NHS Greater Glasgow & Clyde

Quality & Performance Committee **20 May 2014**

Report of the Chief Executive **Paper No: 14/71**

Sale of Lands at the Former Lennox Castle Hospital

Background

In 1998, the Secretary of State for Scotland approved the closure of Lennox Castle Hospital, Lennoxtown. At that time the Lennox Castle Task Force was established to ameliorate the impact of the hospital closure on the local community.

The Task Force completed its work in 2002 following the closure of the hospital but it was clear to the partner agencies, East Dunbartonshire Council (EDC), Scottish Enterprise (SE), and the Primary Care NHS Trust (PCT) that the regeneration of Lennoxtown would be a long term process. This led to a successor body, The Lennoxtown Initiative (LI), to lead the regeneration process with a commitment that the net proceeds from the disposal of the former Lennox Castle Hospital site would be made available to the Lennoxtown Initiative for the delivery of the regeneration package. This was undertaken on the basis that the redevelopment of the site and the regeneration of Lennoxtown were inextricably linked. This commitment was subject to the PCT meeting the liabilities associated with the site closure and service reprovision.

To secure the funds required to achieve the regeneration objectives the PCT, EDC and The Lennoxtown Initiative agreed to pool a range of surplus land holdings, including the hospital site, with a view to maximising potential capital receipts. This was all embraced in a Tripartite Agreement.

Subsequent to the hospital closure the PCT explored the potential development opportunities for the site with limited success, on account of the planning constraints. However, an approach by McTaggart & Mickel, the developer who owned the adjacent site at Hole Farm, presented the PCT with a unique opportunity to unlock the potential for the hospital site to be developed for residential use.

Both parties had substantial land holdings on the edge of the village of Lennoxtown which when pursued in isolation for development incurs significant planning difficulties. By combining these assets and viewing them as a single entity there was the possibility of unlocking the residential development potential.

Discussions with EDC and LI resulted in agreement that the lower site could be developed for residential use but that the upper site could only be developed for Greenbelt Compatible Leisure use.

This led to a Joint Venture Agreement with the PCT and McTaggart & Mickel for the lower site whereby costs and receipts secured are shared on a 50/50 basis by the parties. The development of this site lay in its entirety with McTaggart & Mickel with costs incurred being recovered from the land receipts generated.

The lower site was designated as being suitable for housing with a capacity of 350 units. This area received outline planning permission for residential use with the first section of that site developed by MacTaggart & Mickel.

As part of the Joint Venture Agreement, McTaggart & Mickel had to surrender the development rights on their land at Hole Farm to be able to develop the lower site at the hospital. In the unlikely event that Hole Farm was developed in the future, the net receipt from that development would be divided between the developer (one third) and Lennoxtown Initiative (two thirds).

In advance of the Lennoxtown Initiative the Board and EDC had a similar Agreement through the Kirkintilloch Initiative for the Woodilee Hospital site. This Development Agreement with a consortium of housebuilders provided £57M of public sector infrastructure projects together with a Capital receipt of £40M for the sale of the hospital site. On the back of the success of the Kirkintilloch Initiative the Board promoted and entered into proposed joint venture disposal with McTaggart & Mickel.

The Lower Site

The lower site was divided into 5 plots – 1A, 1B, 2, 3, and 4. Under the terms of the original Agreement the site was to be developed in these five separate phases with the first phase transferred to McTaggart & Mickel in October 2006. Following this it was assumed that the future tranches would be marketed as at the following dates:

- Phase 1b - as soon as practicable following the Purification date - (after October 2006)
- Phase 2 - 24 months following the purification date - (before October 2008)
- Phase 3 - 36 months following the purification date - (before October 2009)
- Phase 4 - 48 months following the purification date - (before October 2010)

Only plot 1A has been developed by McTaggart & Mickel. Phase 1b was marketed with offers received but no acceptable deal was struck.

McTaggart & Mickel have however carried out all the necessary infrastructure works for all 5 sites at a total cost of c £7.6M with Greater Glasgow Health Board being responsible for 50% of that cost. The recovery of this outstanding cost was provided for by the sale of the 5 tranches of land. Due to the nationwide property crash in 2007/8 the subsequent plots have not yet been taken to the market. Thus the terms of the Joint Venture Agreement with regard to timescale for development have not been met. These costs are still being held totally by McTaggart & Mickel who are now pressing the Board for repayment of part if not all of this debt.

Market Conditions in 2006 - 2014

The economic and property context in 2006 was significantly different to that of 2014. In terms of land values at Lennox in 2006 our property advisors, Jones Lang LaSalle (JLL) estimate that gross land values i.e. before deduction of abnormal site development costs would have been in the region of £750,000 per net developable acre. JLL were involved in a transaction involving the Boots factory site in Airdrie. The gross land value at this time paid by one of the PLC house builders was based on £775,000 per acre. Whilst Lennox is a more attractive site, the volume of sales is likely to be higher in Airdrie hence the slightly higher land value.

The intervening 8 years have seen a number of commercial and residential developers enter administration as land and property values plummeted. Banks and other financial organisations were left holding title to assets worth significantly less the outstanding loan. As this situation developed through 2008 to 2012, consumer confidence fell and mortgage availability became harder to secure. Downward pressure on house prices, an increase in development finance charges and a slowdown in take up of new homes led to the net value of land through residual development appraisals saw fall by as much 50-70% in certain locations.

With many developers unable to secure debt to finance developments the number of developers who were active during this period was considerably reduced. With minimal competition housebuilders who could buy land were able to drive a hard deal with land owners who in turn had little option to accept what terms they were offered.

As a result The Board has not progressed the sale of any of the remaining phases of land at Lennox Castle and have not met the terms and conditions of the Joint Venture Agreement with McTaggart & Mickel.

As noted above land values substantially dropped after the financial crisis took hold in 2008 and in parts of Scotland they have still to recover. The recovery has only very recently taken hold in 2014 following the introduction of government incentives such as Help to Buy. Based on comparable land sales elsewhere within the West Coast of Scotland JLL believe gross land values will be circa £550,000 per acre before deductions for abnormal site development costs.

Current Position

McTaggart & Mickel have now appointed Savills to produce a Marketing Strategy Report for the site. The report highlights that although the market for development land is improving the improvement in secondary market areas such as Lennoxtown is still lagging behind core areas. They are of the opinion that Lennoxtown is not seen as a key requirement currently for the main housebuilders but as supply becomes restrained and market conditions continue to improve Savills believe that interest will increase. Thus they would not recommend marketing the next phase until next spring.

Their recommended marketing programme for the remaining four phases is as follows:

- Phase 1b - March 2015
- Phase 2 - March 2017
- Phase 3 – May 2018
- Phase 4 – May 2020

The recommended marketing strategy by Savills is on the basis that Lennoxtown will not be able to sustain two housebuilders at once so further sites should be marketed in line with sales coming to an end on the previous phase and thus only one builder developing at any one time.

Following on from this report The Board and their advisors, JLL, have met with McTaggart & Mickel. A further option is to combine the marketing of Phases 1b and 3 thus increasing the initial capital receipt to The Board. McTaggart & Mickel wish to have two thirds of their infrastructure debt repaid in the sale of these initial phases with the final third paid off from the subsequent sale of Phases 2 and 4. Over the next few months the Board and their advisors will discuss and finalise the terms and conditions of the marketing strategy for the site with their joint venture partners McTaggart & Mickel

The terms of the Joint Venture Agreement offer a right of pre-emption to the purchase of the sites to McTaggart & Mickel only after they have been tested on the open market and they then match the highest offer attained.

McTaggart & Mickel currently do not have development at the Lennox Castle site in their three year house building programme. They have however expressed an interest in perhaps reconfiguring that programme to include potential development in their financial year 2016/17.

The Upper Site

The upper site, with the Greenbelt Compatible Leisure planning use designation, had a minimal forecasted capital receipt with any receipts generated accruing to the Lennoxtown Initiative.

The Board were approached by Celtic PLC in November 2004 with a view to purchase the upper site for use as a "Sports Academy" – i.e. a sports and training facility. This was regarded as Greenbelt Compatible use and was seen as a positive step forward for the objective of achieving a fully developed former hospital site.

The site was covered by the East Dunbartonshire Local Plan which became operative in 18th February 2005. The upper site was designated as Greenbelt within that Local Plan.

A draft offer from Celtic PLC to purchase the land on the upper site to develop this training facility was received and negotiations commenced resulting in an offer to purchase from Celtic PLC in the sum of £493,000 in excess of the independent valuation of £480,000.

The land was not sold on the open market. It was sold off market in accordance with Part B, Clause 1.15 of the NHS Scotland Property Transactions Handbook, achieving the best possible receipt.

The land was sold to Celtic PLC to be used as a "Sports Academy" – i.e. a sports and training facility. If Celtic PLC chose to submit a planning consent for use outwith the permitted use as a Sports Academy the Scottish Ministers are protected by a significant Clawback Agreement over a 25 year period (as detailed in the Minute of Agreement between the Scottish Ministers and Celtic PLC)

At the time of the disposal of the land in question to Celtic PLC the negotiations were executively handled by the Officers of the former Primary Care Division (PCD) together with their appointed Property and Legal Advisors.

NHS Property Transaction Certification requires sign off from the Property Advisor, the Independent Advisor, the Legal Advisor and the Board's in-house Property Manager. The land was valued for the PCD by their appointed Property Advisor – Inglis and Partners - on 2nd March 2005 and verified by a further, separately appointed, Independent Advisor - Pollock & Buchan - on 16th August 2005.

All legal transactions were handled on behalf of the PCD by an independent firm of solicitors - McClure Naismith - who were the firm appointed for the entire former Lennox Castle Hospital disposal and not just for the Celtic PLC element of the transaction. The solicitors provided their report on 16th August 2005

The finalised property transaction was then scrutinised and signed off by the PCD's corporate governance approval process – PCD's Divisional Capital Planning Group on 17th August 2005.

After all negotiations had been concluded the transaction was then required to be presented under the Scheme of Delegation to the Chief Executive Officer (CEO) of Greater Glasgow Health Board (the legal entity at the time of the disposal) for signing as the Board's Senior Officer empowered to sign such property transactions on behalf of Scottish Ministers. The final Disposition was signed by the CEO on 29th June 2006.

Recommendation

The Q & P Committee are asked to note the following:-

- The position regarding the outstanding infrastructure debt
- The proposal to re-market the site to realise capital receipts in a rising property market
- The historical position on the land sale of the upper site to Celtic PLC

New roundabout gateway feature to mark entrance into Lennoxtown and extended 30mph limit

Lennox Castle

Woodhead House

Path

Phase 4

Phase 2

Phase 1A

Phase 1B

Phase 3

Local Park

Local Park (Play Area)

(Grass Playing Pitch)

Wetland / SUDS

Wetland / SUDS

Capieston House

Hole

Track

GLEN ROAD

Sewage Works

Balglass Farm

Track

Depot

Path

Tank

Scale 1:5000

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Legend

Masterplan Boundary

Boundaries of Housing Phases

Grontmij

Mactaggart & Mickel
Campsie View Lennoxtown
Phasing Plan Dec 2011