

Item No.	Classification: Open	Date: September 29 2009	MEETING NAME Executive
Report title:		Disposal of the Council's freehold interest in Site C5 Grange Walk and the One Stop Shop 17 Spa Road, Bermondsey Spa.	
Ward affected:		Grange Ward	
From:		Strategic Director of Regeneration and Neighbourhoods	

RECOMMENDATIONS

That the Executive:

1. Approves the disposal of Site C5 on the principal terms set out in the closed section of this report.
2. Approves the disposal of 17 Spa Road (Bermondsey One Stop Shop) on the principle terms set out in the closed section of this report subject to a further Executive decision that this property is surplus to requirements.
3. Authorises the Head of Property to agree any variations to these terms that may be necessary to achieve the regeneration in the light of further negotiations and securing full planning consent.
4. Notes the disposal will be conditional on surplus declarations being obtained for George Tingle House and Larnaca House.

BACKGROUND INFORMATION

Regeneration policy and strategic planning

5. The Masterplan for the regeneration of Bermondsey Spa, approved in October 2000 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.
6. This report is in respect of two adjoining sites within Site C, the largest single site within the Bermondsey Spa Regeneration Area. This site is bounded by Spa Road, Neckinger, The Grange and Grange Walk and is shown coloured pink on the map attached at Appendix 1.
7. The two sites concerned, Site C5 Grange Walk and 17 Spa Road (currently occupied by the Bermondsey One Stop Shop) are shown edged red on the plan attached at Appendix 3.
8. Site C 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.

9. A detailed masterplan for Site C was agreed by the Executive on July 18 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.
10. The Executive further agreed that the disposal of the council's land within Site C should be progressed in a way that would ultimately deliver its objectives.
11. On January 30 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

12. The extent of the council's freehold ownership within Site C is shown shaded yellow in the plan at Appendix 2.
13. This report relates to the planned disposal of the two adjoining parts of this site shown edged red on the plan at Appendix 3 and separately 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 1.098 hectares (2.71 acres).
 - **17 Spa Road** which currently occupied by the Bermondsey One Stop Shop which fronts Spa Road between the Old Town Hall and the Old Library. The area of this site is s this site is 0.16 hectares (0.47 acres)
14. The majority of these two sites are held for General Fund purposes but the site of George Tingle and Larnaca Houses is held for Housing Revenue Account purposes. This comprises an area of approximately 2,960m².
15. The other sites within the council's ownership are 19 Spa Road (the old Town Hall), Mable Goldwyn House, Evelyn Coyle House and Gibson House.

Current use

16. Within Site C5, the Woodmill Building and the stores will be vacated by the end of September. Council staff have moved to Tooley Street and PCT staff have moved within Site C to Mabel Goldwyn House. These buildings will then become surplus to requirements.

17. The two residential blocks, George Tingle and Larnaca Houses should also be vacated by the end of September as tenants are relocated to new homes in St James Square. All 11 leasehold flats have now been acquired by negotiation. All statutory consultation has taken place.
18. The Southwark Irish Pensioners Projects who are currently based in the Old Canteen will be moving within Site C to Evelyn Coyle House in Spring 2010.
19. An October 2008 Executive report recommended that Bermondsey Town Hall (19 Spa Road), adjacent to the 17 Spa Road site should be retained as modern flexible general purpose office accommodation to accommodate the locality based team and the Children Looked After Safe Guarding and Specialist Services team. This approach gives considerable opportunities for service integration and improvement. It would reduce the costs of maintaining several high cost buildings and frees sites for disposal, providing receipts for the capital programme.
20. Under the Localities Programme, a detailed study has been made of the potential configuration and refurbishment possibilities at 19 Spa Road and a solution developed which incorporates the requirement for a separate and secure entrance for the Children Looked After service in the lower ground floor of the building.
21. The Localities Team have also considered incorporating the One Stop Shop currently accommodated at 17 Spa Road site into 19 Spa Road development. This approach is in line with the Asset Management Plan's Corporate Asset Objectives to optimise use, consolidate and rationalise property, reduce running costs, redirect accommodation costs into service improvement, explore the benefits of bringing closer together customer facing services and improving retained accommodation. Co-locating the One Stop Shop and After Care Service is also attractive from a service perspective as it will help the process of transitioning young people into main stream service provision.
22. A feasibility study demonstrates that accommodating the One Stop Shop in 19 Spa is possible alongside the other service requirements in the building and the sensitive areas of the Children's Services operation can be kept separate from the public and staff areas of the rest of the complex.

Properties Outside of the Council's Ownership

23. 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 4) 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.
24. 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 4). 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. Ground works have now started on site.

KEY ISSUES FOR CONSIDERATION

Basis of disposal

25. Disposal of Site C5 was agreed by the Executive on May 2 2007 as part of package of surplus properties.
26. It was agreed by Major Projects Board on the April 23 2009 that bidders should 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 would need to be clearly identified and separately costed from site C5.
27. 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.
28. 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.
29. Although it is proposed to dispose of these sites 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
30. The disposal will be conditional on vacant possession being obtained and demolition commencing prior to completion. Demolition of the existing residential buildings will be carried out by the developer as agent for the council to ensure compliance with the requirements under paragraph E3.1 of the General Consent for the Disposal of Part II Land 2005.

Current market conditions

31. 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.
32. 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 continues to rise and figures show a 220,000 quarterly increase to 2.43 million at June 2009 - the highest level since 1997.
33. The UK housing market has been one of the biggest casualties of the credit crisis. Nationwide reported falls in house prices of 17.2% in 2008 and a fall of 25% overall from the peak in October 2007. There are now some signs of improvement in the market and in August 2009, Nationwide reported the fourth consecutive month rise in prices and that prices have now recovered to 84% of 2007 values. However the majority of experts still remain cautious that this is a clear indication of sustainable recovery in the housing market as the recent increase have been driven by a shortage of properties coming onto the market

and low interest rates. House builders continue to struggle to find first time buyers due to restrictions on mortgage finance and repossessions continue to rise. The Council of Mortgage Lenders announced that 40,000 homes were repossessed in 2008 and an anticipated 75,000 homes will be repossessed in 2009.

34. 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).
35. 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.

Method of Disposal

36. The freehold interest in Site C5 was formally placed on the market in January 2009 through Lambert Smith Hampton.
37. The site was marketed on the basis of a two stage process, with expressions of interest being invited in the first instance. There was a good response to the advertising and expressions of interest were received on the March 13 2009. All were conditional on planning consent being obtained before completion.
38. Major Projects Board agreed on April 23 2009 to engage with four short listed parties with a view to their submission of informal tenders in mid July and to cease engagement with those interested parties who were not selected for the shortlist.
39. This further period of engagement has included the preparation of draft Heads of Terms for the sale and meetings with all the bidders to discuss same. There has also been the opportunity for bidders to submit their proposed schemes for formal pre-application planning advice. All four bidders met with planners and have had the chance to amend their schemes in line with comments received.

Assessment of informal tenders

40. Tenders were received from all four applicants on July 17 2009
41. The bidders were asked to set out their proposals on the basis of
 - A formal response to the draft Heads of Terms setting out the terms of purchase including price, proposed phasing of payments and overage based on sales, planning and disposal.
 - 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.
 - Outline proposals for the site
42. Tenders were invited on two bases
 - Plan A Site C5 alone

- Plan B Site C5 plus 17 Spa Road (The One Stop Shop)

43. In order that proposals could be assessed against the requirement to achieve best consideration, a valuation report was obtained from King Sturge, a national practice of chartered surveyors.
44. 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.
45. 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.
46. Bidders were asked to assume that the residential blocks George Tingle and Larnaca would be demolished and the One Stop Shop would be dismantled and removed at the council's cost prior to completion. The reason for this approach is that the council has a duty to ensure that residential blocks sold for redevelopment are demolished.
47. Assessment of the tenders in term of quality as well as price is important so the deliverability of applicants' proposals for the site both in financial and planning terms have also been assessed. Selecting the right partner is crucial to the delivery of continued high quality, well planned development, with the associated enhanced financial values.
48. In order to ensure that bidders fully understood the council requirements and to enable an effective comparison of tenders they were asked to respond to draft Heads of Terms. All developers were informed of the requirement to enter into a claw back 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.
49. The submission of schemes for pre-application advice from the planning authority has enabled the council to effectively assess the deliverability of each proposed scheme. This is especially important as all the tenders are conditional on planning and so the sale will not complete until planning consent obtained. Obtaining details of their proposals at this stage will enable the council to clearly define what it required in terms of a planning consent to allow the sale to complete.

Analysis of Proposals

50. A full analysis of all four tender returns is set out Lambert Smith Hampton's report attached to the closed report.
51. All of the proposed bidders would have to enter into s106 agreements in respect of their proposed schemes and make contributions based on the standard Southwark tariff.
52. All proposals were assessed using a scoring matrix in terms of quality.

53. All four proposed schemes included a large element of mixed tenure residential accommodation.
54. Lambert Smith Hampton have recommended that the council proceed with the sale as set out in the closed report. They have confirmed that this would represent the best consideration reasonably obtainable.

Next steps

55. If the council decided to proceed and accept one of the tenders for Site C5, solicitors would be instructed and the target date for exchange of contracts would be December 2009
56. The council could also accept one of the tenders for the combined site of C5 and 17 Spa Road but on the basis that the inclusion of 17 Spa Road was subject to a further Executive decision that this property was surplus to requirements. Subject to the preferred bidder's agreement solicitors could be instructed on this basis.
57. If contracts are exchanged by December 2009, the timetable for disposal would be then be planning consent submitted July / August 2010; planning consent granted and sale completes late 2010 / early 2011.

Public Realm

58. 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.
59. The 2009 Public Realm Strategy continues with this concept and local consultation identified the need for safe routes throughout the area.

Community Impact Statement

60. 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.
61. 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.
62. 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.
63. Part of the site is currently occupied as an Irish Pensioners facility, an ethnic elderly persons lunch club where users eat and socialise. The relocation to

Evelyn Coyle House would deliver a medium term re-provision of a similar elderly persons facility.

Equality and Diversity Implications

64. 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. There are no adverse implications identified in respect of this proposal.

Sustainability implications

65. 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

66. 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.
67. 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

68. There are no direct staffing implications arising from the proposed disposal strategy
69. The project management/sale fees will be met from the office disposal budget/Bermondsey Spa Regeneration team budget. The Council's legal costs up to a an agreed limit will be met by the purchasers.

Financial Implications

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

Key risks and how they will be managed

Risk	Impact	Mitigation
Bidders proposals for non-residential element of proposed schemes do not meet planning policy requirements.	Scheme does not get planning consent	Work with preferred bidder and planners to address issues and find solutions
Bidders proposals for residential element exceeds densities set out in planning policy	Scheme does not get planning consent	Ensure that wording in sale contract allows LBS to determine if application is not made and consent obtained within set period
Vacant possession of housing blocks and Old Canteen is not obtained by the beginning of 2011 when vacant possession required	Sale will not compete	Continued close liaison with Housing, Property and Adult Services to ensure decants proceed smoothly.
Further deterioration in property markets and availability of funding	Preferred bidder decides not to /cannot proceed	Continue to work closely with preferred bidder to strict timetable and promote success of Bermondsey Spa including works to Public Realm and other development sites to ensure this site is prioritised in term of the options available to them.
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 claw back provisions in sale contract

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

Planning Policy and Development Management

72. Development Management undertook formal pre-application advice sessions with each of the four bidders that involved the submission of material, a meeting with planners and design officers in attendance, and presentation to the Major Applications Panel. A detailed pre-application advice letter was then sent to each bidder highlighting issues with the respective schemes. The final submission followed receipt of this advice and the following comments are based on the final submission.

73. As a general comment on the Site C5 and 17 Spa Road proposals, Development Management consider that in urban design terms, it is desirable that the successful scheme incorporate both sites to ensure adequate permeability through the site and provide an active link to Spa Gardens. From our assessment, the development of Site C5 only would not have the benefits of the two schemes considered as a whole and would have reduced opportunities.
74. Planning Policy comments on the proposals in respect of density as follows; - several of the four schemes exceed the maximum density level. The assessment of each scheme by Development Management, in terms of whether they incorporate an exemplary standard of design with an excellent standard of living accommodation, must be a key consideration in order to determine whether we can accept a higher density level for the site. Policy 4.4 states that the measure of residential density will need to take into account other uses in order to assess the overall efficient use of land and the impact of the building on other relevant factors such as amenity. Appendix 2 of the Southwark Plan sets out the method of calculating mixed use developments.
75. Proposal for use of Sites for D use: The proposal site designation sets out a priority for health uses to be delivered within the 'D' use class which is one of the required uses on the site. The successful developer should liaise with Southwark PCT to ascertain whether there is any additional need for health facilities in the area. Following this discussion, and if existing health facilities are considered adequate to serve the future population of the area, other D uses could then be considered for inclusion aside from health uses.
76. Sustainability: The site is owned by the council, and therefore the successful scheme will need to achieve a minimum of Code for Sustainable Homes Level 4 or equivalent

Finance Director

77. The Finance Director recognises the need to dispose of surplus assets to obtain capital receipts in order to fund council objectives. He acknowledges the proposal to take forward those parties which propose an optimal solution for the development of the site at the present time. FMS colleagues will need to continue to be involved in ongoing negotiations.
78. The Finance Director notes from Appendix 5 of the closed section of this report that Lambert Smith Hampton have recommended that the council proceed with the sale on the basis that in the current market this offers the best consideration attached to the least risk to obtaining the value of receipt stated in the bid.
79. The Finance Director notes in the property concurrent that the recommendation is to proceed with the bid as the best consideration.
80. The Finance Director notes that the disposal of site C5 was agreed by the Executive on May 2 2007 as part of a package of surplus properties, that there is a requirement to generate a capital receipt from the sale of all land within site C and that certainty of the receipt is a key consideration. He also acknowledges that there is potential for inclusion of 17 Spa Road in the disposal subject to this property being subject to a further Executive decision that this property is surplus to requirements.

81. He recognises that the disposal of the site must achieve the best consideration in accordance with section 123 of the Local Government Act 1972 and section 32 of the Housing Act 1985.
82. With regard to resource implications it is noted that there are no direct staffing implications arising from the disposal strategy and that the costs of project managing the disposal will be met via the Bermondsey Spa budget allocation.
83. Once within council accounts, the receipt per the level of the successful bid will represent a sizeable allocation of resources in support of the council's programmes and it is noted that the disposal of the site would reduce the revenue cost associated with operating the housing units contained on the site.
84. It is noted that there will be statutory costs associated with giving existing tenants the statutory home loss payments and disturbance payments where justified under the land compensation act 1973, such costs will be funded from existing HRA budgets.

Head of Property

85. Disposal of Site C will result in a very significant financial contribution to the Modernisation Programme. It is a key asset for the council and market testing has brought forward a good level of interest with values generally acceptable and in the region indicated by the external valuations that were carried out.
86. Based on the supporting recommendation and certification by Lambert Smith Hampton, it is therefore confirmed that the disposal represents the best consideration reasonably obtainable and meets the council's legal duties in that respect.

Strategic Director for Communities, Law and Governance

87. It is noted that part of the site is held for housing purposes and the remainder is held in the general fund. In so far as the disposal of property held in the general fund is concerned, the disposal of that part will need to comply with Section 123 of the Local Government Act 1972. This states that except with the consent of the Secretary of State, a council shall not dispose of land under that section, otherwise than by way of a short tenancy, for a consideration less than the best that can reasonably be obtained.
88. Case law supports the notion that the requirement to obtain the best consideration that can be reasonably obtained is not confined to the highest offer made, but the highest deliverable offer.
89. As to the part of the property held for housing purposes, the disposal of that part can only proceed in accordance with Section 32 of the Housing Act 1985, for which purposes the consent of the Secretary of State for the Department of Communities and Local Government is required.
90. A number of general consents have been issued in the General Housing Consents 2005. Consent E3.1 of the general consent for the disposal of Part II Land 2005 states that a local authority may dispose of any land held for the purposes of Part II for a the best consideration that can reasonably be obtained, provided that any dwelling-house included in the disposal:

- (a) is vacant;
 - (b) will not be used as housing accommodation; and
 - (c) will be demolished.
91. The report confirms that the disposal will be conditional on vacant possession and demolition commencing prior to completion. The Head of Property's comment has confirmed that disposal will be at the best consideration that can be reasonably obtained.
92. It is understood that there are a total of eighteen secure tenants in George Tingle House and Larnaca House 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.
93. There will be costs associated with giving tenants the statutory home loss payments and disturbance payments where justified under the Land Compensation Act 1973. Generally the home loss payment is set in the region of £4,400, but this will depend upon the type of interest held. The average disturbance cost is in the region of £750.
94. 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 Homesearch 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.
95. The disposal will be conditional on obtaining declarations of surplus in respect of the land held for housing purposes.
96. If members are satisfied that the consideration is the best that can reasonably be obtained, and that the transaction represents value for money, they may proceed with the approval of the recommendation.

BACKGROUND PAPERS

Background Papers	Held At	Contact
Site C Masterplan Project File	Regeneration 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	LBS freehold ownerships
Appendix 3	Plan showing Site C5 and 17 Spa Road
Appendix 4	Ownership of land within Site C

AUDIT TRAIL

Lead Officer	Richard Rawes, Strategic Director of Regeneration and Neighbourhoods		
Report Author	Jane Seymour, Principal Surveyor		
Version	Final		
Dated	September 18 2009		
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 for Communities, Law and Governance	Yes	Yes	
Finance Director	Yes	Yes	
Head of Property	Yes	Yes	
Heads of Planning Policy and Development Management	Yes	Yes	
Date final report sent to Constitutional Support Services			18.9.2009

Appendix 3

Site C5 Grange Walk and the One Stop Shop, 17 Spa Road



