Executive report states the cost of purchasing the freehold interest was provisionally agreed at £750k plus £27k for stamp duty land tax and approximately £10k for professional fees.

- the impact of the site now being within the Mayoral Development Corporation boundary
 - any lessons learned
- 6 The work undertaken included discussions with, and the review of documentation provided by, officers involved in the acquisition process. These included:
- Director of Regeneration and Culture
 - Head of Valuation & Estates
 - Principal Valuer
 - Head of Legal Services - Places (Deputy Monitoring Officer)
 - Commercial Property Solicitor
 - Head of Economic Growth & Infrastructure
 - Finance Business Partner
 - Democratic & Registration Manager
 - the former Chief Executive
- 7 This report provides a summary of the findings from the review.

Findings

Background

- 8 The former Crown public house is a prominent building in Middlesbrough's town centre and is well known to residents through its previous uses as a cinema, bingo hall and nightclub. The property is located at the junction of Borough and Linthorpe Roads, close to the town centre. It was originally built in 1923 but has been vacant since 2015.
- 9 The Crown public house is included in Middlesbrough's local list of buildings, structures, parks, gardens and open spaces of special architectural or historic interest². To prevent the building being demolished, the Council issued a Town and Country Planning (General Permitted Development) Order in May 2015. Since it was vacated, ownership of the property has changed hands. It was acquired by Land Investments Limited (a company registered in Hong Kong) in January 2016. The parent company of Land Investments Limited is registered in the British Virgin Islands.

Timeline

- 10 Following Andy Preston's election as Mayor in May 2019, the need to regenerate the town centre was identified as a corporate priority in successive versions of the Council's Strategic Plan³.
- 11 A report to the Executive on 16 June 2020, set out the intention to address the problem of eyesore sites and buildings within the town. It sought approval to acquire properties where voluntary improvement by the owners or enforcement action was unsuccessful. Acquisition would be through voluntary arrangement with the owners, or by compulsory purchase where this was not possible. The report listed 11 sites that had already been identified and that would form the priorities for action. We have not been able to establish the basis for deciding which properties would be included on the list – but the former Crown public house was **not** included. The report also did not set out a proposed methodology for identifying and prioritising sites where action was to be taken. For each site, it was expected that a separate business case would be prepared to determine the costs and benefits of acquisition, proposed future use, and anticipated financial costs. No specific funding was requested to support the policy. The report stated that the business case would be used to determine the most appropriate method to fund each acquisition.
- 12 On 3 September 2021, the Executive Member for Regeneration, Cllr Eric Polano emailed the Director of Regeneration and Culture, Richard Horniman regarding eyesore properties across the town. He cited a list of properties

² The Local List includes 91 buildings and other sites in the Council area of architectural or historic value, determined by reference to agreed criteria.

³ The Strategic Plan 2021-2024 included a commitment to '*transform our city centre, improving accessibility, revitalising unused assets, developing iconic new spaces, and building new town centre homes*'

that was largely the same as that contained in the Executive report of June 2020. The Executive Member asked that the owners of the buildings be contacted, the poor condition of the buildings be highlighted, and for it to be made clear that if improvements were not made, the Council could take action to compulsorily purchase them. The former Crown public house was not included on this list.

- 13 On 13 October 2021, the Executive Member for Regeneration approved investment of up to £1m to 'tackle eyesore land and property in Middlesbrough' including the possible acquisition of sites subject to the approval of a relevant business case⁴. The report did not identify any specific properties.
- 14 We have been unable to establish the date when the Crown became a priority for action as an eyesore site, although it appears to have been sometime before December 2021. On 8 December 2021, the Director of Regeneration and Culture wrote to the owners of the Crown, requesting urgent engagement about the property. The letter noted its condition and the detrimental impact of the property on the town centre. The letter asked for a discussion and noted that the Mayor and Executive Member for Regeneration were pushing for the property to be compulsorily purchased if a route to bringing the building back into use could not be identified.
- 15 The Crown continued to remain a priority for senior politicians from December 2021 onwards. On 11 January 2022, the [then] Mayor emailed the Director of Regeneration and Culture, in an email entitled '*Crown Building*'. The email asked, '*shall we get the CPO process started*'. In response, the Director said that the Council would need to have some legal basis for starting the process and that the challenge would be proving the Council needed to buy it – he said he would seek advice from Legal Services.
- 16 The former Crown public house continued to be a topic of discussion between senior officers and politicians, and with the owners and other parties, and in April 2022, the Director of Regeneration and Culture contacted the property agents acting for the owners of the Crown, De Villiers Commercial Property Surveyors, to ask if there was any update regarding possible development. In May 2022, the agent said that a planning consultant had been instructed to bring forward a development. Around July 2022, contact with the Council was made by a representative of the owner, to arrange a meeting to discuss planning principles in advance of submitting a planning application.
- 17 In July 2022, the Council submitted a bid to the Department for Levelling Up, Communities and Housing (DLUCH) for a £20m grant from the Levelling

⁴ The report stated that if the business case was approved by the Directors of Regeneration and Culture and Finance then attempts would be made to agree a voluntary purchase of the site in accordance with the Council's Asset Acquisition Policy. The report further noted that where an owner was unwilling to improve their site or dispose of it to someone who would then the Council had a range of enforcement options open to it including the use of compulsory purchase powers.

Up programme⁵. The bid was intended to help fund the redevelopment of the House of Fraser site, and the acquisition and development of the former Crown public house site. The bid sought £7.5m for the Crown site.

- 18 From August 2022, the Director of Regeneration and Culture discussed the potential development of the Crown with a third-party developer who said they were interested in the site. Correspondence recognised that the property was owned by a third party and discussions included how the Council could help facilitate contact with the owners. Discussions with this developer were still ongoing in December 2022.
- 19 The Director of Regeneration and Culture provided regular updates about the Crown to the former Mayor, Andy Preston throughout 2022. For example, as part of scheduled two weekly regeneration catch-up meetings. In addition to the Director of Regeneration and Culture, invitees to this meeting were the former Mayor, former Chief Executive, former Interim s151 Officer, and the Director of Legal and Governance Services. The Director of Regeneration and Culture confirmed that no minutes of these meetings were taken. The former Chief Executive confirmed that the Crown was regularly discussed at these meetings. He said that the former Mayor had said he would like the Council to acquire this property at one of these meetings.
- 20 On 18 October 2022, the Executive Member for Regeneration and the Director of Regeneration and Culture presented a report to the Executive. The Executive passed a resolution to exclude the press and public from the meeting when the report was presented due to the nature of the information it contained. The former Mayor, Andy Preston, was present when the report was considered. The report identified three properties in the town centre, including the former Crown public house, which needed to be conserved and brought back into sustainable and viable use. The report proposed that the Council should try to work collaboratively with the owners of these properties in order to develop a masterplan to bring them back into use. However, if this collaborative approach was unsuccessful, the Council should then seek to exercise its powers through a Compulsory Purchase Order process to secure ownership of the properties alongside the Tees Valley Combined Authority (TVCA) Mayoral Development Corporation (MDC). The report noted that the property was within the proposed boundary of the MDC. The report also noted that the likely costs of acquiring the site would be £600k, including stamp duty land tax and professional fees. It was also estimated that any subsequent survey and design fees would cost approximately £400k, and any restoration and structural works would cost approximately £5.5m. The report stated that there would be no financial risk or cost to the Council from adopting this approach. Any financial assistance provided to the property owners would be through grants already secured through the Future High Streets Fund and Towns Fund.

⁵ Round 2 of the DLUHC Levelling Up Programme offered £2.1bn of funding to invest in schemes to help regenerate town centres and high streets.

- 21 On 7 November 2022, the Director of Regeneration and Culture emailed the former Chief Executive, Tony Parkinson (copying in the former Mayor) with contact details for the agents of the owner of the Crown. The email stated that the Mayor had asked him to provide these details to the Chief Executive.
- 22 On 21 November 2022, the former Chief Executive, Tony Parkinson emailed De Villiers Commercial Property Surveyors to request a meeting about the former Crown public house. TP said that the meeting was to ask what the owner's intentions were for the property – not to discuss a possible purchase. TP said that it had been agreed at one of the regular regeneration catch-up meetings that he should meet the agents.
- 23 A meeting was held at 10am on 29 November 2022⁶ between Tony Parkinson (TP) and a representative from De Villiers Commercial Property Surveyors. TP confirmed that no record was kept of the meeting and no other Council officers were present. TP said that the subject of potential public funding to support the development of the property came up during the meeting (a figure of £3m of support to make the development viable was apparently mentioned). Following this, TP said that the agent indicated that the owner might instead wish to sell the property given that such an amount public funding was unlikely to be available. At 4.15pm, TP attended a regular Regeneration briefing meeting with the Mayor, the Director of Regeneration and Culture, the Monitoring Officer / Director of Legal and Governance, and the acting s151 Officer. An officer attending the meeting told us that TP announced that a deal had been reached to purchase the former Crown public house. No record of the meeting was kept so we have not been able to establish the details of the discussion, or whether there was any consideration of the price to be paid or condition of the property. The Director of Regeneration and Culture commented that he was surprised that the owners had agreed to sell the property given their previous reluctance to even talk about a possible disposal.
- 24 At 4.51pm on the 29 November, a representative from De Villiers Commercial Property Surveyors emailed Tony Parkinson, to confirm that the owners of the former Crown public house
- "...would be willing to potentially sell, but price would have to be at a level of £750,000 on an unconditional basis".*
- 25 Tony Parkinson informed us that he then emailed the former Mayor, Andy Preston, to seek his views. He said that the former Mayor replied, saying "yes we should do that" (we have not been able to obtain a copy of this email exchange). Tony Parkinson then responded to De Villiers Commercial Property Surveyors by email at 4.59pm, as follows:

⁶ The appointment was originally set up as a Teams meeting but Tony Parkinson thought it was conducted by telephone.

"I have spoken to Richard (cc'd) and the Mayor and can confirm that we would not be adverse [sic] to purchase at that price with completion before 31 January 2023. Richard will lead from our end."

The email was copied to the Director of Regeneration and Culture, Richard Horniman.

- 26 We understand that officers responsible for detailed work relating to the acquisition were instructed to progress the purchase by the Director of Regeneration and Culture at the beginning of December 2022. For example, the Head of Economic Growth and Regeneration was asked on 6 December 2022 to draft a report to the Executive seeking approval for the purchase.
- 27 On 18 January 2023, DLUCH announced the outcome of the Levelling Up fund bids. The bid from Middlesbrough Council for funding to regenerate the former Crown public house and House of Fraser sites was unsuccessful.
- 28 On 24 January 2023, the Executive was recommended to approve the purchase of the former Crown Public House. The covering report did not identify the property but described it as a major town centre building of strategic significance. The report noted that this symbolic asset had strong links to the Council's strategic plan but did not specify what those links were. The report also noted that no business case for a commercially viable project had yet been developed or specific end use identified for the building. The report stated that the property could be adapted for a number of purposes and business cases would therefore be prepared as part of the next stage of the project once these had been identified. The report stated that the use of a Compulsory Purchase Order (CPO) might be avoided if the current owner complied with the process. The Executive passed a resolution to exclude the press and public while the rest of the report was presented.
- 29 The report was presented by the Executive Member for Regeneration, Cllr Eric Polano. The former Mayor, Andy Preston did not attend the meeting. The exempt section of the report provided further details about the property and its possible uses. It sought approval from the Executive to acquire the Crown for £750k. The report noted that:
- the condition of the property was unknown but that a condition survey should be carried out as part of any engagement with the current owner.
 - the building would be located within the proposed Mayoral Development Corporation boundary, and this might therefore open up additional opportunities for its redevelopment. Alternatively, the Council could pursue enforcement action and undertake a Compulsory Purchase Order (CPO), but this would take 18 – 24 months to complete. It would also need to be evidenced by an approved masterplan or planning application, and the relevant funding would need to be in place.
 - the property was currently valued at £460k.
 - the site was adjacent to the cleared Gresham area and in a key gateway location adjacent to the University quarter.

- the acquisition cost had been provisionally agreed at £750k with a further £27k for stamp duty land tax, approximately £10k for professional fees, and up to £100k for essential works and security in mitigation of insurance requirements.
 - additional surveys would be conducted once the purchase had been completed, and the results would inform the final structural redevelopment package.
 - although not part of the decision, the cost of future structural and design fees was estimated to be £400k, and the cost of the restoration and structural works was estimated to be £5.5m. Given the preferred future use of the building as a possible venue for community events or entertainment, it was estimated that a further £1m might be required to bring it up to the required standard.
 - the property was included in the Council's bid for Levelling Up funding.
 - the *'emerging Mayoral Development Corporation would likely see the asset as a major / early development opportunity - particularly if coupled with adjacent land and University aspirations, as such the acquired asset could form part of the collaborative works within the new MDC - bringing new and additional assets to bear'*.
- 30 The exchange and completion of contracts for the purchase of the property took place on 10 February 2023. There were some delays following the 24 January Executive meeting to (a) allow for the call-in period and (b) to seek assurance on the Option to Tax and the appropriate treatment of VAT.

Rationale for acquisition

- 31 We have not been able to fully establish the rationale for the acquisition nor its links to the Council Strategy. Priorities around dealing with eyesore sites were identified from mid-2020 but The Crown was not initially included in lists of priority sites. The approach would include working with property owners and taking enforcement action before considering acquisition. Decisions about individual cases were to be the subject of a business plan. However, no overall policy setting out how such sites would be identified or ranked has been seen. The former Crown site appears to have become a priority in late 2021 although we have not seen any documentary evidence to show how or why this came about.
- 32 Discussions about the use of the Crown site were ongoing throughout 2022. These included possible development by the owners, and some interest from a third-party developer. It is possible these may not have come to fruition. However, the discussions appeared to still be ongoing in November 2022 at the point the former Chief Executive met the owner's agent – which initiated the process that led to purchase of the Crown.
- 33 The principal arguments for acquisition of the property put forward in the Executive report were that it is an important heritage site, it could bring potential advantages through its proximity to other development areas, and that it would be unlikely to be viable for commercial development. However, in the absence of a full business case (see paragraph 46 below), it is not

possible to weigh the strength of these arguments. The former Chief Executive said that there were two policy drivers for the acquisition of the Crown. These were regeneration of the town centre including changes in property use away from retail, as identified in the strategic plan, and the separate policy agreed by the Executive around tackling eyesore buildings. He also referred to conversations he said the former Mayor had had with representatives of the University, who were concerned about the Crown as an eyesore property, due to its close proximity to them. The former Chief Executive said that the Crown became a key priority for the former Mayor.

- 34 Some officers we spoke to who were involved in the purchase said that they did not understand the rationale for acquisition. It was also noted that some officers were unhappy with the process they were asked to follow. We were told that some concerns were raised verbally, but we have not seen any documented or formal challenge to the process by officers. Examples of comments received by the auditors, from a range of officers, included the following.

"An unconditional price was pre-agreed by management prior to the involvement of... in tandem with the imposition upon officers of an unworkable timeframe for the exchange of contracts, and legal completion."

When asked about the rationale for acquisition *"...no idea other than there was an intention to transfer it to the proposed MDC. At this point I have to say that all officers that I spoke to could not understand why the acquisition was going ahead and voiced their concerns accordingly. I certainly did so on a number of occasions... officers collectively did not understand why the acquisition was taking place and the pace of the acquisition was really surprising"*

"The key lesson that needs to be learned is for the senior decision makers (Chief Exec / Mayor) to not commit the Council to deals without first taking advice from officers. Once this has happened there is little that officers can do to retrofit processes and good governance. The challenge from officers (Statutory and Non Statutory) could also have been greater, but the organisational culture was not conducive to that happening." In a separate comment, the same officer said *"The way the purchase was done was entirely consistent with the macho style of leadership in place at the time..."*

The manner in which the valuation was agreed

- 35 As noted above, the former Chief Executive, Tony Parkinson (TP) met with a representative of the agents on 29 November 2022. During the meeting the owner's potential willingness to sell was indicated by the agent. This was followed by the emails described at paragraphs 24 and 25 in which TP confirmed that the Council would not be averse to purchasing the property at the price of £750k stated by the agents. This was without further negotiation or reference to a valuation and prior to an Executive decision having been made. After these exchanges, TP said that he asked officers to take forward the potential purchase through the Executive. TP said that he thought £750k seemed a lot although he was not concerned about it and could not say whether it was an appropriate sum. He felt that it was

acceptable if it was affordable, given that it met key policy objectives around town centre regeneration and eyesore properties, and provided that the relevant professional officers had no concerns. TP said that he did not consider the price of £750k to be non-negotiable and he would therefore have expected the relevant professional officers to negotiate on the price if this was appropriate. He did not consider this to be his role. He said that no one raised any concerns about the price with him. This appears to conflict with statements made by some other officers (as noted in paragraph 34) who seemed to believe a deal had effectively been agreed.

- 36 The Executive report of 24 January 2023, seeking approval for the acquisition stated that the Council had valued the Crown at £460k. It also states that that *'Whilst all valuation opinions are less than the proposed purchase price of £750k, the benefits of controlled ownership, access to public grant programmes and alignment with the emerging Mayoral Development Corporation, present significant advantages in relation to the valuation premium'*. We have reviewed some of the valuation information provided by officers and the figure of £460k quoted in the report did not seem unreasonable. The Executive therefore took a decision to acquire the Crown and agreed to a pay approximately 60% more than its market value, for the reasons set out above.

Assessment of present condition and future liabilities

- 37 No assessment of the condition of the property was undertaken in advance of the email from the former Chief Executive in November 2022 to the owner's agents saying that the Council would not be averse to purchasing the Crown.
- 38 The Executive report of 24 January 2023, seeking formal approval for acquisition, made the following points:
- *The Crown has stood empty since 2015. The vacancy has resulted in the buildings condition deteriorating in that timeframe*
 - *The condition of the property is unknown, there has historically been a number of surveys carried out on the buildings but these are no longer valid, as part of any engagement with the current property owner a condition survey should be carried to ascertain the level of works that would be required to bring it back into a commercial use*
 - *On last viewing C. 2017, the property was in a severe state of dilapidation and in need of a wholesale renovation, notwithstanding any heritage / structural works which may be required*
 - *The current condition of the building is not known therefore this could present a risk to any assumptions made with the renovation of the building.*
- 39 The Executive report included an indicative figure of £5.5m for restoration and structural works, based on historical surveys, site plans and planning information. However, this estimate was likely to be subject to error given that no recent condition survey had been undertaken, and no firm plans for

future use of the building had been determined. The degree of uncertainty and hence risk was not made sufficiently clear in the Executive report. As noted below, it also appears there was an expectation that the property would transfer to the MDC after completion.

- 40 The Executive report requested the allocation of £200k of revenue budget to fund costs associated with holding the property (for example security and insurance).

Legal matters arising or outstanding

- 41 A number of issues arose during the preparations for acquisition, but these appear to have been resolved. We are not aware of any outstanding issues.
- 42 The seller's solicitors contacted the Council on 22 December 2022 to commence the formal sale of the property. This was at least one month before the Executive report was considered and approved.
- 43 Legal issues considered in advance of the purchase included the conduct of appropriate searches, enquiries as to current ownership, resolving issues around dealing with an overseas seller, and VAT. Advice was sought from HMRC about whether the option to tax form provided was valid, in advance of paying VAT on the purchase.
- 44 Potential risks to the Council between the exchange and completion of contracts were noted, and discussions were held with the Council's insurers. It was subsequently agreed that exchange and completion would happen simultaneously. The purchase was completed on 10 February 2023.
- 45 In discussions, officers in Legal Services made the following observations:
- The tight turnaround time for the purchase was queried. The officers involved in the process said they challenged the reasons for this but did not receive a substantive reply from Property Services.
 - Legal Services ensured that a full suite of searches was undertaken, and these highlighted a couple of points of interest which were raised with officers in Property Services.

The business case

- 46 An Asset Acquisition Business Case was prepared for the purchase of the Crown, in December 2022, after the process to purchase the property was triggered by the former Chief Executive on 29 November 2022. It is included as appendix 2 to the exempt Executive report on 24 January 2023. It is very brief and does not include a full analysis of the costs and benefits for the purchase or any clear rationale, other than that it would ensure the control and protection of an important local asset. Preparation of a business case was a requirement of Council policy. However, the business case completed was superficial and did not present a detailed analysis of the case for purchasing the property.

- 47 A standalone business case to Green Book⁷ standards was not developed for the acquisition of the Crown property. We understand that a Green Book business case was produced as part of the Levelling Up Fund round 2 bid in July 2022 although we have not reviewed this. We would have expected the considerations for the Council funded purchase of the Crown to have been significantly different to those relating to the wider Levelling Up Fund bid. The Director of Regeneration and Culture also said that he thought the business case was slightly irrelevant given that the former Chief Executive had already agreed a deal.
- 48 The overall case for acquisition set out in the Executive report of 24 January 2023 was built around the need to gain control of the site and a recognition that a premium would need to be paid to the owners as a result. However, elements of the case made out in the report were misleading. We have outlined some examples of our reasons for concluding this below.
- 49 There was no indication in the report that negotiations for the purchase were at an advanced stage. In practice, final sign off for the purchase was being sought in the knowledge that it would be followed by almost immediate completion. There are some indications that discussions with the owner had commenced – for example paragraph 10 of the exempt (part B) report states that *'The acquisition cost of the site is anticipated to be, and provisionally agreed at, £750k'*. However, other statements throughout the report give the impression of the acquisition as work to be progressed following the decision. For example:
- Paragraph 6 of the public (part A) report states *'The asset is privately owned and, assuming owner compliance, a Compulsory Purchase Order (CPO) process may be able to be avoided'* (further statements about the possibility of a CPO taking 18-24 months are included in part B)
 - Paragraph 4 of the part B report states *'The condition of the property is unknown...as part of any engagement with the current property owner a condition survey should be carried to ascertain the level of works that would be required to bring it back into a commercial use.'*
 - Paragraph 6 of the part B report states *'There is an opportunity to engage with the current property owner for the acquisition and redevelopment of this symbolic heritage asset'*.
- 50 The report indicates that there was no reasonable prospect of the property being brought back into commercial use by the private sector. Other than acquisition, the only other option listed in the report is *'Do Nothing'* – with the consequence that the property would remain in its present dilapidated state. We have not seen any evidence to show how officers reached the conclusion that there was no prospect of private development of the site. As noted in paragraphs 16 and 18 above, discussions had taken place with both the current owner and a third party interested in the site in mid to late 2022. We have not seen evidence to confirm that these discussions had run

⁷ The Green Book sets out guidance issued by HM Treasury on how to appraise policies, programmes and projects. The Council's Constitution sets out the requirement for a business case to be prepared for each capital project, that should comply with the principles of the Green Book.

their course before the process to acquire the property was initiated in November 2022.

- 51 There was also an urgency to complete acquisition of the property. In his email of 29 November 2022 (stating that the Council would not be averse to purchasing the property), the former Chief Executive, Tony Parkinson (TP) said that completion should be before 31 January 2023 – just two months later.
- 52 TP said that the urgency was driven by the former Mayor, who had told TP to ensure it was done by 31 January. TP said that he understood that the former Mayor felt that property deals generally took too long, and also that the Mayor was aware of the upcoming pre-election period (purdah). There was only one Executive meeting before this period commenced and the Mayor wanted the decision to be taken at that meeting. TP said that he thought the former Mayor was concerned about decisions he had made being potentially undone after the election. We have not seen any documentary evidence to show why prompt acquisition of the Crown was an essential part of the business case for the Council (for example to ensure an opportunity to purchase was not lost).
- 53 The Executive report of 24 January 2023 noted that the proposal to acquire and develop the former Crown public house was included in the Council's July 2022 Levelling Up bid. It stated that a decision on the bid was due in spring 2023 and that, if successful, this would be the principal source of capital for fees and restoration. It also stated that if the bid was unsuccessful then new options would be presented to the Executive for consideration. This was misleading. It was already known that the results of the bid were likely to be announced in January 2023 – and the actual outcome was known on 18 January before the report was considered. A draft version of the Executive report included reference to the outcome of the Levelling Up bid being known in January. However, internal officer comments on the draft recommended being less specific and removing the reference because it could raise the question as to why the Council was not willing to wait a month to find out the result.

Adherence to policies

- 54 Once instructed to progress a decision for acquisition of the Crown, officers attempted to ensure that policies and procedures were followed. However, there were weaknesses in the processes followed. Some examples are listed below.
- 55 Regeneration of the town centre was clearly identified as one of the Council's strategic priorities (see paragraph 10 above). The Executive had also set out its intention to address eyesore sites across the town (see paragraph 11 for example). However, this was not supported by a transparent framework for identifying and ranking priorities for action. The former Crown public house appeared to become a priority in late 2021 but we have not seen documentary evidence to show the reason for this (see paragraph 14). In the absence of a clear policy and a robust business case,

it is not possible to confirm that the Crown site should have been a key target for acquisition and development.

- 56 A full business case for the acquisition and development of the Crown site was not prepared in advance of discussions with the owners commencing. The initial meeting with the owner's agents, where the potential for a purchase was raised, only involved the former Chief Executive, with no other officers present. This was not documented. On the same day as this meeting, the former Chief Executive communicated to the seller's agent that the Council would not be averse to purchasing the property at the proposed price of £750k. He had no knowledge of the condition of the property or its market value at the time of this communication. In addition, no attempt was made to formalise negotiations with the agents after the initial communications. The initial exchanges that triggered the purchase seem to have had the effect of fixing the terms of the purchase by the Council, whether or not this was the intention.
- 57 A business case was completed in December 2022, after the acquisition process had commenced. However, as noted in paragraph 46 above, this was superficial and did not present a detailed analysis of the case for purchasing the property. It did not comply with Green Book principles as required by the Constitution.
- 58 An issue arose relating to outstanding business rates owed by the current owner of the Crown site, during the acquisition. We understand that £68k in business rates was expected to be owed by the time of completion. Officers considered whether it would be possible to recover the debt by making it a condition of the purchase. On 15 December 2022, the Director of Regeneration and Culture emailed colleagues to say that he had spoken to the former Chief Executive who was of the opinion that the Council could try to recover some of the money owed, but not to jeopardise the deal because of it.
- 59 On 22 December 2022, officers in legal services highlighted a conflict between the proposed approach to business rates and the Corporate Debt Management Policy. This states that any amounts owing should be recovered in advance of a contract being concluded or offset against the contract value. It was advised that it would be preferable to recover the money owed from the purchase price. However, if this was not done, the report to the Executive in January 2023 should explicitly ask that an exemption from the Corporate Debt Management Policy be given, to avoid setting a future precedent.
- 60 On 5 January 2023, the former interim Director of Finance said in an email that the issue of debt management was not referred to in the draft Executive report. She also said that the Council needed to be seen to be recovering the debt and to have appropriate discussions with the seller. She goes on to say that Legal Services will provide appropriate wording for the report. No reference was subsequently made to outstanding business rates in the Executive report.

Impact of site being within the MDC boundary

- 61 From the information seen, there are indications that links to the proposed transfer of assets to the Mayoral Development Corporation (MDC) could have been a factor in decision making around the Crown site. However, we have not looked at this issue in detail. The former Chief Executive said that he believed that at the time the property purchase was being considered, formal establishment of the MDC was still some way off. Although this is inconsistent with statements in the Executive report of 18 October 2022 about eyesore sights including the Crown (see paragraph 20). This says that the property is within the proposed MDC boundary.
- 62 Officers spoken to about the acquisition said that the assumption was that the Crown site would be transferred to the MDC. Links are also made to the MDC in the Executive report of 24 January 2023. This noted that the site was within the MDC boundary and that this might open up additional opportunities for development. It also concluded that *'The emerging Mayoral Development Corporation (MDC) would likely see the asset as a major / early development opportunity – particularly if coupled with adjacent land and University aspirations, as such the acquired asset could form part of the collaborative works within the new MDC – bringing new and additional assets to bear'*.
- 63 One officer spoken to indicated that the transfer of the Crown site to the MDC would be dependent on whether wider approval was given on the transfer of assets. They also noted that, given the state of dilapidation, it was not clear whether the MDC would want to take the Crown site. Or whether its state could mean conditions could be imposed on the Council by MDC if the asset was to transfer. We did not explore this issue as part of this review.

Conclusions

- 64 Regeneration of the town centre was a key aim for the Council. Policy developed to address eyesore sites and buildings reflected this. However, no methodology for identifying and prioritising sites for action was developed to support the policy. We would have expected to see clearly defined criteria that could be used to assess the relative importance of different sites. We would also expect to see a clear process for capturing information and ranking potential sites. In the absence of this, it is difficult to judge the relative merits of any specific proposal. In a report to the Executive in June 2020, 11 sites were identified for potential action. We did not see any evidence to show why these sites were to be targeted or why the former Crown site was not included, given that it subsequently became a priority.
- 65 As late as September 2021, lists of eyesore sites asked about by the Executive Member for Regeneration did not include the former Crown Public House. Soon after this (in December 2021) the Crown appeared to become a priority. We have seen no evidence to show what had changed and why this property was now to be targeted for action. Similarly, we have seen no evidence of how it ranked compared with other potential sites – for example the 11 sites on the original list presented to the Executive in June 2020.
- 66 In the absence of clear criteria for ranking eyesore sites, it is not possible to say whether the Crown site should have been a priority for action or not. Senior councillors clearly felt it was important for regeneration purposes by late 2021. However, despite this, no formal process was established to progress action for the site. For example, by drawing up a business case and staged action plan, setting out how activity would be escalated if no progress with development was seen. We have seen evidence that action was being taken. For example, communications with the owners about development, and some discussions with interested third parties. By late 2022 we were also told that the former Mayor was interested in the Council acquiring the site. However, the lack of formal plans meant that the Council was not ready to act when an opportunity came up in November 2022.
- 67 Discussions about regeneration priorities between officers and councillors were carried out in an unstructured way. Two weekly regeneration catch up meetings were held. These were attended by the former Mayor, the Director of Regeneration and Culture, and other senior Council officers. However, there was no standing agenda, and the meetings were not formally documented. It is also not clear what the role of this group was in determining priorities, and the links between these informal discussions and the Council's formal decision-making processes.
- 68 An Executive report in October 2022 identified the Crown as one of three priority eyesore sites. This is the first point at which the Council's interest in the site was formally recorded. However, the report contains little information to say why these three sites were a high priority compared to other potential sites. This report notes the proposed approach to dealing with the properties – escalating action through discussions with the owners

up to acquisition by compulsory purchase, if required. While action was subsequently taken for the Crown (see below), we saw no evidence that a clear plan to formally take forward the decisions from this Executive meeting was then prepared. Instead, the approach taken continued to be unstructured.

- 69 The former Chief Executive stated that it was agreed at one of the two weekly regeneration catch up meetings that he would speak to the agents for the owners of the Crown site (the meeting requested on 21 November 2022 and held on 29 November 2022). It is not clear why the Chief Executive was asked to progress this rather than officers from the relevant service. There was also a lack of transparency around the subsequent meeting. The Council was represented solely by the former Chief Executive and the meeting was undocumented. However, this was an important meeting which effectively started the process that resulted in the purchase of the Crown. It provided an opportunity to purchase the property thereby shortcutting the need for more formal intervention, or a compulsory purchase. However, the Council was unprepared to progress the opportunity in a structured way. No consideration had been given to the potential value of the property at this point, and a business case had not been prepared.
- 70 The former Chief Executive said that he indicated to the owners of the Crown that the Council might be interested in purchasing the site; but he expected the relevant professional officers to firm up and progress any agreement. However, other officers said that they believed they were being asked to implement a deal that had already been agreed. At best, this represents poor communication. However, some officers refer to wider concerns about the culture within the Council at the time and an inability to challenge how decisions were made or things were done. These issues resulted in the Council purchasing the Crown at 60% more than its market value, with no negotiation of terms with the owner after the initial contact by the former Chief Executive.
- 71 Subsequent actions by officers appear to reflect this situation – that is, that they felt they were implementing a deal already agreed. They attempted to follow the correct procedures, but the arrangements failed to consider whether best value was achieved for the Council in practice. For example, a valuation was sought – but no attempt was made to negotiate on price once this was known to be substantially less than the asking price. In addition, a business case was prepared that provided insufficient information to judge the relative merits of purchasing the property against the Council’s policy objectives. At the point of purchase, there was no clear plan for the use of the property and no detailed assessment of the potential development costs.
- 72 The difficulties that officers would have experienced in developing a proper business case will have been exacerbated by the urgency to complete the purchase. The Council requested completion of the purchase within two months – by 31 January 2023. However, we’ve seen no evidence to show why this was in the interests of the Council. For example, that it was necessary to guarantee the acquisition of the site. The former Chief

Executive said that the urgency to complete the purchase was driven by the former Mayor.

- 73 In accordance with Council requirements, the Executive was asked to formally review the business case for the acquisition of the Crown, and approve its purchase, at its meeting on 24 January 2023. However, there was a lack of transparency in the information presented to the Executive and elements of the report were either missing or misleading. For example:
- the business case presented was superficial - it stated that the purchase would meet policy objectives, but this was not clearly explained (and would have been difficult in the absence of clear criteria, as noted above)
 - no credible consideration was given to other options in the report
 - the report gave the impression that further work was to be done to engage with the owners, before a purchase was pursued – in reality, it represented final sign off before completion of the acquisition almost immediately afterwards
 - no information was provided about the levelling up bid that related to the Crown (submitted in July 2022) - it was already known that the bid had been unsuccessful at the time the report was presented, but the report stated that the decision was due in the spring and could be the source of funding for restoration; this wording was different from earlier drafts that stated the outcome of the bid would be known in January.
- 74 From the information reviewed during the audit it is not possible to say whether the decision to purchase the Crown appears reasonable or represented best value. It could meet a number of the Council's key policy aims, but in the absence of a framework for determining priorities for eyesore sights it is not possible to confirm this. If it does address key aims, then the purchase price and short timescale for acquisition might have been appropriate. For example, if the purchase was likely to be the only viable outcome and the price was lower than a potential compulsory purchase exercise; or if the seller had demanded a quick timescale for completion. However, no information has been seen to confirm whether this was the position. Overall, there were a lack of formalised arrangements for taking forward a decision of this nature.
- 75 No subsequent business case setting out commercially viable options for future use of the site has been produced (as set out in the Executive report of 24 January 2023).
- 76 Comments in the report to the Executive on 18 October 2022 note that the Crown is within the proposed Mayoral Development Corporation (MDC) boundary. It seems likely that links to the proposed MDC were a factor in decision making and influenced the process undertaken to acquire the property. However, it is not possible to confirm this. Some officers said that there was an assumption that the property would transfer to the MDC, and potential MDC interest in the property was also noted in the January 2023 report to the Executive on purchase of the Crown. However, at the time of the decision the arrangements for the MDC had not been finalised. There

was also no certainty that the property would transfer if acquired. If transfer to the MDC was a factor in the minds of officers and councillors when considering the purchase, then the potential implications and risks were not set out.

Recommendations

- 77 Effective processes should be developed to support the implementation of the Council's policy. For example, in the case of eyesore properties, we would have expected to see mechanisms for capturing information on sites of interest, criteria for determining the extent to which options would meet policy objectives, arrangements for ranking potential schemes and formalised decision-making processes.
- 78 Transparent arrangements should be put in place for discussion and decision making around significant development priorities. The roles of different groups should be clearly established. Where informal discussion groups may have significant influence on decision making (for example the two weekly regeneration catch up meetings) then arrangements should be put in place to formally consider or document decisions made. For example, through subsequent consideration by a relevant officer or meeting of councillors, in line with the Constitution.
- 79 Property acquisitions should be managed by the relevant professional service. Where discussions with property owners are held, these should be formally documented.
- 80 The Council should ensure that a full business case is drawn up in advance of progressing any property acquisition. Appropriate valuations should be undertaken and used to inform negotiations with the seller. Any premium to be paid over the market value of the property should be clearly explained and justified as part of the business case. Appropriate time should be allowed to progress significant property transactions.
- 81 The Council has made considerable efforts since the Best Value Notice was issued in January 2023 to improve organisational culture and to address many of the issues identified in this report. Cultural change however takes time. The Council should therefore continue to ensure that officers feel able to challenge arrangements around transactions such as the purchase of the Crown, within appropriate professional boundaries, and the need to ensure that reports requesting decisions on significant issues are transparent, present the full facts, and include a clear assessment of the relevant risks.