

<b>Committee(s):</b> Finance Committee – For Decision <b>Special Meeting of Community and Children’s Services – For Information</b> Capital Buildings Board – For Information	<b>Dated:</b> 15 November 2022
<b>Subject:</b> – Middlesex Street Estate - Allocation of Funds for Housing Purposes	<b>Public</b>
Which outcomes in the City Corporation’s Corporate Plan does this proposal aim to impact directly?	4, 5, 12
Does this proposal require extra revenue and/or capital spending? Y/N	Y
If so, how much?	Recommendation - £3.45m
What is the source of Funding?	Eastern Base project budget (still to be agreed by the Court of Common Council, following approval from Policy & Resources Committee on 20 October)
Has this Funding Source been agreed upon with the Chamberlain’s Department?	<b>Subject to approval by Finance Committee</b>
<b>Report of:</b>  Chamberlain	<b>For Information</b>
<b>Report author: Ola Obadara, Property Projects Director &amp; Peter Sebastian, Assistant Director, Strategic Finance</b>	

## Summary

Members will be aware of the proposed alteration and refurbishment of the vacant and underutilised part Basement, part Ground, whole of the 1st floor and 6 retail units at Middlesex Street estate and car park (MSCP), to provide an Eastern Base for the City of London Police (COLP).

The proposed use for police purposes is subject to Community and Children’s Services committee resolving that the areas of the Middlesex Street Estate proposed for police use including the 6 retail units (together the “MSCP”) are not required for housing purposes.

Community and Children’s Services (C&CS) committee would like to achieve appropriate benefit for the Housing Revenue Account (HRA) and housing purposes following this appropriation. This paper summarises advice from officers on potential levels of compensation for the HRA and/or provision of ring-fenced capital to be used for housing purposes, based on an independent valuation of the site. A special public meeting of C&CS on will be heard 15 November to agree the surplus declaration pending the decision of this report.

This report reviews the following questions:

1. Is the City Fund required to compensate the HRA for this vacant possession?
2. If so, how much compensation should be provided. Alternatively or in addition, should a capital sum be provided for housing purposes and if so what sum?
3. If agreed, what is the funding source?

This paper covers these questions and requests **Finance Committee** to consider an appropriate sum to be ring-fenced for housing.

### **Recommendations**

Members of Finance Committee are requested to approve that

1. A sum should be ring-fenced for housing purposes should MSCP be declared surplus to housing purposes
2. The sum of £3.45m should be recommended to the Capital Buildings Board and C&CS Committee being the independent "fair market" valuation from options ranging from £0.8m to £4.7m. (paragraph 5)
3. This sum should be found from within the Eastern base project budget (paragraphs 6-7)

### **Main Report**

#### **Background**

1. A proposal is being explored to convert part of the MSCP to provide an Eastern Base for the COLP. COLP already occupy part of the basement of the Car Park under a Memorandum of Understanding (MOU). There is an expectation from members of C&CS Committee that the HRA should receive benefit for the proposed Police use, noting the interests of estate residents and the equitable argument that HRA should not lose out by freeing up space for a Corporation department in comparison to a third party. An Independent Valuation was commissioned and is included at Appendix C to this report.
2. The Chairman and Deputy Chairman of the Finance Committee believe that it would be appropriate to ring-fence such sum for housing purposes ideally on a capital basis which also offers the advantages of simplicity and that the figure should be based on fair market value as if such negotiation was conducted on an arms length basis..
3. There is actually no legal requirement for any compensation or consideration since the appropriation is not a disposal/sale to a different legal entity. However, it feels entirely fair that HRA (and thus, the City's residential tenants) should not incur a net loss arising from the appropriation.

**Should a sum be ring-fenced for housing (or credited to the HRA) following appropriate appropriation?**

4. In support of this action, members may wish to consider the following:
- earlier proposals for part of the car park to be commercially let;
  - the saving to the police accommodation budget of using land already owned by the City Corporation;
  - the urgent need to finance works to the podium at the Middlesex Street Estate;
  - the need to avoid prejudicing the HRA from loss of net income which would otherwise be generated from the car park; and
  - the wider interest in ensuring any proposed police use is successfully integrated into the local community for benefit of both residents and the CoLP.

### **How much compensation should be paid?**

5. The amount of funding to be provided should be subject to this discussion at this committee. There are three options for compensation, ranging from £0.8m to £4.7m. These options are:
- a. Covering lost rental income - £0.8m (this relates to £40k net rental income each year (based on the site's current use) over the 20 year period in which this site will be used by the COLP)
  - b. Maximum commercial development value – £4.7m. This is in line with the Valuation Report assessment of the maximum commercial development value of £4.7m (included in Appendix 1)
  - c. Market (fair) value – £3.45m. Fair value is the receipt the HRA would expect in a sale to a third party. This appears to be the most equitable approach to agreeing compensation and is based on the independent valuation attached in Appendix 1. This is the amount recommended to the Finance Committee.

### **Financial implications – from where should the sums be funded?**

6. At the Policy & Resources Committee on 20 October it was agreed to allocate an additional £60.4m for Future Police Estate Portfolio funding (which included the construction of the Eastern base, subject to full approval by the Court of Common Council). This amount is to allow for the construction of the police accommodation at the Salisbury Square site.
7. Finance Committee is, separately to this paper, reviewing its contingency budgets. There is not currently sufficient contingency to set aside for this purpose. While it is the City of London Police that are receiving the benefit of this site, it is the Corporation's policy that the Police are not charged rental income for office space. Therefore, it is envisaged that the capital sum to be ring-fenced in the General Fund in recognition of the considerations in paragraph 4 would be found within the £60.4m sum agreed for the Future Police Estate Portfolio.

### **Legal implications**

8. These are included in the body of the report.

### **Risk implications**

9. Delay in agreeing the appropriation surplus declaration is costing the corporation. A full design team has been appointed to work on the designs and submit a planning application for the scheme.

### **Equalities implications**

10. None identified in addition to those reported to Capital Buildings Board.

### **Climate implications**

11. None identified in addition to those reported to Capital Buildings Board.

### **Security implications**

12. None identified in addition to those reported to Capital Buildings Board.

### **Conclusion**

13. Members are requested to review and comment on the recommendations contained in this report.

### **Appendices**

**Appendix 1 – Valuation report – non public**

**Appendix 2 – Briefing – Middlesex Street Estate / Police Eastern Hub – non public**