

MUNICIPAL YEAR 2016/2017 REPORT NO.

ACTION TO BE TAKEN UNDER DELEGATED AUTHORITY

OPERATIONAL DECISION OF:

Director – Regeneration and Environment and
Director of Finance, Resources and Customer
Services

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Agenda – Part: 1	KD Num: 4317
Subject: Land Acquisition at Meridian Water	
Wards: Upper Edmonton & Edmonton Green	

1. EXECUTIVE SUMMARY

- 1.1 On the 10th February 2016 Cabinet (KD4229) agreed the increase to the Neighbourhood Regeneration Capital Programme to fund the next stages of a number of regeneration initiatives which include Meridian Water land acquisition.
- 1.2 On 18th May 2016 Cabinet (KD4317/U196) authorised the acquisition of a 5 acre plot in Meridian Water (see Part 2 for the plot name and details)
- 1.3 On 18th May 2016 Cabinet (KD4317/U196) delegated authority of the final exchange and completion of the Agreement for Sale as described in Part 2 of this report to the Directors of Regeneration and Environment and Finance, Resources and Customer Services.
- 1.4 The purpose of this report is approve the final terms of the sale and to authorise the Authorised Legal Officer to enter into the Agreement for Sale (Sale Contract is appended to Part 2 of this report), which is in accordance with the contents of the Cabinet Report (KD4317/U196).

2. RECOMMENDATIONS

- 2.1 To approve the final terms of the sale and to authorise the Authorised Legal Officers, to enter into the Agreement for Sale in accordance with the Sale Contract and all associated legal documents (appended to Part 2).
- 2.2 To authorise all necessary expenditure associated with the purchase of this land as detailed in Part 2 of this report, noting that it will be contained within the existing approved capital budget.

3. BACKGROUND

- 3.1 Meridian Water comprises approximately 85 hectares in the south east of the Borough and is one of the largest developable areas in London. Located within the Central Leaside growth area and the Mayor of London's wider Upper Lee Valley Opportunity Area, it has significant redevelopment potential.
- 3.2 On the 10th February 2016 Cabinet (KD4229) agreed the increase to the Neighbourhood Regeneration Capital Programme to fund the next stages of a number of regeneration initiatives which included Meridian Water land acquisition.
- 3.3 On 18th May 2016 Cabinet (KD4241) approved the decision to approve the outcome of the Meridian Water Master Development Partner procurement process. Barratt Homes is the selected Master Developer.
- 3.4 On 18th May 2016 (KD4317/U196) Cabinet Members authorised the unconditional exchange of the Agreement for Sale, and delegated authority for completion of purchase to the Directors of Regeneration and Environment and Finance, Resources and Customer Services.
- 3.5 The Council has adopted a proactive strategy of coordinating the delivery of the Meridian Water development following feedback from developers that multiple landownerships were a barrier to development. The Council's strategy is to acquire all developable land at Meridian Water. This not only ensures the delivery of the project it also ensures that the Council has control at every stage of the development process which is crucial to ensure quality is maintained.
- 3.6 To date the Council has acquired 15 hectares of land within Meridian Water. This includes:
 - Three National Grid sites (Willoughby Lane, Meridian Way and Leaside Road) in April 2015
 - Orbital Business Park in June 2015

- The Council is also under an exclusivity agreement to acquire a further 4.5 hectare site
- 3.7 The acquisition of this 5 acre site is proposed on the basis of its existing use commercial basis but in the future, depending upon a future masterplan, it could accommodate different uses, possibly including residential or education. The Red Book valuation is based upon existing use value. While specifically excluding "Hope Value", it does have regard to plans for ongoing regeneration and future redevelopment of the area which does enhance the value.
 - 3.8 This additional 5 acres will mean that the Council is well on the way to acquiring the land to enable the vision of Meridian Water to become a reality.
 - 3.9 The Council (through its land buying agent, Jones Lang LaSalle (JLL), is in discussion / negotiating with the vast majority of Meridian Water landowners to ensure that any Compulsory Purchase Order (CPO) is a last resort. This negotiated settlement is another example of the Council securing control through negotiated methods.
 - 3.10 In accordance with Property Procedure Rules, the Council is obligated to obtain a Red Book Valuation to substantiate the open market value of land to be acquired and demonstrate Best Value. Glenny's have produced a Red Book Valuation, the findings can be found in Part 2 of this report.
 - 3.11 Trowers and Hamlins LLP, are the Council's appointed legal advisor, and in liaison with the vendor's solicitors have prepared an Agreement for Sale now that the final figure and terms have been agreed. They have also advised the Council on risks associated with the acquisition.
 - 3.12 Trowers and Hamlins LLP have been appointed to provide advice in relation to VAT and Stamp Duty Land Tax (SDLT) arising from the purchase.
 - 3.13 Trowers and Hamlins LLP have been appointed to undertake title due diligence and their findings are reported in the Part 2 report.
 - 3.14 JLL have produced a supporting Purchase Report which concludes that in their view the purchase of the land according to the deal agreed (as set out in Part 2o of this report) can be supported and should be progressed on the unconditional planning terms agreed with the vendor. This report is appended to Part 2.

The Terms of the Sale Contract

- 3.15 The Deal Structure is described in Part 2 of this report. The Agreement for Sale (entitled Sale Contract) together with the Report on Contract produced by Trowers and Hamlins are appended to Part 2.
- 3.16 The site is being sold as a freehold, with occupational leases in place and the property will be provided with Tenants in situ on completion. Vacant possession of the site is not required until such time as this land comes forward for development.
- 3.17 The site comprises industrial buildings which are subject to a number of occupational leases. Trowers and Hamlins have received the four occupational

leases, which have been fully reviewed, details of which can be seen in Part 2 of this report. The terms of the leases vary, but according to the expiry dates and the break clauses, full vacant possession of the entire site could be secured from January 2019. A summary assessment of the risks associated with the occupational leases can be found in the Trowers Report on Title which is appended to Part 2 of this report.

- 3.18 Since the sale is being undertaken as a bank-to-back sale through an intermediary, the land cannot be acquired as a Transfer of Going Concern (TOGC). Therefore VAT is payable on the transaction. However, the Council will Opt to Tax in order to reclaim VAT paid on the transaction from HMRC (see further details in Part 2 and PWC advice appended to Part 2 of this report)
- 3.19 Exchange of contracts is due to take place on 12th July 2016, without a deposit and with Nil payable. Completion is due to take place on 18th July 2016, when full cash payment will be due.
- 3.20 The vendor will continue to manage the property in accordance with the vendor's normal management practice between exchange and completion.

Due Diligence

- 3.21 The Council appointed specialists, Trowers and Hamlins, to undertake due diligence in relation to the site which includes examining the title and the leases.
- 3.22 The Council appointed Amec Foster Wheeler to understand the environmental characteristics of the site. Amec Foster Wheeler provided a very high level assessment of the risk associated with historical use and the environmental sensitivity of the site to conclude whether remediation costs were likely to be higher or lower when compared with the Willoughby Lane Former Gasworks. At the same time Amec Foster Wheeler provided high level flood risk information. Both these reports were appended to the Cabinet Report of the 18th May 2016.
- 3.23 Since the Cabinet Report approval, AMEC have now had access to the searches and survey documents including:
- Chemex Environmental Site Investigation, 2001
 - Sitecheck Flood Report, 2016
 - Ground Sure Underground
 - Argyll Site Solutions Phase 1 report
- 3.22 A very quick review of the Chemex report indicates evidence of contamination associated with historical industrial use. Some results indicate concentrations exceeding commercial use criteria but not in excess of what you would typically find on sites with similar history. Remediation would be necessary to ensure future site users (Commercial or residential) could not come into contact with contaminated soils. There is a caveat to these conclusions in that the investigation took place fifteen years ago and was limited in its sampling. However there is no evidence within this shallow site investigation of gross contamination.

- 3.23 Very high level review of the flood report has added to our understanding of the flood risk. The site is within Flood Zones 2 and 3 which will inhibit infiltration SUBS and necessitates the need for compensatory flood storage to be included in the redevelopment design. This will influence the nature and area of development although this has not been subject to detailed flood risk assessment.
- 3.24 The large 2.5 m diameter Thames Water Spine Tunnel is documented as passing beneath the site at unknown depth. It is understood that development within 15 m either side of the tunnel will be restricted although this distance, the tunnels exact location and the restrictions should be confirmed with Thames Water.

Title and leases

- 3.25 Trowers and Hamlins have examined the title and occupational leases. A summary of their findings can be found in their Report on Title annexed at Part 2 of this report.

Land Valuation

- 3.26 In accordance with the council's Property Procedure Rules, Glenny's have been commissioned to provide a Red Book Valuation, which was reported to Cabinet at the meeting on 18th May 2016. The Land Valuation can support the purchase price detailed in the Sale Contract. The Valuation Report is appended to Part 2 of this Report.

4 ALTERNATIVE OPTIONS CONSIDERED

- 4.1 See Part 2 of this Report

5. REASONS FOR RECOMMENDATIONS

- 5.1 The acquisition of the site will enable the council to exercise control over the land within the Meridian Water Masterplan area, which will help accelerate housing delivery.
- 5.2 To provide a greater level of certainty over the timescales associated with the development of Meridian Water and to increase developer and stakeholder confidence in the delivery of the Masterplan.
- 5.3 The purchase of the site will underpin the delivery of the Meridian Water Housing Zone and this land could support a mixed use development at a later date.
- 5.4 As the land is being acquired with operational leases and tenants on site, the Council will be able to earn an income (c. £445k per annum) pending the time the land will be developed therefore the Meanwhile Use is activated immediately.
- 5.5 See Part 2 of this Report

6. COMMENTS OF THE DIRECTOR OF FINANCE, RESOURCES AND CUSTOMER SERVICES AND OTHER DEPARTMENTS

6.1 Financial Implications

6.1.1 Contained in Part 2 of this report.

6.2 Legal Implications

6.2.1 The Council has power under section 1(1) of the Localism Act 2011 to do anything that individuals generally may do provided it is not prohibited by legislation and subject to public law principles. The recommendations detailed in this report are in accordance with the Council's powers.

6.2.2 Section 120(1)(b) of the Local Government Act 1972 (LGA) gives Councils a specific power to acquire land for the benefit, improvement or development of their area. In addition, the Council has powers under section 227 of the Town and Country Planning Act 1990 (as amended) to acquire land by agreement for 'planning purposes'. Where agreement cannot be reached, the Council has the power under various enactments to acquire land compulsorily using a Compulsory Purchase Order. However, CPO is a lengthy process and a measure of last resort. It is therefore noted that purchase by agreement has been pursued in this case.

6.2.3 The Council has a fiduciary duty to look after the funds entrusted to it and to ensure that its Council tax and rate payer's money is spent appropriately. For that reason, the Council must carefully consider any project it embarks to ensure that it is making decisions based on a proper assessment of risk and rewards/outcomes

6.2.4 When considering an acquisition of property the Council must act in accordance with its Property Procedure Rules, including obtaining advice that the terms negotiated represent value for money and the property is suitable for intended use.

6.3 Property Implications

6.3.1 Please see the Part 2 Report.

7. KEY RISKS

Key risks considered arise from the liabilities associated with the acquisition and development of the site, conversely not acquiring the site poses a risk to the council's ability to deliver the vision for Meridian Water.

Financial

7.1 **Risk** - Development appraisals are sensitive to fluctuations in build cost and housing prices, because the developments are built out over time.

Mitigation: the actual development process where current assumptions, such as the quantum of affordable housing may need to be adjusted to secure the expected return. Such risks are further mitigated by the Housing Zone Status that has secured grant for affordable housing and loans for remediation.

7.2 **Risk** - The cost of acquiring the land cannot be recovered from the value generated from redeveloping the site in association with the Council's development partner.

Mitigation - by receiving detailed valuation advice from Glenny who is able to demonstrate via the development appraisal that the land price can be recovered (see Part 2). The deal offered by the selected Master Developer for Meridian Water ensures that disposal of land plots for development is governed by four guiding financial principles that guarantee a return on investment.

7.3 **Risk** – By the time the Council comes to dispose of the land for development, there has been a downturn in the housing market, which could be due to a number of possible causes of which Britain leaving the European Union and the resultant economic consequences could be one.

Mitigation – The Framework Agreement being put in place with the selected Master Developer requires a financially viable position to be achieved before the Council disposes of any land. The agreement protects the Council against downside risk while not capping the Council's ability to capture upside.

7.4 **Risk** - There are occupational leases in place and the property will be provided with Tenants in situ on completion.

Mitigation – All leases are purported to be outside of the Landlord and Tenant Act 1954. There are some minor issues with the supporting documentation but Trowers and Hamlins have advised the risk is low. Please see the Trowers & Hamlins Report on Title annexed at Appendix 8 for details.

Development

7.5 **Risk** – No site inspections have been undertaken by AMEC thus far although a number of desk top studies have been done. Uncertainty exists with respect to ground water contamination, the scope and cost of remediation required to address risk to future site users and the environment, the extent and location of the culvert.

Mitigation – The majority of the risks mentioned above relate to future uses of the site.

7.6 **Risk** - The development assumptions are based on Angel Road Station being upgraded in concert with investment in the railway line to achieve a 4-trains-per-hour service. Should the rail investment be delayed or fail to materialise, then the development densities assumed will not be able to be achieved. Not to achieve the development assumptions will affect land value and the ability for the council to recover its costs.

Mitigation - By taking plans for three tracking and the new station to an advanced stage of agreement with Network Rail and the Greater London Authority (GLA). The final funding package for three tracking has been agreed and the station is now part of Phase 1 Planning Application submitted in February 2016.

- 7.7 **Risk** - the development could be affected by flooding given the provisions of the Strategic Flood Risk Assessment.

Mitigation - The measures set out in the Masterplan and through the implementation of appropriate design solutions. In short, this particularly allows for an appropriate amount of flood storage. Providing that proper attention is paid to design, which will be tested by the Environment Agency through the planning process, there is no reason why residential development here should prove any more problematical than anywhere else, in so far as flood-risk is concerned.

- 7.8 **Risk** - There is currently no established residential market at Meridian Water and therefore levels of sales and values assumed in the development appraisal, produced by Glenny, are yet to be tested.

Mitigation - The land is being purchased using commercial valuation which is consistent with the Red Book. Any change in planning designation to residential / mixed use will increase the land value considerably.

- 7.9 See Part 2 for Legal and other risks

8. IMPACT ON COUNCIL PRIORITIES

- 8.1 The immediate acquisition of the land described in this report would enable the early development of new homes in Meridian Water. Given that a Master Developer has now been appointed and has begun work with the Council and the design team on progressing delivery of Meridian Water, this acquisition helps to confirm and open up new opportunities for developing the next stages of mixed use residential-led development after Zone 1. Any subsequent development would be guided by the Meridian Water Masterplan which, amongst other objectives, seeks to achieve fairness for all, sustainable growth and development of strong communities.

9. EQUALITIES IMPACT IMPLICATIONS

- 9.1 The draft Meridian Water Masterplan was subject to an initial Equalities Impact assessment/Analysis (EqIA) to ensure that consultation promoted equal opportunities. During the master-planning process, demographic data was collected in relation to residents of Edmonton in order to determine which groups to target for community engagement and to also help assess the equalities issues the Masterplan proposals will need to consider.
- 9.2 These issues were summarised in the final EqIA report that was reported to the Local Plan Cabinet Sub-Committee at its 11th September 2013 meeting.
- 9.3 Any further equalities impact issues will be examined at the planning application stage on individual sites.

10. PERFORMANCE MANAGEMENT IMPLICATIONS

- 10.1 Delivery of a comprehensive regeneration scheme at Meridian Water is a corporate priority within the Council's Business Plan for 2012-15. Completion of the Masterplan, and the delivery of phased infrastructure improvements including increased rail services, station improvements and new homes will help to meet Outcome 2.10 of the Business Plan; to improve the quality of life of residents through the regeneration of priority areas and to promote growth and sustainability.

11 PUBLIC HEALTH IMPLICATIONS

- 11.1 There are no Public Health Implications directly arising from this land acquisition, but the intention to remediate and develop the site when finally used for residential development is likely to have positive benefits.

12. HEALTH AND SAFETY IMPLICATIONS

- 12.1 A component of the Meridian Water Masterplan concerns the need to improve access to healthy living corridors. In accordance with the Core Strategy, all new areas brought forward for development will have appropriate provision of green space, parks, as well as sufficient access to new community, sports and health facilities to support the new communities.

Background Papers

None