


Individual Mayoral Decision	 TOWER HAMLETS
14 th June 2017	
Report of: Corporate Director, Place	Classification: Unrestricted
Acquisition of arches 89 and 89a Hemming Street, London, E2 6JG	

Lead Member	Cllr David Edgar, Lead Member for Resources
Originating Officer(s)	Ann Sutcliffe, Divisional Director, Property & Major Programmes
Wards affected	St Peter's and Spitalfields & Banglatown
Key Decision?	No
Community Plan Theme	One Tower Hamlets

Executive Summary

This report relates to the acquisition of two leases by the Council for Arches 89 and 89a Hemming Street, London, E2 6JG, as part of the Tent Street redevelopment scheme.

The lease term for arch 89 will be for a three year term at a rental of £120,000 per annum plus VAT. There will be a break clause for any reason at any time upon 3 months' notice by the Council or 6 months' notice by the landlord.

The terms for 89a are for a three year term at a rental of £62,400 per annum plus VAT. There will be a break clause for any reason at any time upon 3 months' notice by the Council or 6 months' notice by the landlord.

Recommendations:

The Mayor is recommended to:

1. Authorise the acquisition of a lease for Arch 89 Hemming Street, London E2 6JG for a three-year term at a rental of £120,000 per annum;
2. Authorise the acquisition of a lease for Arch 89a Hemming Street, London E2 6JG for a three-year term at a rental of £62,400 per annum;
3. Authorise the Corporate Director of Place, following consultation with the Corporate Director, Governance, to agree the terms and conditions of any agreements required to implement the recommendations above.
4. Authorise the Corporate Director, Governance, to execute all necessary

agreements to implement this decision

1. REASONS FOR THE DECISIONS

- 1.1 The Council has an objective to deliver over 1,000 new homes within the Mayor's term. In October 2015, Cabinet approved to fund a number of new build schemes including Tent Street through the Right to Buy (RTB) 1-4-1 receipts and additional borrowing.
- 1.2 In July 2016 Cabinet approved a capital budget of £89.92 m (inclusive of fees, on costs and level of contingencies) for the capital programme for the new build construction at the Hereford, Locksley, Baroness, Jubilee, Tent Street and Arnold Road sites to deliver 270 new homes and also allowed approval to proceed to award contracts to be delegated to the Corporate Director, Place and the Corporate Director, Law Probity and Governance, subject to the tenders being within the capital estimate amount.
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- 1.3 The Council has been developing design proposals for land at the end of Tent Street, the current revised scheme proposes to demolish the railway arch on the site to construct new homes in two blocks of 4 and 10 storeys.
- 1.4 The proposals are 100% affordable and include:
- 57 new homes at 100% rented.
 - A mix of one and four bed homes
 - 6 homes adapted for disabled residents.
 - Homes to be are to be let via the Common Housing Register in co-ordination with the project 120 list.
 - The rents for the new homes are to be at levels agreed in line with recommendations of the Affordability Commission, which is 50% of the homes to be social target rent and 50% at Tower Hamlets Living rents.

2. ALTERNATIVE OPTIONS

- 2.1 The Council could decide not to acquire the two leases from Network Rail for the three year term. However the arches are required as an engineering solution has been agreed that the subject arches will be propped up whilst the Council owned railway arch is demolished to make way for the Tent Street Development.

3. DETAILS OF REPORT

- 3.1 The Council owns a railway arch on the Tent Street site which is to be demolished to facilitate the construction of the new residential homes.
- 3.2 The subject arch adjoins Arches 89 and 89a Hemming Street which is in the ownership of Network Rail Limited (NRIL). An engineering solution to demolish the arch has been agreed with NRIL and the current design involves the temporary propping up of Arches 89 and 89a and some making good works.

- 3.3 Terms have been agreed with Network Rail Limited (NRIL) for the Council to acquire leases on the arches 89/89a for a three year term. During this time the arches will be utilised by the works contractor for the construction period. Alternative access to the site from Hemming Street will aid in alleviating some construction/site traffic from Tent Street, some financial benefits should be realised in the works contract.
- 3.4 The current programme is subject to planning approval. The proposed start on site is November 2017 with completion anticipated for September 2020.
- 3.5 Arch 89 Hemming Street has an area of 5,705 sq ft and terms have been agreed for the Council to take a three year lease (contracted out) from Network Rail at an annual rental of £120,000 per annum plus VAT. There will be an option to break the lease on three months' notice by the Council or 6 months' notice by the landlord for any reason at any time. All other terms will be on Network Rail's standard lease/tenancy.
- 3.6 Arch 89a Hemming Street has an area of 2,594 sq ft and terms have been agreed for the Council to take a three year lease (contracted out) from Network Rail at an annual rental of £62,400 per annum plus vat. There will be an option to break the lease on three months' notice by the Council or 6 months' notice by the landlord for any reason at any time. All other terms will be on Network Rail's standard tenancy.
- 3.7 The rental evidence in the vicinity in early 2017 ranged between £25-£31 psf for refurbished space with appropriate discounts for quantum. The rental agreed for number 89 equates to £21 psf, which allowed for a 15% quantum discount. For 89a the agreed rent equates to £24 psf, which allowed a 5% quantum discount.
- 3.8 For both leases the Council has agreed to pay a two month rent deposit and to make a cost contribution of £395 plus vat for each lease, this being a one off cost for preparing the legal documentation.

- In addition to this, the Council has agreed to pay Network Rail the following:
 - • £90,000 – this being the cost of Network Rail having to break their refurbishment programme. No VAT payable.
 - • **£45,600– this being the cost of a three month time delay (equivalent of 3 months' rent for both units exclusive of VAT)**

4. COMMENTS OF THE CHIEF FINANCE OFFICER

- 4.1 This report requests that the Mayor authorises the acquisition of leases for two railway arches as part of the housing development scheme that is being undertaken at Tent Street. The properties are:
- Arch 89 Hemming Street, London for a three-year term at a rental of £120,000 per annum

- Arch 89a Hemming Street, London for a three-year term at a rental of £62,400 per annum.

4.2 The Council is currently holding substantial levels of Right to Buy receipts (approximately £84 million as at 31st March 2017) which must be used for the supply of new housing. Tight time constraints apply to the use of these resources (they must be spent within three years of receipt) and if they are not utilised they must be paid to the Government with significant interest penalties falling on the Council. The development at Tent Street is one of the key elements of the new supply programme so it is important that the scheme progresses in order to ensure that these resources are not lost to the Council.

4.3 As a short term lease of three years, the lease rental payments, totalling £182,400 per annum, are revenue expenditure. These will be charged to existing budgetary provision within the Housing Revenue Account, as will the 'one-off' costs of £90,000 necessary to compensate Network Rail for breaking its refurbishment programme, and £45,600 to reflect the cost to Network Rail of a three month time delay.

4.4 The Tent Street capital scheme was approved by the Mayor in Cabinet on 26th July 2016 as part of the *Housing Revenue Account: Outline Business Plan and Medium Term Financial Outlook* report. This adopted a capital estimate of £89.92 million in relation to the new-build projects at the Hereford, Locksley, Baroness, Jubilee, Tent Street and Arnold Road sites.

5. LEGAL COMMENTS

5.1 The report seeks Mayoral approval for the acquisition of the two leases from Network Rail for a term of three years each to facilitate the proposed Tent street redevelopment.

5.2 Local authorities have powers pursuant to section 120 Local Government Act 1972 to acquire land for the purposes of exercising their statutory functions or for the benefit, improvement or development of its area. The Council in exercising such powers must do so in a fiduciary manner.

5.3 The Council is obliged as a best value authority under section 3 of the Local Government Act 1999 to "make arrangements to secure continuous improvement in the way in which its functions are exercised having regard to a combination of economy, efficiency and effectiveness". The information within the report suggests that the proposed acquisitions will secure the objectives set out in the 1999 Act.

- 5.4 The Council is required when exercising its functions to comply with the duty set out in section 149 of the Equality Act 2010, namely to have due regard to the need to eliminate unlawful discrimination, advance equality of opportunity between those who share a protected characteristic and those who do not, and foster good relations between those who share a protected characteristic and those who do not. There are no direct equality implications arising from the proposed transactions and relevant considerations have been made in the One Tower Hamlets Considerations below.

6. ONE TOWER HAMLETS CONSIDERATIONS

- 6.1 Authorising these leases will allow the building of much needed council homes, contributing to meeting the targets set out in the council's Strategic Plan.

7. BEST VALUE (BV) IMPLICATIONS

- 7.1 The rent being sought for these arches is below the rental level evidence in the vicinity.

8. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

- 8.1 There are no immediate sustainability implications arising from this report. The homes to be built on the site will be of high efficiency in terms of heat, ventilation and power.

9. RISK MANAGEMENT IMPLICATIONS

- 9.1 Risks arising from the engineering method will be managed through the works process. This will include securing the necessary specialist engineering advice when needed.
- 9.2 There is a risk that Network Rail will exercise the landlord's break. However, the risk is considered minimal as the propping up works, which the council will be commissioning, are required for the benefit of the safe running of the railway and in Network Rail's interest to be completed.

10. CRIME AND DISORDER REDUCTION IMPLICATIONS

- 10.1 There are no immediate crime and disorder reduction implications arising from this report.

11. SAFEGUARDING IMPLICATIONS

- 11.1 There are no immediate safeguarding implications arising from this report.

Linked Reports, Appendices and Background Documents

Linked Report

- None.

Appendices

- None.

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

- None.

Officer contact details for documents:

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