



Report to:	Strategy and Resources Committee	Date:	28 September 2015
Report title:	The Lodge – Heads of Terms for Use by Ecolocal		
Report from:	Gerald Almeroth, Strategic Director for Resources		
Ward/Areas affected:	Carshalton Central		
Chair of Committee/Lead Member:	Ruth Dombey Leader of the Council Simon Wales, Deputy Leader of the Council		
Author(s)/Contact Number(s):	Ade Adebayo, Executive Head of Asset Planning, Management & Capital Delivery – 020 8770 6109		
Corporate Plan Priorities:	<ul style="list-style-type: none"> ● An Open Council ● A fair Council ● A Smart Council 		
Open/Exempt:	Open		
Signed:		Date:	16 September 2015

1. Summary

- 1.1 Strategy and Resources committee resolved at their meetings on the 23 September 2013 and 13 October 2014 to transfer use of the Lodge building in Carshalton to Ecolocal. This was made subject to Ecolocal developing a viable business case for a mixed use development on the site that will include space for community use and generate community benefits. The decision was also subject to Ecolocal consulting residents and agreeing terms with the Council for the future use of the site.
- 1.2 Ecolocal has submitted final proposals to the Council which includes the terms for their future use of the building. The terms negotiated with Ecolocal for the transfer of the building are set out in this report. Ecolocal's proposals are considered to offer best value and to provide the basis for a sustainable long term use of the Lodge that will provide significant benefits to the community.

2. Recommendations

The Strategy and Resources Committee is recommended to:

- a) Agree that Ecolocal is granted a 125-year lease for a mixed-use redevelopment of the Lodge building, Carshalton.
- b) Use its power under Circular 06/03: Local Government Act 1972 – General Disposals Consent 2003, to accept the offer of a lease premium totalling £600,000 which is less than best consideration, on the basis that the disposal helps in securing economic, social and environmental well-being of the community.
- c) Authorise the Strategic Director for Resources to complete negotiations with Ecolocal for the lease as set out in the Heads of Terms in this report and direct the Head of



Shared Legal Services to draw up the necessary legal documentation for the development works to the building and to exchange and complete on the lease.

3. Background

- 3.1 Strategy & Resources Committee considered a report on the 13 October 2014 regarding Ecolocal's proposals for the future use of the Lodge building in Carshalton. The building is currently occupied by Children's Services who are due to relocate to the Civic Offices by December 2015, thereby making the building surplus to requirements.
- 3.2 The proposals involved converting the existing Lodge building into a mixed use development that will have office, storage, workshop and meeting spaces for Ecolocal and for community use. The development also has nine residential flats. The financial arrangement proposed in the October 2014 report to the S & R Committee was for Ecolocal to raise the funds required for the development, sell seven of the flats to cover development costs, and retain two flats for rental to fund ongoing maintenance costs. The Council also indicated that it would expect a premium to be paid for grant of a long leasehold (albeit at less than market value) or that Ecolocal should pay rent for the lease.
- 3.3 Ecolocal requested an extension of the period they were given to conclude negotiations with the Council. They wanted to undertake additional work to develop their business case and have a better understanding of the financial offer to make to the Council for the building. They also wanted to properly assess the level of net additional community benefits and social value they could generate through carrying out the development and relocating their operations to the Lodge.
- 3.4 It was agreed by Committee that Ecolocal should be given the additional time requested and that by March 2015, to have further developed their proposals, consulted local residents and community groups and negotiated terms with the Council so that the revised proposals could be presented to Committee for consideration.
- 3.5 Ecolocal's updated proposals for the redevelopment are attached as Appendix A, the negotiated heads of terms are attached as Appendix B and Ecolocal's Social Value Analysis is attached as Appendix C.

4. Issues

- 4.1 Ecolocal's investigations, surveys and background work in firming up their proposals have been thorough and comprehensive. The engagement and consultation with residents and community has been extensive and the approach towards assessing the community benefits and social value that its development proposals could generate is considered sound and credible.
- 4.2 The component parts of the development proposed by Ecolocal include the following:
 - a) 7 residential flats for sale on long leases
 - b) 2 residential flats to be retained and let by Ecolocal to provide revenue income



- c) Covered link-way to the Chapel building to enable direct external access to it and use that is independent of the other spaces
- d) Offices and meeting rooms
- e) Revamping the walled garden and making it accessible to the community
- f) Refurbishment of the Chapel
- g) Straw Bale classroom
- h) Glazed roof to internal courtyard

- 4.3 The detailed assessment carried out by Ecolocal suggests that income from the sale of the seven flats would only be sufficient to cover the costs of items (a) to (f) above, therefore leaving out the straw bale classroom and the glazed roof to the internal courtyard. Ecolocal therefore propose to still undertake the construction of the Straw Bale classroom and the other aspects of the project but would seek to raise the funds required through grant funding. The Chapel can be used with minor refurbishment works carried out to it which are proposed for phase two and the glazed roof link way, although desirable, does not affect any operational aspect of development. It consequently proposes to carry out the work in three phases, with a long-stop date of completing all of the development within 5 years.
- 4.4 Ecolocal have taken pre-planning advice from the Council's Development Services on their proposals and have been granted prior approval under the General Permitted Development Order 2015 for change of use of the building from office to residential use for the 9 flats. A full planning application would still be required for alterations and extensions and any other works required associated with the conversion of the offices to residential. They will also require Building Regulation approval which will principally deal with the thermal efficiency of the conversion and adequacy of the fire safety arrangements.
- 4.5 Comments on the main headings of Ecolocal's proposed heads of terms for taking over the Lodge building are set out below.

	Proposed Terms	Asset Management's Comments
1.	Landlord	The Council remains as Freeholder
2.	Tenant – The centre for Environmental Initiatives trading as Ecolocal	The lease for the whole building is granted to Ecolocal as head lessee with possibility of community use areas let to an organisation that is wholly owned by Ecolocal
3.	Property – The Lodge with access rights to Honeywood Walk	The Council is to retain right of access and use of parking spaces on the grounds
4.	Term – lease term of 125 years. No break clauses	A 150 year lease may be offered if a longer lease is required for viability of residential flats Break clauses are incompatible with a residential lease. Therefore, covenants to use and maintain the building as intended are to be used instead of break



	Proposed Terms	Asset Management's Comments
		clauses
5.	Rent – peppercorn rent	A lease premium totalling £600,000 is to be paid to the Council. Two options: The £600k may all be paid before development starts OR £400k is to be paid before development starts, with a licence issued to Ecolocal to commence the development. The balance of £200k is to be paid on completion and sale of the residential units, or an annual rent of £15k paid in lieu.
6.	Insurance – Council to insure	Council will insure and recover rent premium
7.	Use –Charitable use clause included To sell seven residential flats on long leases and let two on short lets to provide income	Ecolocal to actively and positively use the property at all material times for the charitable purposes of the tenant, which are to be expanded to include additional charitable object clauses that enable a broader definition of community benefit. Tenant can change use of property with Landlord's prior consent, which cannot be unreasonably withheld. The change of use however has to be compatible with the charitable use requirement Reporting and monitoring information on fund raising to be provided with regard to the Phase 3 works.
8.	Assignment and underleases - Tenant can assign and underlet	Tenant can assign or lease to another organisation set up for the benefit of public or community Can underlet parts of the building, if consistent with permitted use , with Landlord's consent which cannot be unreasonably withheld Accommodation, storage space and use of workshop to be provided for the Friends of the Ecology Centre, the Sutton Nature Conservation Volunteers, LBS Biodiversity Staff and Tools for Self-Reliance. These are to be set out in a side agreement to the lease
9.	Repair – All tenants responsibility	Tenant to keep the building in a good state of repair which is reasonable for permitted use
10.	Alterations - to the building	Tenant to make external and internal structural alterations with Landlord's consent and put up signage outside property, subject to planning



	Proposed Terms	Asset Management's Comments
		permission
11.	Tenant's development works –	Development to be undertaken in 3 Phases Works to be the subject to a separate building agreement with the lease completed on satisfactory completion of the first two phases of the project.
12.	Costs	Each party to be responsible for own costs

- 4.6 The Council has undertaken a valuation to establish the best consideration that could be offered for the site. Based on converting the whole building for residential use (12 flats), the Council considers that the building has a disposal value between £1.5 and £1.7m. The Council has also valued the scheme proposed by Ecolocal, which has 9 residential flats (with two let on short lets), offices and community spaces that could be let. The Council considers that this scheme has a disposal value of £0.9m. In arriving at this value of £0.9m, it is important to recognise that the disposal of the seven flats generates just sufficient funds to cover the development costs of the building. The value of £0.9m is consequently almost entirely made up from the capital value of rental income of the offices, the two flats to be let, storage accommodation and the chapel. In essence, this is the amount a third party would expect pay to acquire the income stream from these spaces for 125 years. It therefore does not equate to excess cash that Ecolocal would hold on completion of the development but represents the capital value of the spaces they are able to use or rent.
- 4.7 Payment of a lease premium of £600k has been negotiated with Ecolocal. This is considered to represent best value to the Council. The value this sum represents should be judged against the open market value of the site (£1.5m -£1.7m) and the restricted value of the site of £900k. Although a fully residential development will optimise the value of the site, it does not provide any community benefit beyond its residential use. From the consultation carried out at the Carshalton and Clockhouse Local Committee in 2011, the clear preference of residents was for a scheme along the lines of Ecolocal's proposals which has a restricted value of £900k. The premium totalling £600k offered by Ecolocal is therefore £300k less than the restricted value. It is however considered that the difference of £300k is adequately covered by the risks that Ecolocal are taking in carrying out the development which on a comparable commercial development will be covered by a profit expectation of around 15% of the development costs..
- 4.8 As required, Ecolocal have undertaken an assessment of the additional community benefits and social value that would be generated by relocating from their current premises to the development proposed at the Lodge. This is assessed at £1.6m per year, using proxy monetary values for benefits that will accrue to the community at large. Ecolocal's social value analysis was presented by completing the Council's method statements. The method statements required Ecolocal to demonstrate and evidence how their proposals would contribute to the building of developmental assets at both individual and community level. The submission has been reviewed by the Council's Strategic Business section and both the methodology and



values used for the assessment are considered sound and well researched. Ecolocal's detailed assessment is included as Appendix C.

- 4.9 There are number of observations to make on the proposals submitted by Ecolocal . These include:
- a) The proposals are well researched and thought through.
 - b) In offering to raise the capital required, and in carrying out the development, Ecolocal is taking on all the risks associated with a development project – unforeseen events and costs, inflation, planning obligations, contractor performance and time. They are also taking on the market risks associated with residential property market as they are dependent on income from sale of 7 flats to cover development costs. They have already funded the feasibility costs to date.
 - c) If agreed as proposed by Ecolocal, this transaction will put the organisation on a long-term sustainable basis in a building where income generated from rent of the two flats, plus rental of office, storage and the chapel would be sufficient to cover the operational costs of the building and make a contribution into a sinking fund to meet future building maintenance demands. This provides for a sustainable future for the Lodge that should ensure it is kept in good repair.
 - d) If agreed as proposed, the Council will be foregoing a capital receipt between £0.9m and £1.1m (i.e. the open market value less the lease premium to be paid by Ecolocal) and will result in the transfer to Ecolocal being made at an undervalue. The Council therefore needs to be satisfied that this is sufficiently offset by the community benefits and additional social value generated by the proposed future use of the building.
- 4.10 It is considered that the combination of the lease premium offered by Ecolocal and the significant community and social value that will accrue annually from the development provides sufficient justification for the Council to agree the transfer of the building to Ecolocal at an undervalue. It is considered that proceeding on this basis is within the powers granted to the Council under the Local Government Act 1972 General Disposals Consent 2003 which allows local authorities to dispose of land for less than best consideration providing the under value does not exceed £2m and provided that the disposal will help it to secure the promotion or improvement of the economic, social or environmental well-being of the area.

Resident and community consultation

- 4.11 Ecolocal have undertaken extensive consultation. They received over 699 responses to their questionnaire survey. 86% of respondents were Sutton residents and 97% of responses were in support of Ecolocal's proposals. 37% of respondents were from local groups and 220 said that their group might benefit from the Lodge development. The consultation posed specific questions about the proposed activities at the Lodge, the benefits that community use could generate, and the type of facilities considered as priority by community groups. The detailed responses, including comments made by respondents are set out in Ecolocal's proposals attached as Appendix A.



5. Options Considered

- 5.1 This report concerns the assessment of proposals presented by Ecolocal for redeveloping the Lodge. This came out as the preferred option from consultation undertaken in September 2011 when residents were consulted on the future uses of the Council's buildings in Carshalton. The Council however, has the option of considering other proposals should it not be possible to come to agreement with Ecolocal.

6 Impacts and Implications

Financial

- 6.1 The proposal for the Lodge suggests the Council transfer the building to Eco-local. Under their proposals they are seeking the transfer of the building at a value lower than market value with the difference made up by an evaluation of community benefits. Given the Council's difficult financial position and legal requirement to obtain best consideration for the disposal of sites (or with a reduction applied if this contributes to well being), this requires a difficult decision to be made.
- 6.2 A lease premium totalling £600,000 is to be paid to the Council. £400k is to be paid before development starts, with the use of a building agreement with Ecolocal to commence the development. The balance of £200k is to be paid on completion and sale of the residential units, or an annual rent of £15k paid in lieu. The £600k received from the disposal of the site will contribute to the funding needed to finance the Council's capital programme. The Council will make an annual saving from the running costs for the building of estimated at £73k per annum.
- 6.3 Although Ecolocal's investigations, surveys and background work have been thorough and comprehensive, any variation in projected costs or income will be the responsibility of EcoLocal

Legal

- 6.4 The Council has power to lease and sell land which is surplus to requirements in any way it so chooses provided that section 123 of the Local Government Act 1972 is taken into consideration. Section 123 places a statutory duty on local authorities to achieve best value in the context of land disposals and states that the disposal must not be for a consideration "less than the best that can reasonably be obtained". It should be noted that the Council's obligation to comply with its fiduciary duty to obtain best value does not necessarily mean selecting the highest offer in pure cash terms. Consideration should also be given to on-going liabilities, and social and economic advantages when considering 'best consideration'
- 6.5 The Council has the power under Circular 06/03: Local Government Act 1972 General Disposal (England) Consent 2003 to dispose of land for less than best consideration without having to obtain specific consent from the Secretary of State provided that:
- a) the under value does not exceed £2m; and



- b) the Council considers that such a disposal will help it to secure the promotion or improvement of the economic, social or environmental well-being of the area.

6.6 The consultation of local residents and Friends Groups by Ecolocal will need to be considered by the Council. It should be noted that notwithstanding the well-being criteria, the Council should ensure that it complies with normal and prudent commercial practices, and remain aware of the need to fulfil their fiduciary duty in a way which is accountable to local people

Integrated Impact Assessment

6.7 An integrated impact assessment has been undertaken for this proposal (Appendix D). It concluded that the assessment has not identified any potential for discrimination or adverse impact and that all opportunities to advance equality have been taken.

7 Appendices and Background Documents

Appendix Letter	Title
A	Ecolocal's updated development proposals
B	Proposed Heads of Terms
C	Assessment of Community Benefits and Social Value
D	Integrated Impact assessment

Background Documents
a) Report to Strategy & Resources Committee – 23 September 2013, Future Use of the Council's Buildings in Carshalton
b) Report to Strategy & Resources Committee – 13 October 2014, Future Use of Carshalton Buildings: The Lodge, Grove, Stonecourt and the Old Rectory

Audit Trail		
Version	Final	Date: 16/09/2015
Consultation with other officers		
Officer	Comments Sought	Comments checked by
Finance	Yes	Sue Hogg
Legal	Yes	Rowenna Warburton
Strategic Business	Yes	Tom Alexander