

PART 2 – CONFIDENTIAL FACTS AND ADVICE

MD2072

Title: Land disposal to London City Airport

Information may have to be disclosed in the event of a request under the Freedom of Information Act 2000. In the event of a request for confidential facts and advice, please consult the Information Governance team for advice.

This information is not for publication until the stated date, because:

The information contained within this section of the report includes commercially sensitive information.

Date at which Part 2 will cease to be confidential or when confidentiality should be reviewed: 28 March 2018

Legal recommendation on the grounds of keeping the information confidential:

The contents of Part 2 include sensitive information which related to the GLAP's commercial interests, the disclosure of which could prejudice those interests. For those reasons it is considered that the information contained in this report and appendices is exempt from publication in reliance upon the exclusions contained in section 43 (2) (Commercial Interests) of the FOI Act 2000 and because the public interest in withholding the information outweighs the public interest in releasing it.

Legal Adviser - I make the above recommendations that this information should be considered confidential at this time

Name: Claire Mason

Date: 05 January 2017

Once this form is fully authorised, it should be circulated with Part 1.

Confidential decision and/or advice:

1. Valuation approach:

- 1.1. GLAP has been advised throughout the negotiation process by Savills and therefore has had consistent experts working on the project. The continuity of the expert has been advantageous to ensure that GLAP has been constantly receiving the best advice.
- 1.2. GLAP appointed Savills to undertake a valuation review in preparation for the negotiation with LCA; this report was prepared on the basis that any negotiated position would need to be substantiated through an independent report and also if the case was referred to the Upper Tribunal Lands Chamber it would be necessary to present GLAP's valuation approach and therefore this report could be used for either purpose.

- 1.3. Savills reviewed the market for the land and considered whether there would be other buyers for the dock bed; the conclusion was reached that speculative buyers might be tempted to purchase the land with a view that in due course it would be required for the airport's expansion and therefore might attract a synergistic value as a result of its location.
- 1.4. The valuation report concluded that it would be reasonable to expect a valuation of between £2,700,000 and £5,400,000 for the land, taking into account the additional consideration that would be derived through the synergistic value.
- 1.5. A copy of the report is included as a confidential appendix.

Legal Structure

- 1.6. GLAP is required to transfer the land to LCA using a standard TP1 (a Transfer of Part form) and therefore will not be entering into a sale agreement for the land as the TP1 captures the legal requirements of a transfer of part of a freehold title.
- 1.7. However, the Royal Docks Management Association (RoDMA) has a 225 year lease over the land which GLAP is transferring to LCA; the lease is to enable RoDMA to carry out its functions of maintenance and repair of the docks. Therefore, in order to provide LCA with vacant possession GLAP will be obliged to compensate RoDMA for surrendering part of the lease.
- 1.8. GLAP and RoDMA have agreed a Surrender Agreement which details the legal structure of the surrender and will also use a TP1 to transfer the leasehold interest from RoDMA back to GLAP.

Consideration

- 1.9. LCA has offered GLAP £7,550,000 (+VAT) for vacant possession of the land; a consideration that is in excess of the GLAP's valuation advice and therefore is recommended to accept the offer as it is unlikely that a hearing through the UTLC would award GLAP any additional funds.
- 1.10. The compensation will reflect the value to RoDMA of the loss of their land interest over the area being surrendered to LCA and therefore GLAP has commissioned a report by Savills with regards to the value of the RoDMA leasehold interest and this has been valued at 25% of the GLAP freehold receipt. Therefore the maximum compensation due to RoDMA is £1,887,500.
- 1.11. The surrender agreement has been prepared and provides for 50% of the £1,887,500 (£943,750, see para 1.9 below) to be ring-fenced, to pay for improvement of the dock walls and dredging of the marina only, which GLAP is keen to see given the current poor condition of this area of the Docks which GLAP is keen to see regenerated.
- 1.12. Under the provisions of the 225 year RoDMA Lease GLAP is able to claim back 50% of any receipts that RoDMA receives outside of its service charge regime. This receipt would therefore attract that provision and would impact on the £1,887,500 due to RoDMA for the surrender. Therefore it has been agreed between RoDMA and GLAP that GLAP will retain the remaining 50% (£943,750) of the compensation due to GLAP under the lease, rather than pass it to RoDMA to then claim it back. In summary, a total of £943,750 will be paid to RoDMA on the surrender of part of the lease, which reflects 12.5% of the total GLAP receipt (being 50% of the 25% value that it attributed to the RoDMA leasehold interest).

Fees and additional expenditure

- 1.13. GLAP has approval under MD1572 for the expenditure of fees up to a value of £500,000. This total has not yet been reached, the current expectation is that fees for the project will amount to just under £210,000. No part of these costs will be recovered from LCA in addition to the consideration for the land value but it is considered that the receipt overall is adequate such that the public purse has not been unduly impacted by the process.

2. Financial comments

- 2.1. The paper is seeking approval for the partial disposal of King George V Dock (Royal Docks Waterways), as the result of a Compulsory Purchase Order secured by London City airport. The disposal will trigger a partial surrender of an existing lease with Royal Docks Management Authority Limited (RoDMA), an entity that currently has a long term lease agreement with GLAP.
- 2.2. GLAP will receive a consideration of £7.55m plus VAT for the disposal of the site, which exceeds the valuation provided by professional property valuers, Savills.
- 2.3. GLAP is liable to pay RoDMA £1.887m for the partial surrender of its lease to facilitate the disposal to London City Airport. However, the amount payable by GLAP to RoDMA will be reduced to £944k, as the lease agreement provides for GLAP to receive 50% of RoDMA's income. Based on the valuer's assessment of the acquisition and in principle is subject to SDLT, which is estimated at £84k. However, the SDLT will increase if VAT is charged by RoDMA, which is subject to final review by GLAP lawyers.
- 2.4. Corporation tax will be charged on profits arising from the disposal which can be offset against losses brought forward. However, if any profits on the disposal arise after 31 March 2017 they will fall within the new corporation tax loss regime which, broadly, only allows 50% of taxable profits to be offset by brought forward losses.