

Cabinet 6 November 2015	 TOWER HAMLETS
Report of: Corporate Director, Development & Renewal	Classification: Partially exempt
Disposals Report – Southern Grove and Cheviot House	

Lead Member	Cabinet Member for Resources
Originating Officer(s)	Service Head, Corporate Property & Capital Delivery
Wards affected	Mile End, Whitechapel
Community Plan Theme	One Tower Hamlets
Key Decision?	Yes

Executive Summary

The council owns a number of assets that are currently vacant. These assets are an additional burden at a time of fiscal constraint.

The council has reviewed the opportunities that are available through these buildings and sites, including bringing them back into use, developing them as council-led projects or as part of a disposal programme.

This report sets out the proposal for the disposal of two sites that have remained vacant for a number of years.

Recommendations:

The Mayor in Cabinet is recommended to:

1. Note the contents of this report;
2. Agree that the land and buildings referred to below (as shown on the plans in Appendix A) are surplus to requirements:
 - Cheviot House, 227 to 233 Commercial Road
 - 60 Southern Grove
3. Agree to the disposal of the sites by informal tender;
4. Agree to the disposal of the sites on 199 year leases;

5. Authorise the Corporate Director, Development & Renewal, to appoint external agents to support the marketing of the sites;
6. Authorise the Corporate Director, Development and Renewal to accept the best tender returns for the sites on conclusion of the marketing exercise; and
7. Authorise the Corporate Director, Development and Renewal, following consultation with the Director of Law Probit and Governance, to agree the terms and conditions of any agreements required to implement the recommendations above.

1. REASONS FOR THE DECISIONS

- 1.1 It is important at a time of reducing funding and budgets in the public sector to ensure that efficiencies are driven through the running and/or disposals of the council's assets to reduce revenue costs.
- 1.2 The decisions in this report will contribute to the continual review and rationalisation of the council's assets, and help reduce the operational portfolio to the minimum required.
- 1.3 The disposals will generate capital receipts for the council, which can be reinvested and directed to its principal expenditure priorities. They will also reduce revenue expenditure on upkeep, maintenance and security.
- 1.4 The development of the properties will also bring empty and disused sites back into use. By taking constructive action in this way the borough is meeting its strategic enabling role in promoting regeneration, bringing derelict sites back into use and increasing the supply of housing.

2. ALTERNATIVE OPTIONS

- 2.1 The Council has considered developing the sites directly but it was considered that funding could be better directed towards alternative schemes in the borough. It is now proposed to let the market deliver the redevelopments.
- 2.2 Whilst it is possible to apply a sale condition whereby a minimum level of affordable housing must be provided this will have the effect of reducing the value and the capital receipt. Furthermore, if this condition requires the affordable housing to be provided for the benefit of the Council, this could trigger a Procurement and would need to be investigated and considered further in conjunction with the Council's Legal and Procurement teams.
- 2.3 Once the sites are in new ownership they will be redeveloped in accordance with planning policy including policy relating to appropriate levels of affordable housing. Therefore the Council will retain some control over the delivery of affordable housing indirectly through the planning process. It should be noted that this will always be subject to viability in the usual way.
- 2.4 The potential exists to transfer part, or all, of the land at Southern Grove to a Community Land Trust. The factors to take into account in considering this option will include the consideration, if any, at which the transfer will take

place and whether the Council would be required to forego a capital receipt for the land value. This is a matter that will require considerable further consideration and consultation prior to a further decision being made by Cabinet.

3. DETAILS OF REPORT

- 3.1 The council has a significant operational and commercial portfolio that it manages. Officers continually review the property portfolio and bring forward sites for direct development and/or disposal from time to time. The direct development options depend on the availability of funding and the size of the redevelopment opportunity. Disposal of surplus sites reduces the revenue costs for the maintenance and security of vacant buildings, while generating a capital receipt.
- 3.2 This report focuses on two council sites that are currently vacant. The buildings on the sites have stood vacant, or partially vacant, for a number of years, whilst still placing a demand on a limited revenue budget to ensure security and safety are maintained.
- 3.3 Over the past few years, costs have been incurred in relation to these properties. This is expenditure that has not provided any direct benefit to the residents of Tower Hamlets. Reduction of this revenue spend by disposing of the sites allows the council to focus revenue expenditure on the services that our most vulnerable residents rely on.
- 3.4 The council, through the disposal of the land and buildings, intends to achieve the maximum capital receipts that can be realised. It is therefore proposed that the sites will be sold with Planning Advice Notes prepared by the council as Local Planning Authority.
- 3.5 The success of the disposals will also be enhanced by undertaking pre-sale due diligence such as surveys and reports. Draft leases will also be prepared. This will help expedite the process of concluding exchange of contracts with the successful bidders.
- 3.6 It is anticipated that up to 4% of the capital receipt value may be used to ensure the successful marketing of the sites. This will cover the appointment of an external marketing team, legal and property team support, and where necessary architectural / planning input.

- 3.7 It is recommended that the properties be brought to market at the earliest opportunity in order to take advantage of the buoyant market conditions currently being experienced in Central London.
- 3.8 The above properties are development sites or have potential for substantial refurbishment or conversion. Informal tender is the method most often used by local authorities to sell properties of this type. Whilst it carries the risk that the buyer can withdraw or renegotiate and can be a lengthier process overall, it has the following advantages over the alternative method of formal tender :
- It is fully understood by the developer, house-builder and registered provider market and has their acceptance due to its common usage.
 - It achieves best consideration by virtue of full exposure to the widest target market.
 - The seller has the flexibility under certain circumstances to further negotiate some of the terms after bidder selection.
 - It allows the buyer to carry out some detailed due diligence once they have been selected and whilst contracts are prepared.
- 3.9 The alternative method of sale for these properties would be sale by formal tender. We understand, from canvassing the views of our various external advisers, that this method is not commonly used by Local Authorities in Central London. It is occasionally used where a capital receipt must be secured to meet a time imperative such as the financial year-end. It has the benefit of certainty in that a deposit can accompany the bids and the bid is legally binding if selected. However, this must be balanced against the following disadvantages:
- This method appeals less to the mass developer market and larger house-builders as they consider it carries too great a risk.
 - Whilst it works well for investment sales, development sites carry more inherent risk and significant capital is employed after the buyer has acquired the land.
 - There is the risk that fewer buyers are willing to participate, potentially narrowing the market. This reduced interest may result in lower bids and failure to achieve best consideration.
 - They may either decline to bid or may make allowances for any additional risk associated with the site by reducing their bid.
 - Advising agents may apply caveats to their confirmation that they have achieved best consideration.

- 3.10 Sale by auction is not considered appropriate for these sites as they are potential development sites and therefore carry a higher degree of risk for the buyer than properties typically sold at auction.
- 3.11 In line with the council's Disposal Policy, agreed by Cabinet in April 2015, the Service Head, Corporate Property & Capital Delivery has determined that informal tender is the most appropriate method of sale for the reasons set out above.

Cheviot House, 227 to 233 Commercial Road

- 3.12 The property is located on the northern side of Commercial Road, on the western corner with Philpot Street. Shadwell DLR station is located approximately 400m south of the Property, whilst Whitechapel station is approximately 500m to the north.
- 3.13 The site extends to approximately 0.06 hectare (0.15 acre), with the existing building occupying approximately 86% of the site area. The site is occupied by a seven storey art deco style office building estimated to have been built in the early 1950's.
- 3.14 It was previously used by the council as a "one stop shop" on the ground floor with various office uses above including occupation of part by Tower Hamlets Homes. The property has attracted squatters in the past and is currently occupied by Guardians.
- 3.15 To the east of the existing building, the site includes a strip of undeveloped land, partially separated from the public pavement by a metal railing. This land is currently used as a bin store, cycle parking and vehicle parking for one car. This area of land extends to approximately 100 sq m.
- 3.16 The floor area of the existing building is approximately 3,496 sq m (Gross Internal Area).
- 3.17 The exact boundaries are indicated on the site plan attached as Appendix A.
- 3.18 Cabinet on 12th January 2011 resolved to:
- declare the property surplus to operational requirements (together with a group of other properties);
 - authorise the Corporate Director, Development and Renewal, to arrange its marketing and sale; and
 - authorise the execution of the necessary documents to implement the recommendation above.

- 3.19 In the current year the Council will spend approximately £100,000 by retaining this property. This is forecast to increase to £200,000 in 2016.
- 3.20 An estimated capital receipt is contained in Appendix B.
- 3.21 A Planning brief was prepared for this property in 2003 which, whilst historic, contemplated a residential-led mixed use development with commercial uses at ground floor. This was subject to a case being made for the loss of employment use and the provision of new social and affordable housing. A revised Planning Advice Note is being prepared.

60 Southern Grove

- 3.22 60 Southern Grove is located at the northern end of Southern Grove, just south of Mile End Road and north of Tower Hamlets Cemetery. Mile End Park and Underground Station lie approximately 200m to the west. Bow Road Underground Station and Bow Church DLR are approximately one mile to the east.
- 3.23 To the south of the site is the recently re-developed Beatrice Tate Special Needs School. The surrounding area is otherwise mainly residential.
- 3.24 The site extends to approximately 0.6 hectares (1.5 acres) and comprises a two to five storey 1990's office building together with an older, grade II listed annexe building previously used as administration offices. The area extends to approximately 6,471 sq m (Gross Internal Area).
- 3.25 Both buildings are vacant, save for part of the ground and first floor of the offices, which are being used on a short term basis by the Council and Veolia as an administrative building for service delivery of the Commercial Waste contract. Veolia have 50 staff operating from the site together with 15 vehicle spaces and the Council has 15 staff and two vehicle spaces. The term of Veolia's occupation has recently been extended to September 2018.
- 3.26 A review of the Waste Management contract is currently underway. The current position is that the Council is obligated to provide Veolia with suitable premises from which to deliver the contract. Rental is not charged for this occupation.
- 3.27 In the current year the Council will spend approximately £150,000 by retaining this property.
- 3.28 The exact boundaries are indicated on the site plan attached as Appendix A.

- 3.29 An estimated capital receipt is contained in Appendix B.
- 3.30 A planning brief was prepared for this site in 2006. Whilst this is historic, the planning policy context confirms the site is appropriate for a residential-led mixed use development. This was subject to a case being made for the loss of employment use and the provision of new social and affordable housing. A revised Planning Advice Note is being prepared.

4. COMMENTS OF THE CHIEF FINANCE OFFICER

- 4.1 Following previous reports to Cabinet, this report seeks reaffirmation that the site at Cheviot House is still surplus to requirements, and seeks approval to dispose of it by informal tender on a 199 year lease. The report also recommends that 60 Southern Grove be declared surplus to requirements, and that it be marketed and disposed of on the open market by informal tender on a 199 year lease.
- 4.2 Capital receipts accruing from the sale of these properties will be fully usable to support capital expenditure incurred by the Council. Both properties are administration buildings held under General Fund powers and as such the receipts will be 100% usable. Indicative valuations of the sites are included in the exempt Appendix B to this report.
- 4.3 The proposed property disposals would generate capital resources if ultimately realised. Although the properties have previously been earmarked for disposal, no potential receipts have been assumed as resources available to finance the capital programme. The Authority adopts a prudent approach to the use of capital receipts and will only allocate them to schemes once they have been received and all contractual commitments met.
- 4.4 As indicated above (paragraph 3.4) it is proposed that the sites be marketed with a planning brief/statement already in place in order to achieve the highest possible capital receipt. The cost of these and other marketing expenditure could be met through the 'top-slicing' of up to 4% of the receipt value. These costs will initially have to be forward funded in advance of the capital receipt being generated, and because they will be offset against the capital receipt raised, are at risk if they are incurred but the sale does not proceed for any reason. In these circumstances the costs would need to be met from General Reserves.

- 4.5 The sites are unused and generate no income for the Authority, but the Authority is currently incurring revenue costs in order to ensure that the buildings are secure and safe. Disposing of the sites will avoid the need for these costs to be incurred in future and will therefore reduce potential budgetary risks.
- 4.6 It should be noted that the Council's waste management contractor, Veolia, is temporarily using the Southern Grove site as a base within the borough. As part of the contractual arrangements the Council must provide suitable premises from which Veolia can operate (paragraphs 3.26, 8.10 and 8.11). If Southern Grove is disposed of, the Council will need to provide alternative accommodation for Veolia, and a review of potential locations is currently being undertaken. This will need to assess the costs of providing an alternative operating location, which if not accommodated on a currently owned Council asset may necessitate the acquisition of a new site.
- 4.7 As highlighted in previous reports to Members, funding for capital investment is severely restricted over the next few years, while the Borough's population will continue to increase. Government capital grants to local authorities have reduced significantly, and investment in local priorities will be increasingly dependent upon the sale of surplus assets.

5. LEGAL COMMENTS

- 5.1 Both properties are held under the General Fund and the statutory power which the council will use in selling them is that conferred on it by section 123 of the Local Government Act 1972 under which the council is required to obtain the best consideration reasonably obtainable for the disposals. As explained in paragraph 3.8 above, officers have taken professional advice on this issue and consider that both the proposed sales and the method of sale will achieve this statutory objective.
- 5.2 The Council is obliged under section 3 of the Local Government Act 1999 to "make arrangements to secure continuous improvements in the way in which its functions are exercised, having regard to a combination of economy efficiency and effectiveness". As explained elsewhere in this report, including paragraph 10 below, officers have concluded that the sale of these properties will secure the objectives set out in this section of the 1999 Act.
- 5.3 The consent of the Commissioners to disposals is required because the Secretary of State for Communities and Local Government made Directions on 17th December 2014 pursuant to powers vested in him by Section 15(5) and(b) of the Local Government Act 1999 ("the Directions"). The Directions, at

paragraph 4(i) provide that the Council must “take the actions set out in Annex A...”. Paragraph 5 of Annex A requires that the Council, until 31 March 2017 “obtain the prior written agreement of the Commissioners before entering into any commitment to dispose of, or otherwise transfer to third parties, any real property other than existing single dwellings for the purposes of residential occupation

- 5.4 In the exercise of its functions, the Council has a duty under Section 149 of the Equality Act 2010 to have due regard to the need eliminate unlawful discrimination, advance equality of opportunity and foster good relations between those who share a protected characteristic and those who do not. The sales are expected to generate funds which will be applied in achieving , inter alia, these objectives.

6. ONE TOWER HAMLETS CONSIDERATIONS

- 6.1. The sale of the sites identified in this report will raise capital receipts which will be available to support the council’s overall capital programme which supports all service areas to deliver on the Community Plan objectives, as reflected in the Strategic Plan as well as achieve Mayoral priorities.

7. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

- 7.1 There are no immediate ‘sustainable action for a greener environment’ implications arising from this report. It is likely that any redevelopment or refurbishments will be of a substantially higher standard of energy efficiency than the current arrangements and built to higher environmental standards.

8. RISK MANAGEMENT IMPLICATIONS

- 8.1. The key risks are as follows:
- 8.2. **Timing and marketing strategy** – the maximum capital receipt may not be realised if the disposal and marketing strategy are not managed well, or insufficient information exists at the time of marketing the properties. This may lead to values being suppressed.
- 8.3. *Mitigation* – ensure that full and complete property information is compiled. Ensure that Planning Advice Notes have been prepared for both sites. The Council’s Property Procedures will be followed and professional marketing will be undertaken with clear details, processes and timeline for submitting bids.

- 8.4. **Market saturation** - the marketing of the sites simultaneously with others already declared surplus. This could lead to the market being saturated, which could drive down or suppress the values and/or level of interest.
- 8.5. *Mitigation* – ensure that the marketing of the sites is undertaken in a manner which is co-ordinated with any other council disposals such that market interest is maintained.
- 8.6. **Squatting** – the disposal is delayed leading to re-occupation of the properties.
- 8.7. *Mitigation* – ensure the sites are continuously secured until completion.
- 8.8. **Affordable housing** - inability for the market to deliver policy compliant affordable housing.
- 8.9. *Mitigation* – the Council as Local Planning Authority will ensure that the Council's planning policy compliant standard of affordable housing is provided within any redevelopment whilst securing the maximum capital receipt.
- 8.10. **Vacant possession** – Veolia and the Council occupy a significant part of Southern Grove. These staff and facilities will need to be relocated in order to provide suitable premises for the continuation of the Waste Management contract.
- 8.11. *Mitigation* - Officers in Asset Management will work closely with the Head of Waste Strategy Policy and Procurement to ensure that suitable alternative premises are identified for the continued service delivery.

9. CRIME AND DISORDER REDUCTION IMPLICATIONS

- 9.1 Vacant sites attract anti-social behaviour, including vandalism and squatting. The council expends funds ensuring that the buildings are secure however there are still attempts to enter the buildings in order to squat and/or vandalise.
- 9.2 The subsequent redevelopment of the sites will remove this problem and also help to remove unsightly empty buildings within the borough.

10. BEST VALUE (BV) IMPLICATIONS

- 10.1 The arrangement proposed in this report supports the council's best value duty. The proposal represents an efficient and effective use of the council's estate.
- 10.2 Where an asset has been identified as surplus to requirements, the council has the option to retain the asset for future use (and in the meantime to pay any costs associated with maintaining and securing the asset) or to sell the asset for a capital receipt.
- 10.3 In this case, it is more appropriate that the council dispose of the sites. The council will receive a capital receipt from the sale of the sites.

11. SAFEGUARDING IMPLICATIONS

- 11.1 There are no immediate safeguarding implications arising from this report.
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Linked Reports, Appendices and Background Documents

Linked Report

- Interim Disposals Programme (Exempt report)

Appendices

- Appendix A – Site plans.
- Appendix B – Indications of value.

Background Documents – Local Authorities (Executive Arrangements)(Access to Information)(England) Regulations 2012

- None

Officer contact details for documents:

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