

## CABINET

19 June 2018

<b>Title:</b> 'Made in Dagenham' Film Studios Land Assembly	
<b>Report of the Cabinet Members for Finance, Performance and Core Services and Regeneration and Social Housing</b>	
<b>Open Report with Exempt Appendix 2</b> (relevant legislation: paragraph 3 of Part I of Schedule 12A of the Local Government Act 1972 as amended)	<b>For Decision</b>
<b>Wards Affected:</b> Eastbrook	<b>Key Decision:</b> Yes
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<b>Accountable Director:</b> Ed Skeates, Development Director, Be First	
<b>Accountable Strategic Leadership Director:</b> Claire Symonds, Chief Operating Officer	
<b>Summary</b>  <p>By minute 74 (15 November 2016), Cabinet approved the purchase of 9 acres of land from Sainsburys 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. This was supplemented with approval for purchase of further adjacent land owned by both Axa and Londoneast-UK by minute 85 (23 January 2018). The further land assembly followed a report by consultancy firm SQW confirming that further land was required to deliver the scale of ambition needed to deliver London's largest studios for 25 years. The SQW report stated "Dagenham East represents a rare chance to build a world-class film studio within the boundaries of Greater London."</p> <p>The purchase of the Axa element of land is being finalised but rather than purchasing the freehold of vacant Londoneast-UK land and a leasehold interest in the Cube laboratory building as set out in January 2018 Cabinet report, this report seeks a revised approval whereby both are purchased together freehold. This report also sets out proposals for capital improvements to The Cube to increase the amount of lettable floorspace and improve likelihood of occupation.</p> <p>A separate Cabinet report at a future agenda will seek approval for a long lease to an organisation to deliver the film studios.</p>	
<b>Recommendation(s)</b>  The Cabinet is recommended to:	
(i) Approve the revised terms of the freehold purchase of the Londoneast-uk surplus land site and the freehold purchase of The Cube site on the terms set out in	

Appendix 2 to the report, for inclusion in the Council's Investment and Acquisition Programme;

- (ii) Authorise the Chief Operating Officer, in consultation with the Director of Law and Governance and the Cabinet Member for Finance, Performance and Core Services, to enter into all necessary agreements to complete the freehold purchase of the sites, as identified in Appendix 1 to the report;
- (iii) Agree that up to £6.5m of capital funding be set aside for improvement / extension works to The Cube to enhance its longer-term viability; and
- (iv) Authorise the Chief Operating Officer, as advised by the Investment Panel and/or Assets and Capital Board as appropriate, to determine the future arrangements for The Cube site in accordance with the Council's Investment and Acquisition Strategy.

#### **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 This report seeks to amend approval for the final element of land assembly to deliver the 'Made in Dagenham' film studios - an amendment to the previously agreed approval (January 2018) to purchase Londoneast-UK surplus land.
- 1.2 The Council and Greater London Authority (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 attempted to 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 people in the Borough including through ensuring local training providers align services to meet the needs of the industry. The study concluded that over 20 acres of land was needed to ensure the full ambition could be delivered.
- 1.3 A separate Cabinet report scheduled for July will set out how the film studios will be delivered through a long lease to a film studio operator of the assembled land.

## **2. Proposal and Issues**

- 2.1 Following the previous Cabinet approval, the Council is finalising the purchase of the additional Axa land however further discussions with Londoneast-UK have taken place and rather than the proposal to purchase the vacant land and lease the Cube building, revised approval is sought for a freehold purchase of both the land and the Cube. Londoneast-UK were previously unwilling to sell the freehold of the

Cube instead only willing to let it for an annual rent whilst considering a freehold sale in the future. Following negotiations and a change in Londoneast-UK's position on the site, the proposed arrangement is a single price for the freehold of both elements. An independent valuation has confirmed the whole package does not exceed market value. Freehold purchase of the Cube means the Council could invest in the building to add significant value (as set out in paragraph 2.4) which it would not have wanted to do or even be able to do with just a leasehold interest.

- 2.2 The Cube is former Sanofi building D38 and consists of a four-storey science/R&D building of laboratories of c.40,000 sq ft (4,000 sq m) GIA. There are a number of short lease tenants occupying parts of the space – the longest being a 10-year lease to 2028 for 2,290 sq ft. There is scope to increase the quantity of lettable floorspace through removal of large elements of plant and circulation space linked to its previous science use. Whilst built as laboratories the Cube offers scope for a wide range of office uses with easy sub-division as required.
- 2.3 Freehold purchase of both elements gives the Council greater flexibility and is more in line with the investment strategy whereby freehold purchases utilising affordable borrowing are preferred rather than leaseholds funded via revenue.
- 2.4 The Londoneast-UK surplus land is proposed as part of the long lease area for the film studios however The Cube building itself is not proposed to be part of the site to be leased to the studio operator. Be First have looked at options for maximising rental income through better utilisation of the space, potential for additional floorspace and other improvements. It is proposed that it is held by the Council with Be First adding value through improvements/extensions set out in the business case and either sold at higher value once improved or held for ongoing rental income. An initial business case has been considered by Investment Panel which includes indicative costings for improvements to address market requirements as well as generating more lettable floorspace. Approval is sought for up to £6.5m to be delegated to IP regarding funding for capital improvements.
- 2.5 The price for the combined purchase is set out in P&C appendix 2. An independent valuation has been carried out confirming the Council would not be paying over market value.

### 3. Options Appraisal

- 3.1 An options appraisal is set out below:

<b>Option</b>	<b>Advantages</b>	<b>Disadvantages</b>
Not purchase land	No additional cost	Film studio proposal unlikely to proceed as full 20-acre site needed
Purchase Londoneast-uk land and Cube	Delivers full film studio ambition. 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.
Just purchase surplus land not the Cube	Lower cost. Still delivers film studios.	Miss opportunity for benefitting from uplift of film studio/securing future

		opportunities. LE-UK may not agree as they have always linked it to Cube lease or purchase.
Freehold purchase of land with leasehold of the Cube (previous Cabinet approval)	Lower capital cost. Lower risk as leaves purchase of Cube to later date.	Freehold of Cube enables early capital works to improve value alongside film studio development. No annual rental required. Much greater flexibility as freeholder.

#### **4. Consultation**

- 4.1 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.
- 4.2 The proposals in this report have been endorsed by the Be First Board and the Council's Investment Panel.
- 4.3 The Film studio 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. Utilising the Cube as office space would not require any additional approvals although adding additional storeys would.

#### **5. Financial Implications**

Implications completed by: Katherine Heffernan, Finance Group Manager

- 5.1 The proposal is for the Council to purchase the freehold of the Londoneast-UK land and building as identified in Appendix 1.
- 5.2 The costs and associated financial implications of the purchase 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.
- 5.3 Appendix 2 also sets out the results of an independent valuation by Lambert Smith Hampton showing that the Council would not be paying over market value
- 5.4 There are a range of potential works to The Cube to enhance occupation and create additional floorspace. It is proposed that the Chief Operating Officer be authorised to approve the investment required, based on the evidence provided and advised by the Investment Panel and/or Assets and Capital Board as appropriate.
- 5.5 There are 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. Legal Implications

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

- 6.1 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.
- 6.2 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.
- 6.3 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.
- 6.4 The reporting officer has procured an independent (arm's length) valuation of the site which supports the proposed acquisition price.

## 7. Other Implications

- 7.1 **Risk Management** - Extensive Due Diligence is underway. Lambert Smith Hampton were appointed to carry out an assessment of the value of the Londoneast-UK. Through the purchase of the former Sainsburys site and the Axa land, the Council is very aware of the environmental, property and planning issues in relation to the site. Survey work has been carried out in relation to the Cube. More work is needed to finalise costs for improvements. The initial business plan sets out a risk analysis. A detailed risk assessment for the film studios forms part of the separate report.
- 7.2 **Contractual Issues** - The proposal is that the Council purchases the land freehold and enters into the necessary agreements.
- 7.3 **Staffing Issues** - This forms part of Be First's role in assembling land to deliver the film studios.

- 7.4 **Corporate Policy and Equality Impact** - Delivery of film studios plays an important role in the Council's socio-economic plans. This report focusses on land assembly to deliver the film studios - the key corporate and equality impact will be in the delivery of the studios which is subject to a separate Cabinet report.
- 7.5 **Safeguarding Adults and Children** - Any safeguarding issues would be addressed as part of detailed design proposals for the site.
- 7.6 **Health Issues** - Any health issues would be addressed as part of detailed design proposals for the site.
- 7.7 **Crime and Disorder Issues** - Any crime and disorder issues would be addressed as part of detailed design proposals for the site.
- 7.8 **Property / Asset Issues** - The proposal involves a freehold purchase providing an additional asset for the Council.

**Public Background Papers Used in the Preparation of the Report:**

None

**List of appendices:**

- **Appendix 1** – Site Plan: Londoneast-uk land and the Cube
- **Appendix 2**- Financial Issues (exempt information)