

Item No. 5.	Classification: Open	Date: April 23 2009	MEETING NAME Major Projects Board
Report title:		Expressions of interest in the Council's Freehold Interest in Site C5 Grange Walk Bermondsey Spa.	
Ward affected:		Grange Ward	
From:		Strategic Director of Major Projects	

RECOMMENDATIONS

1. That Major Projects Board notes the outcome of the first phase of marketing of site C5 and agrees to the following:
 - engaging with the shortlisted parties detailed in this report with a view to their submission of more detailed proposals in mid July
 - ceasing engagement with those interested parties who were not selected for the shortlist.

BACKGROUND INFORMATION

Regeneration policy and strategic planning

2. The regeneration of the Bermondsey Spa area has been a long held Council aspiration and Full Council agreed the Masterplan for the Bermondsey Spa Regeneration in October 2000. It identified a number of sites for regeneration within the overall area and the following objectives: *to better the area, to shape the bigger picture, to encourage community development and to maximise the value of the Council's land holdings.*
3. This report is in respect site C5 which forms part of Site C, the largest single site within the Bermondsey Spa Regeneration Area. It is bounded by Spa Road, Neckinger, The Grange and Grange Walk as shown coloured pink on the map attached at Appendix 1.
4. Site C is approximately 9 acres in total of which approximately five and a half acres are held freehold by the Council. The development of this site is a key element in the successful delivery of the ongoing regeneration initiatives currently underway in Bermondsey and the core objectives the Council envisaged when it approved the overall Bermondsey Spa Masterplan in October 2000.
5. This site has been afforded planning protection in Southwark Plan (UDP) and is identified in Appendix 3 of that plan as Site 20P. The uses required are C3 (dwelling houses) D use classes (non-residential institutions with priority for health; assembly and leisure) and B1 (business). Other acceptable uses are A Classes (shops, restaurants) with no other uses allowed. The estimated residential capacity is 483 – 1127 residential units and affordable housing should account for at least 35% of the accommodation.
6. A detailed masterplan for this site was agreed by the Executive on 18 July 2006 as a development framework for its regeneration. The

objectives are to create a place of interest and character, increase permeability through the site with emphasis on the creation of pedestrian and cycle routes keeping vehicular access to a minimum. The setting of the public realm has been a priority and the masterplan recommends the creation of open spaces and squares to be used by all within the community that compliment the newly redeveloped Spa Park. The masterplan encourages high quality and efficient urban design and to maximise the use of the land. A predominantly residential scheme was proposed for the site however, other proposed uses include commercial office space, shops/restaurants, community uses and public and private open space.

7. The Executive further agreed that the disposal of the Council's land within the Masterplan area of Site C be progressed in a way that would ultimately deliver its objectives.
8. On 30 January 2007, The Executive approved a revised accommodation strategy for the borough which included the provision for the detailed proposals for Site C to be developed in conjunction with other matters arising from the Council's evolving review of its office accommodation arrangements. Receipts arising from the disposal of vacated sites and buildings have been identified as part of the funding for this strategy.

Council land holdings

9. The extent of the Council's freehold ownership within Site C is shown shaded yellow in the plan at Appendix 2. Five separate parcels of land have been identified within the Council's ownership including C5 and these are shown in the plan at Appendix 3.
10. This report relates to the planned disposal of part of this site identified as Site C5 which fronts Grange Walk and includes Woodmill House, car parking land; Larnaca and George Tingle Houses, the Old Canteen and various stores. The total area of this site is approximately 10,775 m² (2.66 acres 1.07 hectares) and represents approximately 50% of the Council's freehold ownership within the whole block.
11. The majority of the site is held for General Fund purposes but the sites of George Tingle and Larnaca Houses is held for Housing Revenue Account purposes. They comprise an area of approximately 2,960m².

Current use

12. There are currently approximately 300 staff based within Site C5. Approximately half are Council staff who will be moving to Tooley Street during May-August 2009 and the other half are PCT staff who are moving within Site C to Mabel Goldwyn House.
13. When these staff move, Woodmill House and the stores will become surplus to requirements.
14. The two residential blocks, George Tingle and Larnaca Houses should also be vacated during this period as tenants are decanted to new

homes in St James Square in April/June 2009. The Major Projects Team is working closely with the Local Housing Team to ensure that tenants are re-housed and vacant possession of these blocks can be obtained. All 11 leasehold flats have now been acquired by negotiation.

15. The Southwark Irish Pensioners Projects who are currently based in the Old Canteen will be moving within Site C to Evelyn Coyle House by Spring 2010.

16. The position with the other four sites within Site C is shown in the table below

Site	Description	Site Area m2	Current and proposed use
C1	Old Town Hall (No 19 Spa Road) and One Stop Shop (No 17) together with access road to rear.	4,668 m2 (1.15 acres)	Old Town Hall to remain as municipal offices.
C2	Gibson & Evelyn Coyle Houses	3,670m2 (0.9 acres)	Gibson House is used for the provision of residential respite care for adults with learning disabilities. Relocation of services not feasible in short/medium term. Evelyn Coyle House currently provides temporary base for learning disability services and will provide accommodation in the medium term for the Irish Pensioners.
C3	Old Library (15 Spa Road)	527m2 (0.13 acres)	Sale agreed to Buddhists by the Executive in October 2008. This is being documented now and a Planning Application has been submitted.
C4	Mabel Goldwin House	1,793 m2 (0.44 acres)	PCT to be decanted to this building from Site C5 (Woodmill) for a 2 year period

Properties outside of the Council's ownership

17. The 2006 Site C masterplan also included land outside of the council's ownership.

18. These ownerships are generally concentrated in the south-west corner of the Site. (unshaded on plan attached to Appendix 2). A number of these sites have been redeveloped primarily for residential use, for example, Site T and Skyline Court. The sites fronting the western section of Spa Road are currently in commercial use but are likely to be developed out by its current owners or their agents / partners in the medium term.

19. On the eastern boundary with a substantial frontage to Neckinger there is a large primary sub-station owned freehold by EDF. (shown shaded green in Appendix 2) Relocation of the sub-station from this building would be desirable but the cost may be prohibitive. Initial discussions with EDF have indicated that this is an operational building that they wish to retain at this time.

20. To one side of Site C , with a small frontage to Grange Walk is a privately owned site known as Larnaca Works. The property is shown shaded blue in Appendix 3) The site has a planning consent for 90 residential units in three blocks and there is a S106 agreement that includes a commitment to provide £84K worth of public realm works in the form of two public squares within Site C5. Demolition works have now started on site, with ground works due to start in April 2009. A variation to the s106 agreement has recently been concluded that has reduced the number of affordable units in the scheme. The effect of the public squares on the development of site C5 has yet to be established.

KEY ISSUES FOR CONSIDERATION

Basis of disposal

21. Disposal of this site was agreed by the Executive on May 2 2007 as part of package of surplus properties.
22. There is a requirement to generate a capital receipt from the sale of all land within Site C and certainty of receipt is a key consideration.
23. The disposal of this site also needs to achieve the best consideration in accordance with section 123 of the Local Government Act 1972 and section 32 of the Housing Act 1985.
24. Although it is proposed to dispose of this site for redevelopment by others, the Borough will nevertheless want to ensure the completed development satisfies its aspirations in terms of design, landscape, and sustainability. Any scheme should reflect the vision set out in the masterplan and the Southwark Plan This requirement and current market conditions might mean best consideration will be achieved through phased capital receipts over a number of years.

Current market conditions

25. The UK economy effectively entered into recession in the fourth quarter of 2008 and the credit crisis has impacted adversely on all sectors especially the housing market . Over the last 12 months the Government has taken steps to rescue struggling banking institutions and the Bank of England has cut interest rates to 0.5 % in March this year, their lowest level in the bank's 315 year history.
26. Government initiatives such as changes in the stamp duty threshold charge and VAT rate cuts have been thwarted by the complexity of the current crisis. Unemployment figures showed a 165,000 quarterly increase to 2.03 million at February 2009 - the highest level since 1997.
27. The UK housing market has been one of the biggest casualties of the credit crisis. Nationwide and Halifax reported falls in house prices of 17.2% and -16.6% respectively in 2008. The impact on the London

residential market has been the same as countrywide with a drop in property prices of up to 24% in some areas, and at an average drop of 15% across the city. There is widespread speculation that house prices will continue to fall further in 2009 with total falls from the peak of the market estimated at 40%. House builders continue to struggle to find first time buyers due to restrictions on mortgage finance. Repossessions are rising, and the Council of Mortgage Lenders announced that 40,000 homes were repossessed in 2008 and an anticipated 75,000 homes to be repossessed in 2009.

28. However, Government affordable housing initiatives may enable some developments to progress. The Homes and Communities Agency (HCA) allocated £3bn to fund development of affordable housing in London for the next two years (2008-2010). Access to grant funds is available to all affordable/specialist housing developers meeting the requirements of HCA.
29. In terms of commercial space, the London office investment market continues to suffer and landlords continue to offer reduced rents and incentives in the hope of kick-starting the occupier market. In the 4th Quarter of 2008 vacancy rates were up by 5.6% to 3.9m sq.ft and prime rents falling by 20% from £110 per sq.ft (4th Qtr 2007) to £90 per sq.ft (4th Qtr 2008).

Method of disposal

30. The freehold interest in Site C5 was formally placed on the market in January 2009 through Lambert Smith Hampton.
31. Adverts were placed in the national property press, a brochure was mailed to 850 developers, agents and RSLs and a web site was set up for applicants to download detailed information about the site. The Site C masterplan was updated to include the proposals for Larnaca Works and The Library and a full package of information about the site including titles, site surveys, etc. has been produced.
32. The site was marketed on the basis of a two stage process, with expressions of interest being invited in the first instance – interested parties were asked to set out their interest on the basis of
 - *terms of purchase including prices and any proposed phasing of payments*
 - *details of the company submitting the proposal including funding arrangements*
 - *the company's history of delivering large mixed use schemes including examples of successful projects.*
 - *their outline proposals for the site*
33. Interested parties were also asked to consider the merits of including the site of the One Stop Shop in their proposals as a second stage and submit a separate expression of interest if appropriate.
34. There has been a good response with 105 enquires and 18 requests for the password for web site to download information. Six developers/RSLs asked to meet informally to discuss their proposals for the site.

35. A number of Expressions of Interest were received on the 13 March.

Assessment of expressions of interest

Basis

36. In order that proposals could be assessed against the requirement to achieve best consideration, a valuation report was obtained from an national practice of Chartered Surveyors on the basis of both an unconditional sale and a sale conditional on obtaining a planning consent.
37. A contract for sale would ideally be on an unconditional basis. However, the valuation advice was that in the current market, any unconditional offers would be at a lower level than those dependent on achieving a satisfactory planning consent. This was due to the fact that there are only a limited number of developers with the resources to invest a large initial payment and have the appetite for the risk that such an investment would involve.
38. Applicants were asked to consider including overage provisions so that the Council will benefit if the developer achieves more than set number of units or end sale values or in the event that the site is sold on for profit.
39. Where phased payments were submitted the net present value of future receipts would be calculated to allow greater value to be attributed to earlier receipts.
40. There might also be the need to consider if it is in the Council's interests to dispose to a single developer or to sell parcels to more than one developer. The sites could be divided into a number of parcels and disposed of in a phased way. The value of smaller parcels and the reduced risk involved should enable more prospective developers to compete, thereby driving up the value of the capital receipt to the Borough. Allocation of the site in this way will give the Borough greater control over the timing of development and as parcels are released over a period of time. This approach does however risk a less comprehensive development approach and design integration control will be critical and more difficult to achieve. A single disposal exercise is therefore recommended at this point.
41. The deliverability of applicants proposals for the site both in financial and planning terms is key and selecting the right partner or partners will be crucial to the delivery of continued high quality, well planned development, with the associated enhanced financial values.

Analysis of Proposals

42. All proposals were assessed using a scoring matrix in terms of quality and price.

Second stage of process

43. The next stage is to invite a shortlist of interested parties to engage with Council officers for feedback including the opportunity to attend individual workshops with planners. This is with a view to the submission of more detailed proposals in the form of an interview and informal tenders in mid July.
44. Bidders will be given the opportunity to include the One Stop Shop site in their informal tenders but as this site is not yet surplus to requirements, the additional value attributable to the inclusion of this site will need to be clearly identified and separately costed from site C5.
45. It is recommended that applicants who did not put forward key information should not be considered further at this stage based on the information submitted.
46. Continuing to negotiate with a number of parties means that the Council protects its position if one or more parties should withdraw or join forces during more detailed discussions. It also enables other options to be considered that explore the commercial element of the site either for offices or D1 (daycare) space. This could include options for the Council taking back a lease on new purpose built space on the site if this was a requirement and subject to procurement regulations.
47. The timetable moving forward would be; May, workshops with planners; end June Interviews; July 17 informal tenders submitted; September, report to Executive/ Major Projects Board for approval of preferred bidder; December 2009, contracts exchanged.
48. All developers will be informed of the requirement to enter into a clawback agreement so that the Council will benefit from any increase in value if site is sold (or sold on again) within an agreed period. This will need to be enforceable even if the site is broken up or included in larger package of land sales.

Public Realm

49. The masterplan for the site envisages infrastructure changes as part of the regeneration; these include providing a designated street pattern, a square, and public spaces. This concept needs to be retained as much as possible in the development of Site C5 Grange Walk It is anticipated that these will be secured by way of planning agreements.
50. The 2009 Public Realm Strategy continues with this concept and local consultation identified the need for safe routes throughout the area.

Community Impact Statement

51. The regeneration of Bermondsey Spa is considered to have benefits to not only the immediate community but also the Borough as a whole in that it will act as a catalyst to further investment. It is therefore necessary to balance the receipts against the development of this site in a way that benefits the whole community, with diverse outward looking development that forms a basis for the wider regeneration of the area.
52. This approach supports the Council's Diversity and Equal Opportunities policies. Strategic redevelopment of this site will ensure the diversity of the area will be widened.
53. The pertinent issues affecting the community are as follows: decant of George Tingle and Larnaca Houses; the re-provision of the Irish Pensioners day centre building and disruption to local residents and businesses caused by construction works.
54. Part of the site is currently occupied as an Irish Pensioners facility, an ethnic elderly persons lunch club where users eat and socialise. Following lobbying three years ago, a commitment was made to re-provide a similar elderly persons facility. This proposed strategy would deliver a medium term solution in Evelyn Coyle House and the possibility of a permanent re-provision within the regeneration site.

Equality and Diversity Implications

55. As part of the regeneration, an Equality and Diversity Impact analysis should be carried out and where potential adverse implications are identified action should be taken to overcome/mitigate them.
56. The aspirations of the Masterplan include the provision of additional community facilities.

Agenda 21 implications

57. Regeneration will result in buildings using the latest sustainable techniques with lower carbon emissions. The new buildings will also be to modern design standards.

Consultation

58. In preparing the Masterplan, Glenn Howells Architects worked closely with council officers from property, planning policy, development control, building control, housing, social services, conservation and transport to develop a Masterplan that fully meets the objectives and policies of the Southwark Plan and Southwark 2016. In addition it has to be commercially viable and therefore deliverable. The input of stakeholders played a fundamental role in the creation of this Masterplan. Local residents and community organisations also helped shape proposals through specific events.
59. The Bermondsey Spa Masterplan, the Site C Masterplan and the Southwark Plan (Unitary Development Plan) have been subject to extensive public and community consultation. Exhibitions and public meetings have been held and observations received and considered.

Resource implications

- 60. There are no direct staffing implications arising from the proposed disposal strategy
- 61. The project management/sale fees/design/site investigations will be met from the office disposal budget / Bermondsey Spa Regeneration team budget.

Financial Implications

- 62. The proposal should generate a substantial capital receipt in support of the modernisation agenda.,
- 63. Disposal of this site will reduce the burden on the revenue account in terms of the running costs.

Key risks identified and how they will be managed.

64.

Risk	Impact	Mitigation
Applicants proposals for non-residential element of proposed schemes do not meet planning policy requirements.	Deliverable scheme can not be developed so applicants do not proceed and submit informal tender stage	Workshops arranged with planners at early stage to address issues and find solutions
Disposal of large residential development site in unstable market means that informal tenders may be at a level below current valuation.	Delays to exchange of contracts beyond 2009/10.	Work closely with applicants to ensure their proposals maximise the value of the site and substantial overage is agreed to increase total receipts.
Vacant possession of housing blocks and Old Canteen is not obtained by the end of 2009/10	Additional contract condition required with associated uncertainty and ongoing additional costs of site security.	Continued close liaison with Housing, Property and Adult Services to ensure decants proceed smoothly.
Further deterioration in property markets and availability of funding	Applicants decide not to /cannot proceed	Continue to work closely with applicants and promote success of Bermondsey Spa including works to Public Realm and other development site to ensure this site is prioritised in term of the options available to the developers
Developers exploit current market conditions and buy site with a view to selling on for profit	Council loses income and possible damage to reputation.	Inclusion of detailed clawback provisions in sale contract

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

Finance Director

65. The Finance Director recognises the need to dispose of surplus assets to obtain capital receipts in order to fund Council objectives. He agrees with the proposal to shortlist those interested parties identified in this report and to cease engagement with those interested parties who were not selected. FMS colleagues will continue to be involved in ongoing negotiations.

Head of Property

66. Disposal of Site C will result in a very significant contribution to the Modernisation Programme. It is a key asset for the council and the suggested means of testing the market and expressions of interest should secure the best value obtainable at present. At the next stage, it will be necessary to review whether disposal values being achieved are sufficient in the context of policy priorities for a sale to be recommended.
67. In assessing whether schemes are suitable at the next stage it will be necessary to exclude only those which are manifestly not deliverable and choose the best financial offer from those remaining. A policy decision will be required to depart from this strategy and Secretary of State consent may also be needed depending on the extent of any undervalue.
68. The Masterplan has no legal status as yet so value minima need to be based on the UDP as the framework currently in force. It appears that the Masterplan should enable greater densities to be achieved although the requirement for commercial space that may not be viable continues to give concern and should be kept under review.

Strategic Director Of Legal And Democratic Services

69. Paragraph 11 of this report states that George Tingle House and Larnaca House are held within the Council's Housing Revenue Account. In accordance with Section 32 of the Housing Act 1985 ("the 1985 Act") the disposal of land held for housing purposes, otherwise than the grant of a secure tenancy, requires the Secretary of State's consent.
70. A number of general consents have been issued under the General Housing Consents 2005. Consent E.3.1 permits a local authority to dispose of any land held for the purposes of Part II of the 1985 Act, for the best consideration that can reasonably be obtained provided that any dwelling-house included in the disposal :

is vacant;

will not be used as housing accommodation; and

will be demolished.

In relation to the other land which is all held under the General Fund Section 123 of the Local Government Act 1972 provides that a local authority may dispose of land in any manner it wishes without the Secretary of State's consent if any such disposal, other than a lease of up to a term of seven years, is for the best consideration reasonably obtainable.

71. Paragraph 23 of this report refers to the need to obtain best consideration. In relation to the Housing land If the Major Projects Board is satisfied, firstly that the other requirements in the consent will also be met, that is that at the disposal date all the dwelling-houses will be vacant, not used as housing accommodation and will be demolished; secondly that the land has been declared surplus to requirements; and thirdly that the disposal represents good value for money, it may proceed with the approval of the recommendation for the sale of such land. In relation to the non-Housing land if the Board is satisfied the disposal is for the best consideration reasonably obtainable and represents good value for money it may similarly approve the recommendation for sale.
72. It is understood there are a total of 18 secure tenants in George Tingle House and Larnaca House, that the appropriate consultation has taken place, and that they are all to be decanted to new units in St James Square. If any of these secure tenants decline the new units the Council will need to obtain a court order under one of the grounds in Schedule 2 to the Housing Act 1985. Redevelopment grounds are those under Ground 10 and 10A. In both cases possession will only be granted if suitable alternative accommodation is available. If the Council does not intend to demolish, reconstruct or carry out work on the development Ground 10 would not be available as a ground for possession. However, Ground 10A would be available if the dwellings are in an area which is the subject of a redevelopment scheme that has been approved by the Secretary of State.
73. There will be costs associated with giving the tenants the statutory home loss payments and disturbance payments where justified under the Land Compensation Act 1973. The current home loss payment is set at £4,400 and the average disturbance cost in the region of £750.
74. Any secure Council tenants in occupation who fail to engage, refuse a decant offer of re-housing to St James Square or fail to obtain re-housing through the Council Homeseach Scheme would face legal proceedings for possession brought by the Council in the Lambeth County Court under Ground 10 of Schedule 2 of the Housing Act 1985 on the basis that the Council intends to demolish the building(s). A requirement of the ground is that alternative accommodation is available that is reasonably suitable to meet the needs of the tenant and their family.
75. Paragraph 19 of this report indicates that relocation of the EDF sub-station would be "desirable but the cost may be prohibitive". However, if having assessed the position, the Board concludes that the cost is not prohibitive, and EDF is not prepared to relocate by agreement, the Council can obtain a compulsory purchase order. Section 226(1) of the Town & Country Planning Act 1990 enables a local authority to compulsorily purchase land if it thinks the acquisition will facilitate the carrying out of development, re-development or improvement in relation to the land and they think it is likely to contribute to the achievement of the economic, social or environmental well-being of their area.

76. The Council also has wide general powers under Section 2 of the Local Government Act 2000 which allows a local authority to do anything it considers is likely to achieve the promotion or improvement of the economic, social or environmental well being of its area or the residents of that area. This would allow the Council *inter alia* to enter into the proposed overage (“clawback”) agreement referred to in paragraphs 38 and 62 of this report.

BACKGROUND PAPERS

Background Papers	Held At	Contact
Site C Masterplan Project File	Major Projects Directorate Bermondsey Spa Regeneration Team	Jane Seymour 0207 525 4907

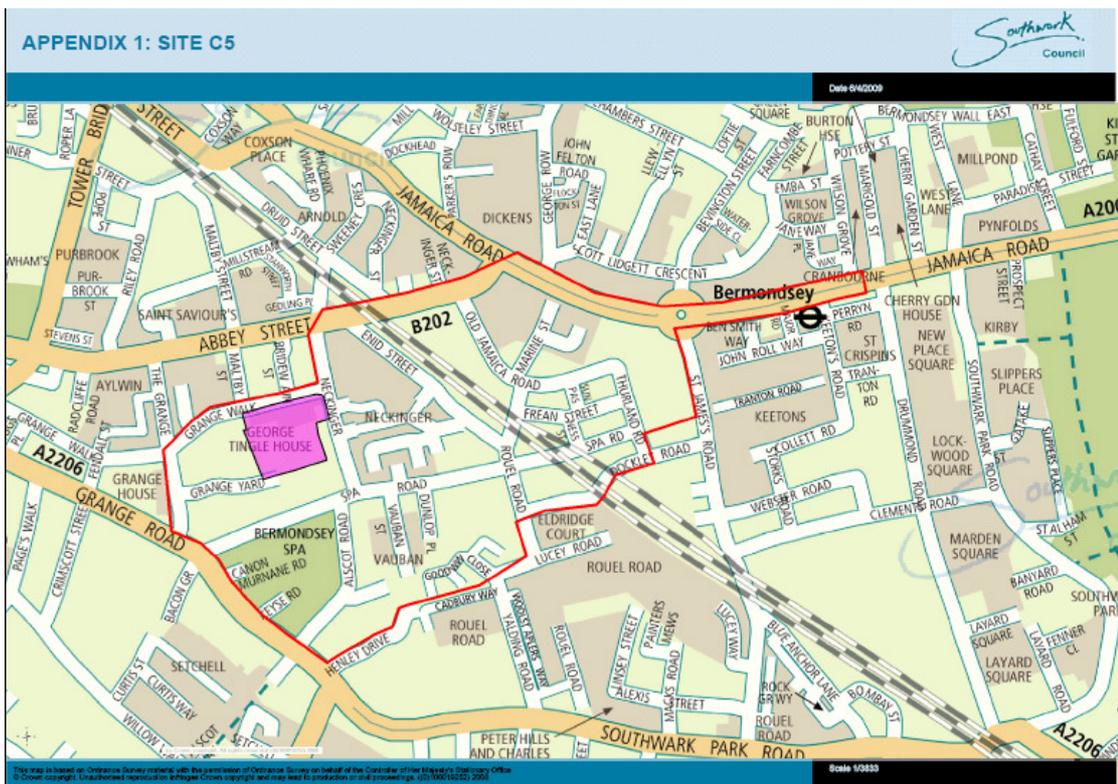
APPENDICES

No.	Title
Appendix 1	Plan depicting the location and extent of Site C
Appendix 2	Freehold ownerships
Appendix 3	Packages of land within Site C

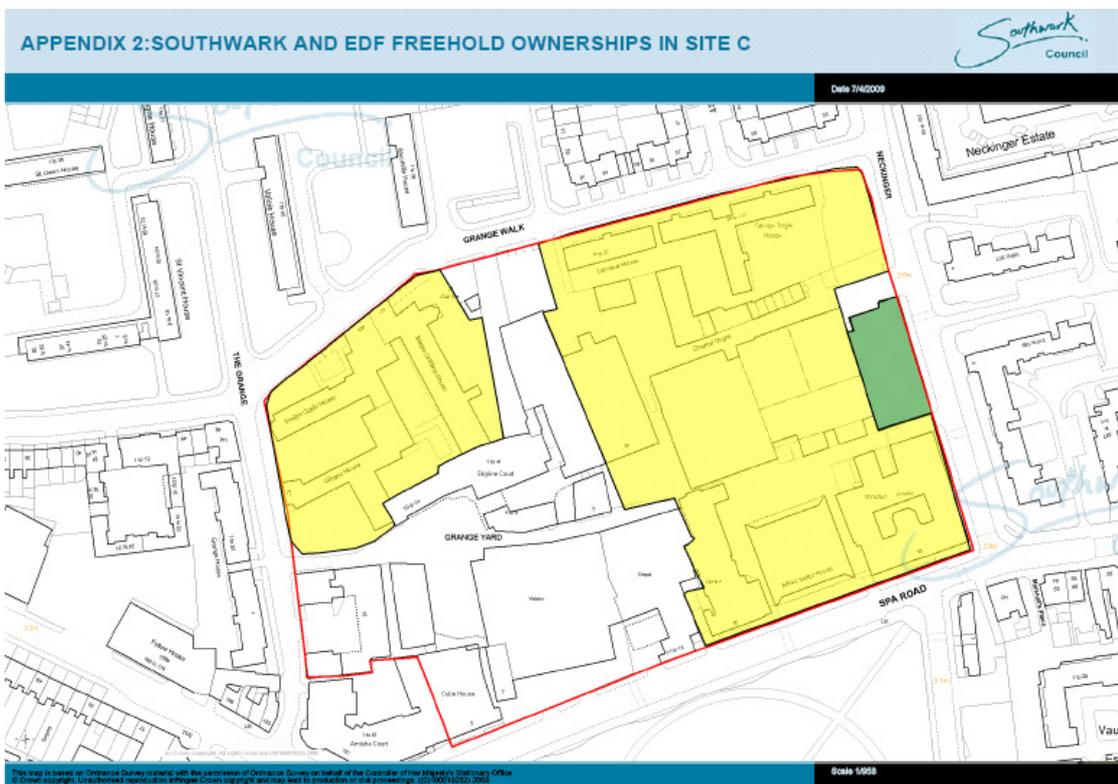
AUDIT TRAIL

Lead Officer	Stephen McDonald Strategic Director Major Projects		
Report Author	Jane Seymour Principal Surveyor		
Version	Final		
Dated	13.04.09		
Key Decision?	Yes	If yes, date appeared on forward plan	Sept 08
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / EXECUTIVE MEMBER			
Officer Title	Comments Sought	Comments included	
Strategic Director of Legal and Democratic Services	Yes	Yes	
Director of Finance	Yes	Yes	
Head of Property	Yes	Yes	
Date final report sent to Constitutional Support Services	14 April 2009		

Appendix 1 - Location of Site C5



Appendix 2 – LBS freeholder ownerships within Site C



Appendix 3 – Packages of Land within LBS freehold ownerships in Site C

