

CABINET

23 January 2018

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| Title: 'Made in Dagenham' Film Studios | |
| Report of the Cabinet Member for Finance, Growth and Investment and Cabinet Member for Economic and Social Development | |
| Open Report with Exempt Appendix 2 (relevant legislation: paragraph 3 of Part I of Schedule 12A of the Local Government Act 1972 as amended) | For Decision |
| Wards Affected: Eastbrook | Key Decision: Yes |
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| Accountable Strategic Director: Claire Symonds, Chief Operating Officer | |
| Summary By Minute 74 (15 November 2016), the Cabinet approved the purchase of 9 acres of land from Sainsbury's on part of the former Sanofi site at Dagenham East with a view to bringing forward development of TV/film studios as part of a mixed used development. The Greater London Authority (GLA) and the Council jointly funded a Content and Capacity study for the film studios, appointing consultancy firm SQW working with BBP. The study looked in detail at the film/TV industry market and what mix of facilities should be delivered and the benefits it would bring both locally and for the Capital. That report was finalised and launched on 30 October 2017. It concluded that "Dagenham East represents a rare chance to build a world-class film studio within the boundaries of Greater London." As part of the first stage of their work, the study considered different options in relation to the scale of the ambition for the site looking at demand and supply issues and what could be delivered at Dagenham East. It identified that just using the Council's recently purchased 9 acres would not deliver the scale of ambition and quantum of space needed to deliver London's largest studios for 25 years, and that additional land was required. The Council land can deliver the 'public face' element of the studios - a destination studio facility including 'shiny floor' TV studios where audiences attend shows plus creative workspace and associated food and beverage offer. Being adjacent to a tube station means the site is ideal for such a facility and this element is critical to the high profile, perception changing elements of the studios. The site could also include residential development (around 500 apartments on upper levels) and a hotel as part of a flagship development. The SQW report acknowledges the Council land alone could not deliver the extent of film stages required to achieve the ambition as there is a need for large warehouse film stage sets serving the industry as a key element of the mix of facilities. | |

The adjacent land is owned by Baytree Logistics (part of Axa) who have planning approval for a scheme of three large warehouse buildings, two of which have been built. Axa has confirmed it has entered into a deal with a major international datacentre provider who would like to build London's largest data centre on the rear proportion of its site. There are potentially beneficial synergies between screen studios and a data centre with potential for Dagenham to lead the way in modern data led studios supporting the growth sectors of animation, graphics and gaming. The data centre would require a new planning permission which is due to be submitted in late January. London's largest data centre ('Digital Dagenham') and London's largest screen studios for 25 years ('Made in Dagenham') would collectively transform Dagenham unlocking employment opportunities, changing perceptions and driving inspiration.

After extensive discussions, rather than purchasing a lease with an annual rent, Baytree/Axa have put forward a proposal to the Council for the sale of the freehold of all their landholdings not taken by the data centre. This would provide the land required to achieve the full vision set out in the SQW report and deliver London's largest studios in 25 years. Freehold ownership also gives the Council much greater flexibilities and significantly reduces risks compared to the rental proposal. There is also scope to purchase some surplus, undeveloped Londoneast-uk land to ensure the Council benefits from the uplift in land values the studios will deliver - Appendix 1 shows all the land elements on a single plan. It is proposed the Baytree land would consist of stage sets and workshops leased out by film/tv production companies to install stage sets and film productions. This part of the site would need to be secure to ensure people could not reveal plot lines etc. The Council's land could deliver the 'public face' elements with 'shiny floor' studios (studios with audiences) as part of a mixed use development with associated facilities. This gives the opportunity for Dagenham to become a 'destination' facility with associated food and beverage offer more in line with US studios. Together the Council and Baytree land would deliver the full scheme with the wide range of benefits set out in the SQW report.

The negotiated proposal from Baytree is included in Appendix 2, which is in the exempt section of the agenda. The price aligns with an independent report from Lambert Smith Hampton (LSH) assessing the land value evidencing that the Council would not be paying above market value. LSH's figure is based on general employment land values, not specifically looking at film studio values which are much more specialist.

The SQW study identified that there is substantial unmet demand for film stages with recent announcements of closure of a number of Central London locations due to the much higher residential redevelopment values. Whilst the SQW study highlighted the demand for studios, the critical current stage is talking to the screen industry market. Alongside the high profile publicity on 30 October, Be First launched the expression of interest call with a brochure and short film together with an OJEU Prior Information Notice (PIN) to get interested parties to discuss proposals and how they align with the Council's objectives.

Be First is aware of interest in running film studios but wants to determine the best means of selecting a partner(s) to work with and a firmer mix of facilities. This exercise will ensure the market is tested and determine the best means of selection of organisations who are able to deliver the Council's vision for the site whilst offering the best financial return. The Council's objectives are set out in this report. The market testing stage will inform decision making on whether an OJEU process is needed (ie. we are wanting to select a development partner) or whether leases are entered into with Be First taking the developer role and a partner leasing and operating the commercial space.

Following the results of the market testing stage, the process for selecting a partner will be determined and the process commenced. Cabinet approval is now sought for the additional land acquisition required to ensure the full extent of the aspirations for the site can be delivered.

Recommendation(s)

The Cabinet is recommended to:

- (i) Authorise the Chief Operating Officer, in consultation with the Director of Law and Governance and the Cabinet Members for Finance, Growth and Investment and Economic and Social Development, to enter into all necessary agreements to complete the freehold purchase of the Baytree land, as identified in Appendix 1 to the report, on the terms set out in paragraphs 2.1 to 2.3 and Appendix 2 of the report;
- (ii) Authorise the Chief Operating Officer, in consultation with the Director of Law and Governance and the Cabinet Member for Finance, Growth and Investment, to enter into all necessary agreements to complete the freehold purchase of the Londoneast-uk surplus land site and the lease of The Cube site, as identified in Appendix 1 to the report, on the terms set out in the paragraphs 2.4 to 2.5 and Appendix 2 of the report;
- (iii) Note that a further report shall be presented to Cabinet on the possible purchase of The Cube site at the expiry of the lease arrangement in December 2022; and
- (iv) Agree the Council's objectives for the film studio site as set out in paragraphs 2.6 to 2.8 of the report and that Be First commence a process to select the partner(s) who best delivers the objectives.

Reason(s)

The initiative will contribute significantly to the Council Priority of 'Growing the Borough.' The project would have a major impact on changing perceptions of the Borough and ensuring Dagenham is focussed on new employment opportunities which raise aspirations of local residents and help deliver the 'No-one left behind' objective of the Growth Commission and the vision of the Borough Manifesto.

1. Introduction and Background

- 1.1 Largely due to the work of the Council's Film Unit, film and television location shoots in the Borough have grown substantially over the last 5 years. This has established extremely good links with the industry and highlighted the challenges the industry is facing in terms of shortage of studio space in London. As a result of this work the Council has progressed exploring the opportunities for a major TV/Film studio complex in the Borough ('Made in Dagenham') which resulted in the decision in November 2016 for the Council to purchase 9 acres of land to facilitate this.
- 1.2 Aligned with the purchase of the Sainsburys land, the Council and GLA jointly funded a feasibility study appointing consultancy SQW working with BBP to carry

out the work engaging with a very wide range of stakeholders and industry leaders as well as local stakeholders. The study also attempts to detail and quantify the benefits both locally and regionally and how these can be maximised. The studios would have a major impact on changing perceptions of Dagenham, encouraging civic pride as well as raising aspirations of young people in the Borough including through ensuring local training providers align services to meet the needs of the industry.

- 1.3 The study identified that in order to deliver the full mix of facilities and create London's largest studios in 25 years then additional land would be required. The land adjacent to the Council site is owned by Baytree Logistics (part of Axa) who had secured planning approval for general industrial units and has built two of them. Axa approached the Council with a proposal for the rear part of the site to contain what would be London's largest datacentre. This would require a new planning approval. With the growing importance of animation and computer graphics, there are potential positive relationships between film studios and datacentres. Baytree would be willing to sell their non datacentre landholding.

2. Proposal and Issues

Baytree/Axa Land Purchase Proposal

- 2.1 The detail of Baytree's proposal is included at Appendix 2 in the exempt section of the agenda. One conditional element of the sale is that the data centre secures planning permission. This is because Axa/Baytree are looking at what value they achieve across their total landholding and without the value generated by the data centre they would wish to reconsider the freehold sale. The Council's independence in making planning decisions cannot be fettered and this will not be a factor in determining the approval, however, the proposal is in line with planning policies and it is not unusual for land sales to be conditional. It does, however, mean the purchase may not take place for a number of months and only if the data centre secures planning approval.
- 2.2 Baytree have built two of the three units. The units built were not designed as film stages and additional work would be required in terms of sound proofing, enhanced structure (to carry lights etc required) and floor treatment.
- 2.3 Whilst the market is currently being tested for the film studios, it is not possible to set out a definitive business model for the studios showing the financial returns for the Council although various scenarios have been tested. The land purchase being recommended is based on the freehold option giving the most flexibility and reducing the risk for the Council backed up by the independent assessment of market value.

Londoneast-uk Surplus Land and The Cube Proposal

- 2.4 As shown in Appendix 1, adjacent to the Baytree land is a strip of vacant land and 'The Cube' laboratory building owned by Londoneast-uk. Londoneast-uk are willing to sell both and Council ownership would ensure additional capacity for film studio uses/ancillary development and enable the Council to benefit from potential value uplift as a result of the adjacent development. The Cube could be utilised swiftly for film production companies.

- 2.5 There is scope to utilise the vacant Londoneast land temporarily for Participatory City's Maker Space if they secure their GLA Good Growth Fund funding. The construction of a temporary building on the site for maker space would assist with raising the creative profile of the site whilst plans are being developed. This would be an ideal meanwhile use. Options for high profile, interim uses for the Council's existing land, whilst planning approval is sought for the film studios, are also being explored. The detail of Baytree's proposal is included at Appendix 2 in the exempt section of the agenda.

Film Studio Proposal

- 2.6 Be First working with LSH are currently seeking expressions of interest from organisations wanting to be involved in the film studios. There has been a good response to date. The feedback from interested parties is critical in defining the process moving forward in order to deliver the Council's objectives. Feedback on issues such as extent of (if any) residential units, the broad mix of facilities and lease arrangements are important.
- 2.7 One of the key objectives for the development is maximising local job opportunities and inspiring people to take up employment in a growth sector over time changing the nature of the Dagenham economy. Local residents can be encouraged to seek the skills required to secure creative industry employment seeing that there are local employment opportunities available. The screen industries are superb for a wide range of employment opportunities from construction works (building stage sets, electrical, carpentry), textile industries, hair and beauty through to film specific roles. Local colleges can already address part of these but it will be important to maximise the full range of opportunities and build links with the wide range of organisations involved in creative industries skills development. Officers at Be First and the Council are engaging with existing and potential training providers in the borough to ensure the opportunities from the proposal are fully maximised.
- 2.8 The selection of a partner would be assessed on the basis of criteria on how the partner and their proposal meets the Council's objectives. The objectives include:

Place making/Perception Changing

- Dagenham becomes identified clearly and positively for the screen industries with the studios becoming a recognised 'destination' facility with high quality architecture and public realm and real sense of identity and place.

Financial/Commercial

- A commercial long term return for the Council reflecting the investment made.

Employment, Skills and Business

- Delivering significant on site employment across a range of skills levels as well as in-direct employment/supply chain employment
- Maximising scope for local employment and training opportunities during construction but most importantly in establishing a long term vision for permanent employment where local residents are inspired to seek employment in the industry and secure the skills required at local facilities. The Council will facilitate local providers to address skills requirements.

- The studios play a key role in the local economy and community becoming actively involved in local partnerships.

Barking and Dagenham Film Unit

- Integrating the Council's film unit into the studios to maximise opportunities for film location shoots elsewhere in the Borough and providing a comprehensive service for the industry.

3. Risk Assessment

- 3.1 LSH were appointed to carry out an assessment of the value of the Baytree land with the two built units. It highlights that the Council is purchasing the site for market value. There is a restriction against residential uses on the Baytree land however residential uses are not proposed and the valuation of the land takes this into account.
- 3.2 In relation to Planning issues, the film stages on the existing Baytree land would require a S73 planning variation or submission of Reserved matters - Planning officers have advised that whilst the matter would be referable to the GLA, they do not envisage problems. Any proposals on the Council's land would require planning approval (and most likely referral to the GLA).
- 3.3 The Council is also working with Sanofi regarding the residential restriction they have applied to the land the Council has bought. At Sanofi's request, Be First commissioned a Land Remediation Risk assessment report and Geotechnical report and associated borehole testing highlighting what needs to be done to enable upper floor residential development. This has just been concluded and Be First will progress discussions with Sanofi regarding alternatives to the restrict covenant. The Baytree and Londoneast-uk land has been remediated to employment use standard and signed off by the Environment Agency.

4. Options Appraisal – Land Purchases

4.1

| Option | Advantages | Disadvantages |
|---------------------------------------|---|--|
| Just progress with Council owned land | No additional cost or risks to council. | Failure to deliver the full ambition for screen studio complex |
| Purchase Baytree Freehold land | Freehold purchase gives significant flexibility. Enables the delivery of the full extent of the vision for the site | High initial purchase cost and associated borrowing costs. |
| Purchase Londoneast-uk land | Gives Council/Be First much greater scope and opportunity to benefit from investment made on adjacent land. | Additional land purchase costs and associated borrowing costs. |

5. Consultation

- 5.1 As part of the feasibility study, the consultants engaged with a wide range of local, regional and national stakeholders and reached a broad consensus on what was required to deliver the vision. The current market testing stage is engaging with the industry. The scheme would require planning approval which would involve pre-planning consultation with local residents and other stakeholders in addition to the statutory planning consultation processes.
- 5.2 The proposals in this report have been endorsed by the Be First Board and the Council's Investment Panel.

6. Financial Implications:

Implications completed by: Katherine Heffernan, Finance Group Manager

- 6.1 The proposal is for the council to purchase the freehold of the Baytree land as identified in appendix 1 and to also negotiate the freehold purchase or long lease of the adjacent strip of land currently in the ownership of Londoneast UK.
- 6.2 The costs and associated financial implications of these purchases are shown in Appendix 2, which is in the exempt section of the agenda as it contains the commercially confidential terms of the proposed purchase of the site (relevant legislation - paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972 (as amended)) and the public interest in maintaining the exemption outweighs the public interest in disclosing the information. The total cost is likely to be met from borrowing.
- 6.3 The annual cost of repaying the borrowing will ultimately be met from the rents charged to the occupants of the resulting commercial and residential units or the sale of the land and premises at some stage in the future. There are, however, likely to be costs incurred in respect of the borrowing and standing costs of the land whilst the site is being developed and these will need to be funded from existing budgets.
- 6.4 Be First will play a significant part in achieving these purchases and, going forward, will also bring about the development of the whole site into the proposed film studios and the ancillary development which might include retail outlets and around 500 residential units. Their development fee for this work has yet to be determined and has not been included in the financial implications shown in Appendix 2. This cost is likely to be met from borrowing.
- 6.5 If these areas of land are acquired and the development is delivered in line with the proposals set out in the report above, the economic benefit to the whole area will be significant in terms of creating employment opportunities for local people and regenerating the economy of the area. There will also be financial benefits for the Authority in terms of Council Tax, Business Rates and New Homes Bonus, however, at this early stage in the process the exact amount of revenue that will be generated is difficult to quantify.

7. Legal Implications

Implications completed by: Erol Islek, Senior Property Solicitor, Law & Governance

- 7.1 Section 1 of the Localism Act 2011 provides a general power of competence enabling the Council to do anything individuals generally may do, therefore allowing the Council to undertake a wide range of activities. Furthermore Section 111 of the Local Government Act 1972 enables the Council to do anything which is calculated to facilitate, or is conducive to or incidental to, the discharge of any of its functions, whether or not involving expenditure, borrowing or lending money, or the acquisition or disposal of any rights or property.
- 7.2 Further, in accordance with the Local Government Act 1972, Section 120, the Council is empowered to acquire by agreement any land situated inside or outside its area for:
- (i) the purposes of any of its functions stipulated by the 1972 Act or other statutory provisions; or
 - (ii) for the benefit, improvement or development of its area, and notwithstanding that the land is not immediately required for that purpose. Until the land is required for the purpose acquired, it may be used for any purposes associated with of any of the Council's functions.
- 7.3 The Council's Constitution, Part 4, Chapter 4 sets out the Land Acquisition and Disposal Rules. In accordance with paragraph 2.1, all strategic decisions about the use, acquisition and disposal of land and property assets are usually within the remit of the Cabinet. Formulation of strategic decisions is overseen by the Property Advisory Group (PAG) and the Cabinet. Generally, the recommendations and an acquisition at the current value, which renders this decision a key decision, require the acquisition decision to be taken by Cabinet in accordance with the Council's Constitution and its Land Acquisition and Disposal Rules.
- 7.4 The reporting officer has procured an independent (arm's length) valuation of the site which supports the proposed acquisition price.

8. Other Implications

- 8.1 **Risk Management** – Land purchase risks have been mitigated via independent valuations and Due Diligence process. Lambert Smith Hampton were appointed to carry out an assessment of the value of the Baytree land with the two units on. There is a restriction against residential uses on the Baytree land however residential uses are not proposed and the valuation of the land takes this into account.
- 8.2 **Contractual Issues** – These are explained in the Legal Implications section above.
- 8.3 **Staffing Issues** – This is a major project for Be First and is likely to take up significant staff time.
- 8.4 **Corporate Policy and Customer Impact** - No issues relating to the specific recommendations.

- 8.5 **Safeguarding Children** – Any safeguarding issues would be addressed as part of detailed design proposals for the site.
- 8.6 **Health Issues** – Any health issues would be addressed as part of detailed design proposals for the site.
- 8.7 **Crime and Disorder Issues** – Any crime and disorder issues would be addressed as part of detailed design proposals for the site.
- 8.8 **Property / Asset Issues** - The proposal would be a significant addition to the Council's asset register and as such forms a key element of the main body of the report.

Public Background Papers Used in the Preparation of the Report: None

List of appendices:

- **Appendix 1** – Landholdings plan
- **Appendix 2** - Financial Issues (exempt information)