

SUSTAINABLE COMMUNITIES OVERVIEW AND SCRUTINY PANEL

2 JUNE 2016

(7.19 pm - 9.25 pm)

PRESENT: Councillor Imran Uddin (in the Chair),
Councillor Stan Anderson, Councillor David Chung,
Councillor Najeeb Latif, Councillor Russell Makin,
Councillor John Sargeant, Councillor Abdul Latif and
Councillor Laxmi Attawar

ALSO PRESENT: Councillor Mark Allison (Deputy Leader and Cabinet Member for Finance) and Suzanne Grocott
Chris Lee (Director of Environment and Regeneration), James McGinlay (Head of Sustainable Communities), Paul McGarry (Head of futureMerton), Howard Joy (Property Management and Review Manager), Jacquie Denton (Principle Estate Surveyor) and Annette Wiles (Scrutiny Officer)
Jeff Morton (investment management expert, Henley Investment Management), John King (Managing Director, Andrew Scott Robertson), Diane Neil Mills (former Abbey Ward Councillor), Keith Munroe (Property Manager, the Ambassador Group), Gay Bennett-Powell (representative of the Friends of Wimbledon Town Centre) and Peter Walker (former Figges Marsh Councillor)

1 APOLOGIES FOR ABSENCE (Agenda Item 1)

Apologies were received from Councillor Jones. As a result this left the meeting without a chair (the position of vice-chair being vacant).

Annette Wiles opened the meeting and invited the members to elect a chair for the meeting. Councillor Attawar nominated and Councillor Makin seconded Councillor Uddin as Chair. This was agreed by the members of the panel.

2 DECLARATIONS OF PECUNIARY INTEREST (Agenda Item 2)

There were no declarations of pecuniary interests.

3 CALL-IN REPORT OF LAND AT 111 - 127 THE BROADWAY, SW19 (KNOWN AS P4) (Agenda Item 3)

Councillor Uddin proposed that the meeting remained open and therefore with no reference to any information in the exempt agenda up until Panel members start to debate the issues raised. Councillor Sargeant suggested it would be beneficial for the meeting to remain open to the public and therefore that the Panel should review if it is necessary to go into an exempt session. This was accepted by the panel.

PRESENTATION OF THE CALL-IN

Councillor Grocott presented the call-in on behalf of all signatories to the request. She stated:

- Potential alternatives to the freehold sale of P4 have not been considered. This is stated in 3.12.1 of the officers' report. As stated in 3.4.1 only prevailing market conditions have been considered;
- The time that has elapsed since the Cabinet's decision to sell the land in 2013 has not been used to undertake a strategic review of its decision;
- The decision to sell P4 for commercial purposes is lifting the restrictions on use away from the Council's Draft Local Development Framework and Policies Development Plan;
- Proceeding with the sale at this time is before the cross party plan being developed in response to Crossrail2 is available. The sale of P4 will have implications for Wimbledon Town Centre beyond 2023 when work on the development of Crossrail2 will start; and
- The officers' report highlights there are no restrictions on the use of the P4 site and therefore there is nothing to stop the developer requesting a change of use. Additionally, by selling the freehold, the Council is ceding control of the site which is contrary to policy.

Questions to Grocott:

- Councillor Sargeant: is there an implication in the call-in request that the Council is missing out on the upward valuation of the site without having the relevant planning permission in place? Councillor Grocott indicated she was unable to respond as the answer to the question is stated in the exempt agenda.

EXPERT WITNESSES

1. Jeff Morton (investment management expert, Henley Investment Management):

- Mr Morton requested he be permitted to circulate a briefing paper. Councillor Uddin agreed (attached to the minutes);
- He highlighted his credentials; 28 years of experience having transacted in excess of £2.50bn of sales and acquisitions over the last 10 years;
- Stated that the key decision is whether to hold or develop the land with consideration of market conditions. Highlighted the effect uncertainty caused by the EU referendum is having on market; this may be affecting the value being realised for the sale of the freehold because purchasers may be having greater difficulty raising investment capital;
- Highlighted that in developing the site there are three main options; a freehold sale, a geared investment or a joint venture;
- Stated a gear interest arrangement is very common, notably in the City where it has been used by various estates. This could be used to provide a capital receipt as well as on-going revenue income whilst allowing more control over the use of the site longer term; and
- Whilst a sale of the freehold is lowest risk it may also result in the lowest price.

Questions to Mr Morton:

- Councillor Sargeant: how long would it take to conduct the mentioned analysis of the other available options from a standing start? Mr Morton stated it would take between 10 – 15 days to provide an analysis of the geared leasehold and joint venture options.
- Councillor Chung: of the potential options available which would be recommended? Mr Morton favoured retaining the freehold through a geared interest arrangement but felt a joint venture also needed to be explored. He suggested this option is possible but that it would involve work to ensure the Council is adequately protected.
- Councillor Uddin: why is a 1% progressed standard fee necessary on a joint venture? Mr Morton explained that this is included simply to be transparent; similar to needing the support of a good agency if selling the site or facilitating a gear interest arrangement, a joint venture would require a good quality consultant for which a likely level of cost would be a 1% fee. Highlighted that this would be incurred on a higher level of income.
- Councillor Uddin: is the option to sell the freehold simple compared to the other options which are complicated and uncertain? Mr Morton rejected this stating that the geared interest option is not complicated and is understood by the market. He acknowledged that a joint venture is more complicated and would potentially take more time but that this could be balanced by retaining greater control of the site and receiving a better income. He stated that it is his opinion that current uncertainty in the market means it is unusual to sell at the moment.
- Councillor Sargeant: the options available represent a spectrum of risk and reward. Are other local authorities utilising the other options available? Mr Morton stated that he didn't know but thought it likely and that it wouldn't take much work to find local authorities employing joint venture and geared interest arrangements.

2. John King (Managing Director, Andrew Scott Robertson):

- He highlighted his credentials; he is a chartered surveyor with 40 years of experience working in Wimbledon specialising in commercial property with over £10bn of sales;
- He has been involved in arrangements for the P4 site by providing a valuation for both existing use and the sale of the freehold;
- Stated that the sale of the freehold would provide best value but also would ensure the on-going development of the site. Thought it likely that the site would need to be redeveloped after approximately 50 years but under a leasehold arrangement this is unlikely to happen whilst other interests continue; and
- The devil is in the detail of a joint venture. Considers that this is possible but noted Wimbledon is a secondary location (ie: it is not central London or the City) and therefore the capital value is reduced making it more difficult for a developer to find the investment capital. This is exacerbated where they don't own the land.

Questions to Mr King:

- Councillor Chung: how do you evaluate the risk of the options currently available to the Council with regard to the P4 site? Mr King highlighted that there are no risks involved in the sale of the freehold which would provide funds to be

reinvested. With a joint venture the Council would share the risk with the developer that the target return could be achieved. Typically commercial leases have a 10 to 20 year term period. This would mean they come to fruition at the point that the building requires redevelopment and the investment value is diminished because under a leasehold arrangement other interests continue.

- Councillor Anderson: what are the risks associated with a joint venture? Mr King highlighted that the developer involved in a joint venture receives a smaller percentage of the return than would be the case where the leasehold is sold but they still have to raise all of the investment capital. This makes it a higher risk option.
- Councillor Najeeb Latif: did Andrew Scott Robertson go through a tendering process to be selected to provide a valuation of the P4 site? Mr King stated he was unsure; he provided details of the fee that would be charged to undertake the valuation.
- Councillor Najeeb Latif: is the capitalisation yield better under a geared interest arrangement? Mr King stated that under a geared interest arrangement there is a separation of assets but that funding still has to be found for the investment required to develop the property. This is likely to depend on the Council guaranteeing the investment costing around £20m.

3. Diane Neil Mills (former Abbey Ward Councillor):

- Stated that she doesn't understand how the current proposal for the P4 site meets strategic or financial objectives;
- Highlighted that the site has high street value and is in the centre of a cultural hub as part of Wimbledon Town Centre;
- Aware of the potential Crossrail2 development and consequential disruption which with the loss of P4 may require the acquisition of another site for parking;
- Concerned about what the sale of P4 will mean for the built environment as this approach will provide the Council with little control over the development of the site. Therefore feels that retention of the freehold would provide a positive contribution to the town centre. Cited the example of how the Portman Estate has retained the freehold for its properties as a way to maintain and develop the quality of its buildings;
- Suggested that the Council does not have the necessary skills in-house to fully exploit the potential of the P4 land and that this should be addressed through secondment, hiring and/or training;
- Questioned how any revenue resulting from the sale of P4 might be used. Did not feel it was beneficial to use the capital raised to off-set current debt receipts as these are currently low and subject to low interest rates; and
- Suggested that if capital is required it would be better to prioritise the sale of other assets including industrial sites.

Questions to Ms Neil Mills:

- Councillor Sargeant: asked Ms Neil Mills to expand on her comments regarding the Wimbledon Town Centre cultural hub and how P4 could be used to enhance this offer. Ms Neil Mills stated the P4 land was subject to a compulsory purchase order because it is of high strategic interest given its proximity to Wimbledon's

theatres and the space constraints around these. P4 provides the opportunity for this culture space and offer to be enhanced to support activities such as Wimbledon's growing book and music festivals.

- Councillor Chung: asked if it was being suggested consideration of cultural and strategic issues are more important than any economic argument? Ms Neil Mills highlighted that it's the financial justification for the sale of P4 with which she struggles the most. Cash flow is positive. The Council's net debt position is low and there is no benefit from reducing this further especially if this comes with redemption penalties and investment options are limited.
- Councillor Anderson: asked for more details about the other sites mentioned that should be prioritised over P4. Ms Neil Mills suggested the use of industrial sites that are not part of plans for the regeneration of Wimbledon's town centre. Highlighted the advantage of retaining the freehold in order to retain control the site.
- Councillor Uddin: questioned the assumption that the retention of the freehold would give more control to the Council. Noted there is a tension between getting best value by giving more favourable terms to a leaseholder which would mean ceding more control versus maintaining more control and full value not be obtained.

4. Keith Munroe (Property Manager, the Ambassador Group):

- Has 35 years of experience running the New Wimbledon Theatre;
- Completely aware of plans for the redevelopment of the P4 site and the Ambassador Group is not opposed. However, whatever the future of the site, the theatre needs to be assured that its fire exits and access to its building by trailers will be assured. Will be seeking that any developers of the site protect the theatre's rights; and
- Highlighted an additional concern around noise; that the theatre does not want future users of the P4 site to make complaints about noise resulting from its productions and similarly the theatre does not want any of its productions interrupted by noise coming from future site users.

Questions to Mr Munroe:

- Councillor Makin: has the New Wimbledon Theatre been given assurances with regards to its needs and the planning application for the P4 site? It was agreed that this was a question for officers to address later in the meeting and Mr Munroe noted the Ambassador Group would be seeking the advice of its own planning consultant.
- Councillor Sargeant: requested that Mr Munroe provide further explanation about the theatre's use of the car park and how much space this requires. Mr Munroe explained that the theatre regularly hires space in the car park for a period of time (weeks). This is used for the trailers that transport shows. Space can be required for a maximum of four, forty foot trailers. These needs have to be accommodated otherwise the theatre's business will be restricted.
- Councillor Najeeb Latif: is there any potential use of the P4 site that would prove particularly difficult for the theatre to accept or any that would be seen as particularly beneficial to the theatre? Mr Munroe highlighted that another

community arts provider would place the theatre in a difficult position. Currently, as part of its lease arrangements with the Council, the Ambassador Group provides a fixed number of performance a year at a 50% discounted rate to local community arts groups. It would be difficult to sustain this arrangement if a competitor theatre/arts group were located on the P4 site. Ideally, the site would be used for commercial purposes although the provision of additional rehearsal space for performers using the theatre would be beneficial.

SPEECHES FROM MEMBERS OF THE PUBLIC

1. Gay Bennett-Powell (representative of the Friends of Wimbledon Town Centre):

- The Friends Group was formed six months ago with the objective of looking at more and better options around the development of Crossrail2 and the regeneration of Wimbledon Town Centre with a focus on retaining the area's history;
- Questioned if this is the right time to be making a decision about the future use of the P4 site on the following grounds and that this should be deferred as it is premature:
 - There has been no public consultation on the sale of the site;
 - Space is required for community use;
 - There is insufficient parking space in the town centre;
 - The Council's masterplan for the town centre is not yet published and therefore this decision cannot be made as part of a coherent strategy;
 - The development of Crossrail2 will affect the value of the land; and
 - It creates an unpleasant precedent before the development of Crossrail2 begins.

There were no questions for Ms Gay Bennett-Powell.

2. Peter Walker (former Figges Marsh Councillor):

- Stated that the use of this site is a vital part of the sustainable communities objective. In 1990 it was purchased to provide replacement facilities for the loss of Wimbledon Community Hall. In 2007, it was agreed that the site would be used for a mixed development including some community facilities. However, in 2013 it was agreed that it would be disposed of with no restrictions;
- Highlighted that there has been no consideration of other options such as working with the Arts Council to develop community space as Councils are doing in Manchester, Bristol and Leeds. Nor has there been consideration of working with others such as the Wimbledon College of Arts or the Wimbledon Studios;
- Compared the P4 decision to a fire sale which would result in the area losing forever the opportunity to develop the arts in Wimbledon.

Questions for Mr Walker:

- Councillor Sargeant: asked what would be the preferred option for the use of the site? Mr Walker stated that he was astounded that the Arts Council is working with Councils through lotteries funding. He is sad the brief in 2013 was not for developing as was originally intended as this would provide a real positive for the area. Aware there has been no public consultation or involvement in the current

decision about the P4 site when there has been a three year period during which this could have happened. He therefore recommends that the decision should be delayed.

RESPONSE FROM OFFICERS TO POINTS RAISED

1. Chris Lee (Director for Environment and Regeneration):

- Provided an introduction to the officers' perspective;
- Highlighted that the decision to dispose of the P4 site without restrictions was considered by the Sustainable Community Overview and Scrutiny Panel through a previous call-in meeting (2013). Whilst this referred the decision back to Cabinet, it has decided to proceed;
- Stated that some time had been taken in progressing Cabinet's decision; this is not a hasty move with advice having been taken and alternative options having been considered;
- Believes this is the right decision. There is a considerable offer on the table. This is definite opportunity compared to others that might but are not guaranteed to be possible;
- Explained that it is hoped that some of the capital receipt resulting from the sale of P4 could be used to develop a local housing company to provide PRS and affordable rented housing. This is an area in which the Council and many other Councils have more experience compared to the speculative opportunities that have been discussed and in which the Council is not expert;
- Noted that the bids currently on the table were received before the announcement of the EU referendum and therefore doubts if this has had any effect on them and the value that will be achieved;
- Arts organisations were at liberty to place a bid. Both theatres were invited to participate but neither came forward. There were no discussions with the Arts Council as the clear mandate from Cabinet was to dispose;
- Gaining planning permission for any development of the site is clearly the responsibility of the purchaser. The Council continues to own the planning process. Any desire to gain planning permission in the future for a change of purpose or additional development is at the risk of the owner and developer.

2. James McGinlay (Head of Sustainable Communities):

- With regard to planning permission, noted that the site is next to a Grade II listed building which sets the quality parameters for the development. Additionally, that all existing rights with regard to access to the building were included in the tender documentation and the assessments of the resulting bids. This includes the access required by the New Wimbledon Theatre;
- Stated that considerable work is underway to plan for the Crossrail2 development. This includes working with the Growth Commission that is applying the lessons learned from the first Crossrail development. The masterplan being developed for Wimbledon is fully cognisant of providing car parking and retail facilities throughout the development of Crossrail2; and
- Also highlighted that Crossrail2 is a long term development which won't commence until 2023 and is projected to finish in 2033. Based on the experience

of the first Crossrail development, it is likely that any resulting economic bounce in the area won't be felt until four to five years before completion so is still some 12 years off.

3. Paul McGarry (Head of futureMerton):

- Noted that the sustainability includes consideration of economic, social and community development. The Council's economic development strategy supports the P4 site being used for commercial development; and
- Determination of land use is much wider in the local plan which supports the P4 site being used for commercial purposes.

QUESTIONS TO OFFICERS

- Councillor Makin: have all the planning issues (for example the requirements of the New Wimbledon Theatre) been considered by the bidder? James McGinlay confirmed that bidders had to respond to all the points raised in the tender.
- Councillor Sargeant: the Cabinet's decision three years ago has driven where we are now since when there has been no reconsideration of alternative options. Is it likely that the Cabinet would have recommended consideration of the alternatives if it had known we would still be debating this three years on? This is within the context of the Council currently learning how to take measured risks and using assets better as demonstrated by the commercialisation task group. Chris Lee responded that there is currently no better option. That the Chief Executive is adverse to speculation with tax payers' money. Realised capital will be applied to an area where the Council has more experience and expertise. He is not persuaded that there is a way to generate a better return currently.
- Councillor Sargeant: it is evident that financial considerations are paramount. What would be the impact of delaying a decision for a number of years? Chris Lee stated that this is unclear but noted the July Cabinet will be considering a proposal for the development of a housing company for which there will be a large demand for capital. This will need to be taken from assets or borrowed with the later increasing the costs.
- Councillor Chung: has sufficient consultation taken place regarding this decision? Chris Lee stated that there hasn't been consultation as this is a disposal process; there was no expectation of such consultation though the Sites and Policies DPD did provide consultation on future use of this site.
- Councillor Najeeb Latif: given the Council's desire to develop more affordable housing, could the P4 site be used for a residential development possibly by the Council itself? Chris Lee noted that a commercial development will provide the largest capital receipt and bids for a residential development were received but were trumped by commercial offers. This is due to the nature of the site which doesn't lend itself well to a residential development and therefore it wouldn't be appropriate or best use for the Council to use it for residential purposes.
- Councillor Chung: are there any health and safety considerations that would militate against going ahead with the proposed commercial development? James McGinlay confirmed that there are no such considerations.

- Councillor Sargeant: expressed his concern about Crossrail2, the impact this will have on Wimbledon Town Centre and how to keep this viable throughout the development. Asked if selling P4 means the loss of flexibility within the town centre? James McGinlay responded stating that the Council is working closing with the Crossrail2 team including Transport for London (TfL) and NetworkRail. The Council has clearly stated that it will not accept the decimation of the town centre and that this has to be addressed before the development can proceed. Also that the masterplan needs to focus on the needs of Wimbledon Town Centre and not Crossrail2; the regeneration of the town centre needs to continue and flourish. Noted that the land known as P3 and other holdings will allow the Council to continue to be flexible.

RESPONSE FROM THE CABINET MEMBER TO THE POINT RAISED

Councillor Mark Allison (Deputy Leader and Cabinet Member for Finance):

- Noted his satisfaction with the offer on the table; it is good for the Council, residents and the town centre – it will support it to thrive. None of the comments made at the meeting have convinced him that this is the wrong decision; and
- Complimented officers for their work and rejected any criticism of the decision as rushed. Noted there will be an opportunity to refine further once an agreement to proceed is in place.

PANEL DEBATE

- Councillor Sargeant: thinking seems to have been frozen in 2013. Would have been good to have seen consideration of the other options available.
- Councillor Najeeb Latif: considers it worth spending two to three weeks considering the other scenarios to make sure this is the right decision.
- Councillor Anderson: officers have been working on this since 2013 and know the full detail;
- Councillor Attawar: we have a good developer in place and capital commitments we want to achieve. We can't wait any longer; and
- Councillor Abdul Latif: the referendum will be over in another three weeks and therefore would welcome deferring until after this date.

RESOLVED: It was proposed (by Councillor Makin), seconded (by Councillor Sargeant) and agreed by the Panel that the rest of its deliberations be held in exempt session.

EXEMPT SESSION

- Councillor Makin: if there were to be a delay for the EU referendum, this would set a precedent and provide an argument to delay for every other reason. The decision has been made and therefore it is important to progress;
- Councillor Najeeb Latif: would it be feasible to consider the alternative proposals in more depth before proceeding?

- Councillor Sargeant: doubtful that it is possible to provide a feasibility study of the alternatives in the suggested two to three weeks;
- Councillor Uddin: the Cabinet's decision taken in 2013 complies with the duty to achieve best value. Cultural considerations can be achieved through increased capital receipts and market forces. A leasehold approach is problematic with management challenges. There is a strong purchaser on the table. Not minded to swap a freehold sale for uncertainty and it has been considered by scrutiny previously;
- Councillor Abdul Latif: is there a cut off time for the bid? Howard Joy (Property Management and Review Manager) highlighted that whilst there is no formal time limit on the bids, they were received in November 2015 and that it had taken six months to go through the tender selection process. As a result, there is a chance the preferred bidder could walk away as they may lose their funding. After which the next preferred bidder would be able to revise their offer, leaving us in the position that it may take another three years to find a new bidder;
- Councillor Allison: there is potential that there will be a reaction in the market if the vendor creates a delay; it could result in Merton's ability to do business being questioned;
- Councillor Abdul Latif: would public consultation be beneficial? Suggested to delay would be a good decision;
- Councillor Uddin: argued the need to be realistic. The favoured bidder needs to invest its funds to get a return. Further delay is a reputational factor and a significant amount of time has already elapsed; and
- Councillor Sargeant: suggested that proceeding now will be giving up a valuable opportunity that is being provided by the Crossrail2 development but understands the reputational issues.

The public were invited back into the Panel meeting.

RESOLVED: not to refer the decision back to Cabinet and that therefore Cabinet's decision is upheld and shall take effect immediately (proposed by Councillor Makin, seconded by Councillor Chung and agreed by the panel with six voting in favour and two against).