MUNICIPAL YEAR 2017/2018 REPORT NO.

Agenda – Part: 1	KD Num: 4442
Subject: Meridian Water: Land Acquisition	
Wards: Upper Edmonton & Edmonton Green	

ACTION TO BE TAKEN UNDER DELEGATED AUTHORITY

PORTFOLIO DECISION OF:
Cabinet Member for Economic Development and Business Regeneration And the Cabinet Member for Finance and Efficiency in consultation with the Executive Director of Regeneration and Environment and the Executive Director of Finance, Resources and Customer Services

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1. EXECUTIVE SUMMARY

1.1 On 9 May 2017 Cabinet (KD4442) approved the terms of the Agreement for Sale for the purchase of the two sites in the east of Meridian Water: Stonehill Estate (**Stonehill**) and (**Hastingwood)** subject to the demonstration of overall viability of the Meridian Water scheme.

1.2 Authority to approve the overall viability of the Meridian Water scheme is delegated to the Cabinet Member for Economic Regeneration and Business Development and the Cabinet Member for Finance and Efficiency in consultation with the Executive Director Regeneration & Environment and the Executive Director Finance, Resources and Customer Services.

1.3 Stonehill and Hastingwood (the **Sites**) are located on the east of the River Lea Navigation (the **East Bank**) which is currently designated as Strategic Industrial Land (**SIL**). The Council is working to secure release of SIL through the planning policy process and through negotiations with the Greater London Authority (**GLA**). This report summarises the planning context and sets out propositions for mitigating proposed release of SIL through the principle of “no net loss of SIL” whereby any release of SIL from the East Bank should be compensated for through re-designation of SIL elsewhere in the borough.

1. EXECUTIVE SUMMARY

1.4 This report sets out the alternative and mitigation options for the Sites should, in the worst case scenario, the Council not be able to secure any release of SIL. PwC have been commissioned to illustrate the potential impact of these scenarios against the base financial model for Meridian Water. This work highlights that even if no SIL release is achieved, the Council could deliver a scaled down project that is still viable and delivers a financial return to the Council by the end of the scheme.

2. RECOMMENDATIONS

2.1 To note that the overall financial viability of the Meridian Water scheme is positive in each scenario considered for the purchase of Stonehill and Hastingwood, as set out in detail in Part 2 of this report.

2.2 To authorise proceeding with the purchase of the Stonehill Industrial Estate (**Stonehill**) and Hastingwood Industrial Estate (**Hastingwood**) as per the recommendations in sections 2.2 – 2.4 of Part 1 of the Report to Cabinet 9th May 2017 (KD 4442).

2.3 To note the ongoing work to achieve a release of Strategic Industrial Land (**SIL**) at Meridian Water through the planning process.

3. BACKGROUND

3.1 On 9 May 2017 Cabinet (KD4442) approved the terms of the Agreement for Sale for the purchase of the two sites in the east of Meridian Water: Stonehill Estate (**Stonehill**) and (**Hastingwood)** subject to the demonstration of overall viability of the Meridian Water scheme.

3.2 The two large Sites, currently in private ownership together comprise c. 32 acres of land (c. 13 hectares) (see Red Line plan appended to Part 2 of the report). An addition of this land to the Council portfolio would take the total land holdings in Council ownership up to c. 87 acres (c. 35 hectares) or c. 64% of the developable land in Meridian Water.

3.3 Further information about the Sites and the terms of acquisition are provided in the Cabinet report (KD4442).

3.4 The focus of this Delegated Authority Report is to test the potential impact on the overall viability of the Meridian Water Scheme by modelling different scenarios in the context of the option to purchase of Stonehill & Hastingwood. The assumptions and inputs for the scenarios have been provided by the Meridian Water team and Jones Lang LaSalle (**JLL**), who have advised on projections for meanwhile income, land values, and residential sale values. PricewaterhouseCoopers (**PwC**), have provided financial analysis of the impact of different scenarios on the base financial model for Meridian Water.

Planning Context

3.5 The current London Plan was adopted in March 2016. The new London Plan is in the early stages of preparation and is timetabled for adoption in 2019. Meridian Water is in the Upper Lee Valley Opportunity Area, and in October 2015 was designated as a Housing Zone.

3.6 London Borough of Enfield Core Strategy commits the Council to meeting the housing growth targets as set out in the London Plan, namely to provide at least 11,000 homes in the 15-year period to 2025. The Core Strategy is currently being revised, with more ambitious housing targets responding to demographic change and higher housing demand in the borough.

3.7 The Proposed Submission Edmonton Leeside Area Action Plan (**ELAAP**), the local area Planning Policy document that covers Meridian Water, was approved by Full Council on 25 January 2017. The Area Action Plan (preciously called the Central Leeside Area Action Plan (CLAAP)) was revised to respond to changed circumstances including the award of Housing Zone status, a need for more homes and jobs, Council purchase of land, developing proposals for Crossrail 2 and the procurement of a development partner for Meridian Water. The ELAAP consultation period was to 28th April 2017, and the Local Planning Authority is currently considering the submissions.

3.8 The eastern area of Meridian Water, between the River Lee Navigation and the River Lea (**the East Bank**) (where Stonehill and Hastingwood are located) is currently designated as Strategic Industrial Land (**SIL**). The ELAAP proposes the removal of the SIL designation that currently covers this 18 hectare area of land called “Harbet Road Industrial Estate”. The document included substantial modelling evidence that demonstrates that de-designation is necessary in order to release the land to achieve the project’s scheme-wide ambition of 10,000 homes and 6,700 jobs.

3.9 The Greater London Authority (**GLA**) commissioned AECOM in 2015 to undertake a strategic review of industrial land in London. The report found that the amount of industrial land in London has been steadily falling since 2000 from c. 8.2k hectares in 2001 to c. 7k hectares in 2015 (a 16% contraction). The report also found that the amount of land designated as SIL has contracted by 7% since 2010. For Locally Significant Industrial Sites (designated at the Council level), the rate of decline is even more marked at 25% since 2010. Crucially, the report found that "past trends in industrial land release show an accelerated rate of release significantly above the LGA's Land for Industry and Transport SPOG benchmark rates of release". The trend rate of release for 2010 to 2015 is 105 hectares per annum compared with the SPG recommended rate of release of 37 hectares per annum. The report concluded that London is losing SIL at an unsustainable rate.[1] In response to the report, the GLA is considering how to protect essential employment land whilst also enabling equally important residential-led mixed use development.

3.10 The Council has not yet received a formal response from the GLA to the ELAAP consultation. However, the GLA has expressed concern over the loss of industrial land due to recent studies showing higher than expected levels of loss across London and a high level of demand for industrial land uses. The Council is in ongoing discussions with the GLA, including examining the potential for the ELAAP to partially release SIL at the Harbet Road industrial estate on the basis of no net loss. Further de-designation of SIL at Harbet Road can be assessed through the new Local Plan process, including the potential for allocation of new, offsetting SIL in other parts of the borough.

3.11 GLA have also verbally said that they would support development with ground floor commercial and upper floor residential, and are currently exploring a new planning designation to achieve this.

3.12 In response to concerns raised, therefore, the Local Planning Authority will need to prepare a supplementary document that will propose modifications to the ELAAP reflecting an agreed position with the GLA. This may include a staged approach to the SIL release (reflecting a borough wide-strategy of no-net loss of SIL), and the development of a new designation allowing a mixed use typology with commercial on the ground floor and residential on the upper floors.

3.13 The table overleaf breaks down the Council's proposed stages for SIL release in Meridian Water or mitigation measures to enable the type of mixed-use development proposed.

[1] AECOM, London Industrial Land Supply & Economy Study, March 2016. P.2 (Exec Summary)

Proposed Stages for SIL Release from the East Bank of Meridian Water		
Stage of SIL Release/ Retention	**Area of SIL (Ha)**	**Timescale**
SEGRO site is being retained as SIL for e-commerce centre	3 hectares retained	No Change
Release of SIL through compensatory equivalent within the ELAAP boundary (excl. Deephams)	5 hectares released	July 2018 (adoption of ELAAP)
Further release of SIL through compensatory equivalent within LBE through the Local Plan ***and/or*** Development of new designation allowing a mixed use typology with commercial on the ground floor and residential on the upper floors	10 hectares released or re-designated	December 2018/2019 (adoption of Local Plan)
Total East Bank SIL	**18 hectares**	

3.14 It is important to remember that residential development is not proposed for the East Bank until the late 2020s. The ELAAP covers the whole of Meridian Water, and the broader proposal for the area of a substantial residential-led development has received support in the consultation process. As the revised-ELAAP moves towards full adoption next year, this will provide the planning policy support for the next phases of development at Meridian Water including the delivery of thousands of homes and comprehensive regeneration of this part of Enfield.

Viability Options Appraisal

3.15 When assessing the options below in relation to the Meridian Water scheme, viability is defined as the Council being able to recoup its investment in the project, i.e. that the post-finance return for any option is positive.

3.16 As explained above, our base business plan for Meridian Water assumes that over the course of 5-10 years, we will achieve planning policy support for full SIL release in the East Bank. Our Base financial model therefore assumes the delivery of 10,000 homes and 6,700 jobs including residential-led mixed use development on the East Bank. This financial model shows that the Meridian Water scheme as a whole is viable, producing a net positive return to the Council at the end of the scheme. However, in

mitigation of the risk that SIL release is not achieved, it is prudent to consider alternative scenarios.

3.17 We are modelling two alternative scenarios: Do not buy Stonehill/Hastingwood; and Buy Stonehill/Hastingwood, hold for ten years and then sell the Sites on the assumption that SIL is not released. Note that a "buy later" scenario (i.e. buy the Sites in ten years' time) was ruled out in the Cabinet Report (KD 4442) due to the prohibitive cost of this option (please see Section 4.2 of the Cabinet Report).

3.18 In summary the three scenarios, including the base case, are as follows:

1. The Council buys the Stonehill and Hastingwood Sites, and proceeds with mixed-use development as set out in the Base Case Scenario (assumes full SIL release on the East Bank);
2. The Council buys the Sites, holds the Sites until 2027 and then sells the Sites (assumes no SIL release on the East Bank);
3. The Council does not buy the Stonehill and Hastingwood Sites;

3.19 **Scenario 1:** Full SIL Release: Base Case Scenario

This current base case scenario assumes full SIL release and mixed-use development on the East Bank in line with the Barratt London Master Plan (September 2016). The outputs of Scenario 1 are 10,000 homes and 6,700 jobs.[2]

3.20 **Scenario 2:** No SIL Release – Reduced Scheme

This Scenario is the worst case scenario. Despite best efforts, the Council is unable to get approval for any SIL release on the East Bank. The Council would therefore not proceed with development east of the River Lea Navigation with the important exception of the SEGRO e-commerce development which would still be delivered. The Council would sell its remaining landholdings on the East Bank (inclusive of Phoenix Wharf and VOSA) after ten years including the balance of the Stonehill land and the Hastingwood estate[3]. The outputs of Scenario 2 would be 6,000 homes and 6,500 jobs delivered on the West Bank and via the SEGRO development.

3.21 **Scenario 3:** Council does not buy Stonehill and Hastingwood

The Scenario tests the impact on the financial model if the Council were to forgo the offer to acquire the Stonehill and Hastingwood Sites that is currently available. It assumes that any remaining Council owned land interests on the East Bank (Phoenix Wharf and VOSA) would be sold by June 2019 and Meridian Water development would terminate at the River Lea Navigation. The SEGRO e-commerce development would not be

[2] Stonehill and Hastingwood Sites would themselves accommodate 2,200 of these homes.
[3] The forecast value of sale in ten years incorporates a modest uplift in the value of the land of 1%/annum

delivered.[4] The outputs of Scenario 3 would be 6,000 homes and 4,500 jobs.

3.22 For each scenario, the Council and its technical advisers have provided financial inputs and assumptions to PwC for it to compare these alternative scenarios against the base financial model. The modelling shows, that even in the worst case scenario (Scenario 3), the Council would still expect to receive a capital return on its investment.

3.23 Full financial summaries of the PwC modelling are provided in Part 2 of this report including a detailed breakdown of the assumptions behind each scenario.

4 ALTERNATIVE OPTIONS CONSIDERED

4.1 On 9th May, Cabinet agreed, subject to demonstration of overall viability, to proceed with the purchase of Stonehill and Hastingwood.

4.2 The Cabinet report covered in detail alternative options that had been considered including: buying the Sites at a later date (ruled out due to the extremely high estimated cost of the Site once developed); compulsory acquisition (ruled out because CPO would not be supported by current planning policy) and a potential back-to-back agreement with SEGRO (ruled out because it would not be compliant with the competitive procurement process undertaken to select Barratt London as Master Developer, with SEGRO as its Commercial Partner).

5 FINANCIAL GOVERNANCE

5.1 Effective and robust financial governance, review and monitoring of the capital and revenue spends and incomes will be delivered using regular and effective financial management processes and systems. These will include: financial modelling, the use of financial KPIs to ensure income and expenditure remain on track and identifies problem areas, also trend analysis to assist with decision making and investment decisions.

5.2 To ensure full rigour to the financial management processes and systems, the creation of a Meridian Water Finance Monitoring (MWFB) programme board is proposed, led by Finance. This will be a cross departmental group with representatives from property, legal etc.

5.3 A detailed report will be brought to Cabinet in September describing the role of the board and the relationship between it and the other governance bodies such as the Housing Zone governance boards.

5.4 Outline structures are:

[4] Note that a “buy later” scenario (i.e. buy the Sites in ten years’ time) was ruled out in the Cabinet Report (KD 4442) due to the excessive cost of this option (please see Section 4.2)

5.4.1 That the MWFB will be responsible for monitoring the revenue and capital spend, revenue and capital incomes. They would also act as a filter for major investment decisions such as land acquisition. Terms of reference, meeting cycles etc. will be detailed in the report to the September Cabinet.

5.4.2 It is proposed that the MWFB would be part of the Meridian Water – Housing Zone governance regime that already exists within the Council. Probably reporting to the Meridian Water Programme Board. Which in turn cascades upwards to the Housing Zone Programme Board, Housing Zone Strategic Group and Housing Zone Member Advisory Group.

5.4.3 This will provide the ability for the Council to manage and monitor the significant spend and income levels involved using a combination of robust financial processes and systems combined with effective levels of governance.

5.4.4 In preparation for the detailed governance report in September the current governance system has been mapped out and this is shown in Appendix 1.

5.4.5 It includes two new groups which are the result of agreeing the MDFA with Barratt's. The purpose of these groups are:

5.4.5.1 **Project Delivery Group** – reviews and resolves day to day operational and financial issues that require immediate attention to avoid, or minimise delay to the project. The terms of reference, decision parameters and attendees are currently being finalised as part of the close process with Barratt's.

5.4.5.2 **Partnership Group** – primarily focused on the development and maintenance of effective and sound partnership relationship working between LBE and Barratt's. This is viewed as a "principals" meeting and is likely to consist of the Leader, Cabinet Members, Chief Executive and Directors. Again, the structure, terms of reference and decision making are being scoped out as part of the MDFA with Barratt's.

6 REASONS FOR RECOMMENDATIONS

The report recommends proceeding with the acquisition because both the base case and the worst case scenario demonstrate the overall viability of the Meridian Water Scheme.

6.1 While the worst case scenario, of no-SIL release, will result in a reduced scheme, with fewer total outputs, it would still ensure that the Council had significant control over the land and future development of the East Bank,

crucial for securing a high quality, successful residential-led development on the West Bank.

6.2 The testing of overall viability in the event of no-SIL release has been undertaken as a mitigation of the risk of no-SIL release. However, further to recent discussions with the GLA, it is strongly anticipated that full SIL release will be achievable on the East Bank in the medium term, on the basis of the agreed principal of "no-net loss of SIL" across the London Borough of Enfield, and in accordance with the GLA policy as stated in the London Plan of "managed release" of Strategic Industrial Land.

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

7.1 Financial Implications

See Part 2 report.

7.2 Legal Implications

7.2.1 The Council has power under section1(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.

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

7.3 Property Implications

7.3.1 The council has received assurances that the cost of acquiring this site for industrial use is considered value for money . The Council in purchasing these properties will require assurance, provided by independent experts, that a comprehensive Development agreement is to be entered into with the agreed development Partner and that the costs of acquisition (including all Tax implications) sits within the financial parameters of the overall viability assessment for the comprehensive Meridian Water scheme. All future approvals in relation to operation, disposal and development of these sites should be required to be evaluated against the recommended Viability testing and should at all times comply with the councils landed property protocols.

7.3.2 The valuation methodology used in calculating the value of this site is consistent with the best practice principles of acquiring

land through ‘Open Market’ negotiations. External valuations from two independent Firms confirm that the price being paid is within the normal boundaries of open market value and such valuations are in accordance with the ‘Red Book’ Valuation principles of the Royal institution of Chartered surveyors.

7.3.3 The Council is purchasing these properties with the assurance , provided by independent experts, that a comprehensive Development agreement is to be entered into with the agreed development Partner and that the costs of acquisition (including all Tax implications sit within the financial parameters of the overall viability assessment for the comprehensive Meridian Water scheme.

7.3.4 Assurances have been provided from independent advisors having regard to the deliverability of the ‘Meanwhile’ uses and income generation of the site. It is recommended that such advice should be carefully monitored and updated and risk assessed against expected return on monthly basis.

7.3.5 All lettings / Meanwhile uses must comply with the Council’s Land and Property Protocols, and the Councils statutory responsibilities as Corporate landlord. All leases / tenancy agreements need to be structured to a protect the Meridian Water Development outcomes and incorporate ‘Development termination clauses.

7.3.6 Recommendation that regular Viability testing is undertaking to assess on-going risk and changes to market conditions and affecting legislation in terms of national, GLA or local planning policies.

8 KEY RISKS

Risk – The proposed submission Edmonton Leeside Area Action Plan (ELAAP) is not adopted, and the Council is unable to release the SIL east of the River Lea Navigation for residential-led development.

Risk Assessment – In response to the consultation on the precursor for the ELAAP (the CLAAP) in 2014, the GLA indicated in principle support for the partial release of 4.5 hectares of SIL in the East Bank of Meridian Water. While the current AAP proposes to go further by proposing full SIL release, this is supported by a substantial evidence base as to why this is necessary in order to deliver the desired outputs of homes and jobs, and protecting appropriate densities of development and place quality. Furthermore,

current discussions with the GLA have focused on the principle of “no-net loss of SIL” across the London Borough of Enfield. This report has introduced compromise mechanisms including the partial retention of SIL (SEGRO land) and proposed modifications to the ELAAP, and the Local Plan, to promote managed release of SIL in Meridian Water and compensatory designation of SIL elsewhere in Edmonton Leeside or in the Borough. It has also introduced the concept of a new designation with a new mixed-use typology with commercial at ground floor and residential on the upper floors that would also help mitigate the impact of proposed SIL release.

Mitigation – In mitigation of this risk, the Council has modelled the scenario of no-SIL release and explored what would be the consequences of this scenario. These have been analysed financially through the Meridian Water financial model. This work, undertaken by PwC demonstrates that even in the worst case scenario, that no SIL is released, and development is reduced to the area west of the river, with the exception of the e-commerce SEGRO development, the Council would still be able to make a return on the scheme.

As conversations with GLA progress, further analysis will be undertaken to investigate intermediate scenarios, including:

(1) co-location of employment and residential uses i.e. ground floor employment and upper floor residential – a proposal which the GLA has already confirmed in meeting that they support in principle; and

(2) increasing the density of housing development on the remaining Meridian Water site west of the River Lea Navigation.

However as the worst case scenario, of a scaled down Meridian Water scheme, has been demonstrated to be viable, any intermediate option would only be pursued if could be shown that it improved the viability as well as the overall outputs of the project.

9 IMPACT ON COUNCIL PRIORITIES

9.1 The immediate acquisition of the Sites described in this Report would give the Council control over this important land holding, helping to realise the long-term aspiration for Meridian Water, taking development of new homes up to the Lee Valley Regional Park. The preferred Master Developer has now been selected and has begun work with the Council and the design team on progressing Meridian Water. This acquisition helps to open up new opportunities for developing the next stages of mixed use residential-led development after Zone 1, and provides an immediate opportunity to develop a pioneering e-commerce centre that will accommodate between up to 2,000 jobs. By offering employment opportunity in a range of salary brackets, and the opportunity for substantial housing development in the future, this stage of development will provide a concrete example of

achieving fairness for all, delivering sustainable growth and development of strong communities.

10 EQUALITY IMPACT IMPLICATIONS

10.1 The draft 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.

10.2 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.

10.3 Any further equalities impact issues will be examined at the planning application stage on individual sites.

11 PERFORMANCE MANAGEMENT IMPLICATIONS

11.1 Delivery of a comprehensive regeneration scheme at Meridian Water is a corporate priority within the Council's Business Plan for 2016-2018. Completion of the Masterplan and the delivery of phased infrastructure improvements including increased rail services, station improvements and new homes will help to meet the strategic priority: "a borough that attracts inward investment and supports sustainable regeneration and growth."

12 HEALTH AND SAFETY IMPLICATIONS

12.1 There are no Public Health Implications directly arising from the acquisition of the Site pursuant to the terms of the Agreement but the intention to remediate and develop the Site when finally used for residential development is likely to have positive benefits.

13. PUBLIC HEALTH IMPLICATIONS

13.1 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 and parks, as well as sufficient access to new sports and health facilities to support the new communities.

Background Papers

None

Appendices

Appendix 1 – Meridian Water Governance Map