

Item No: 2	Classification: Open	Date: July 9 2007	Meeting Name: Overview & Scrutiny Committee
Report Title:		Elephant and Castle: update briefing on the commercial partner selection process	
Ward(s) or Group affected:		Cathedral, Chaucer, East Walworth and Newington	
From:		Interim Strategic Director of Major Projects	

RECOMMENDATION

1. That Overview & Scrutiny Committee notes:
 - o the following information about the selection process for the Elephant & Castle Development Partner; and
 - o that final bids are still being evaluated and a recommendation on the preferred bidder is still being formulated.

BACKGROUND INFORMATION

Purpose of the Elephant & Castle Scheme

2. The overall purpose of the Elephant and Castle project is to provide a comprehensive and integrated approach to improve the quality of housing, infrastructure, public facilities, and local economic engagement in the area, building upon the strengths of its population, location, and accessibility. The proposed scheme aims to build within Southwark a destination of choice, which benefits both the local and visiting communities.
3. The Elephant & Castle Scheme supports the Southwark 2016 objective, mirrored in the recently released corporate plan, of making the borough a better place for people through localities of mixed communities, more and better homes, a vibrant economy and a liveable public realm. However, it also strongly relates to the objective of improving individual life chances through supporting people to achieve their economic well being, being safe and improving cultural and leisure opportunities.
4. There is a massive weight of expectation surrounding the Elephant & Castle, both from local communities and from stakeholders and partners such as the London Development Agency (LDA), Registered Social Landlords (RSL) and Transport for London (TFL). Market research, consultation and meetings are all indicating strong support for a determination to progress the project.
5. The Elephant and Castle is extremely diverse in terms of its ethnicity and its socio economic profile. The scheme is designed to maintain this variety through the creation of a mixed-use, mixed-tenure development that retains as many as possible of the existing population. Through investment in education training and skills programmes [some of which have now been operating for over 5 years] the council and the LDA are actively supporting local people and businesses to take advantage

of the opportunities that will flow from the regeneration programme. By these means it is intended to maintain the variety and diversity of the Elephant and Castle, which is a defining characteristic of the area whilst addressing the current deprivation indicators.

6. The decision on July 24 2007 is about the selection of a “partner”, not a “scheme”. This is a reflection of the Council’s objective of forming a partnership based upon an already well-established set of shared aims and scheme requirements.

Selection Partner Process to Date

7. In November 2004 the council approved the commencement of a commercial partner selection process for the Elephant and Castle. The commercial partner selection process was the last major pre-scheme implementation phase in a programme that was initiated by the council in July 2002 “A fresh Start for the Elephant and Castle”. Since 2002 the following work has been undertaken:
 - An initial survey of public attitudes towards the Elephant and Castle and the prospects for its regeneration.
 - Publication of an initial framework for development establishing the council’s general objectives for achieving comprehensive and sustainable redevelopment of the core area.
 - An extensive programme of in-depth consultation and opinion testing accompanied by an intensive technical testing and development of the framework.
 - Initial scoping of the early housing programme including identification and consultation upon possible sites.
 - Adoption in February 2004 of the revised, detailed framework as Supplementary Planning Guidance (www.elephantandcastle.org.uk/frameworkfordevelopment)
 - Approval in July 2004 to proceed with procurement of registered social landlord (RSL) partners to develop the early housing sites on the basis of adopted policies for re-housing of tenants and leaseholders respectively.
 - Approval in July 2005 to appoint two housing association consortia to develop the early housing sites.
 - The first early housing site, Wansey Street, was completed in 2006 and is fully occupied. It won a national award in 2006 for Public Housing Scheme of the Year. Design appointments have now been made for all of the remaining sites, consultations exhibitions are underway and the programme remains on target for planning applications to be submitted from summer 2006 onwards.
 - The London Development Agency has formally confirmed funding for the early moves programme i.e. the removal of southern roundabout and subways and improvements to St Mary’s Churchyard and TfL has confirmed funding availability subject to approval conditions relating to draw-down.

- Planning consents in respect of Castle House and 50 New Kent Road were granted in 2006 and works have now commenced on both sites for a total of over 600 residential properties plus cinema, restaurants, new business premises and the first phase of the central market square.

8. In November 2005 the council selected three bidders to participate in Stage 3 of the selection process, and in July 2006 “Master Developer Partner Selection process Stage 3 Invitation To Tender”. This document, available to members if requested, set out a summary of the council’s key priorities in accordance and gave them the following weightings:

Selection Criteria	Weighting
Design & Movement - the capacity of each bidder to further develop the plans in compliance with the principles set out in the adopted planning material. This includes heavy emphasis upon the quality of design, urban movement with particular emphasis on pedestrian and public transport modes, network of open routes and public spaces, physical and environmental sustainability, mixed use, and balancing residential tenures.	20%
Economic Development - strategies for delivering employment space and supporting long-term viable job creation for local people; strategies for ensuring a recognisable and sustainable local economy with particular emphasis upon local independent businesses; how effective partnerships might be created with other public agencies, with educational institutions and with industry and commercial enterprise generally; measures which would respond to the diversity that currently exists within the population and the business sector at the Elephant and Castle and to look at such issues as supply chain contracting in a way that could support the Council’s policy objectives in these areas.	20%
Commercial - assessing the capacity and willingness of each party to commit too a working arrangement that apportions the risks, costs, and rewards in a manner that properly reflects the two parties’ respective inputs. These inputs must include initial contribution of assets, provision of finance, ongoing commitment of resources to project operations and risk exposure.	20%
Phasing & Programme - the capacity of the bidders to manage the scale and complexity of the overall scheme. This requires coordination across complex areas of activity including road and transport infrastructure alterations, services and utilities re-routing, managing relocations, laying out, phasing demolitions and new construction, managing value creation etc.	20%
Overall Cohesion - capacity to act as a long term commercial partner in order to deliver the totality of the programme as a comprehensive and inter related scheme. Ability to create a web of routes and spaces that bind together a new town centre and its surrounding mixed-use district,	20%

as opposed to ad-hoc, plot-by-plot development.	
Total	100%

Final Selection Process Stages

9. Two bids were received from:
- Key Property Investments (KPI) Limited [a joint venture vehicle between St Modwen and Salhia].
 - Lend Lease Europe Limited [in collaboration with Firstbase and Oakmayne]

A third possible bidder, Oceancrest [a consortium of Blackfriars Investments, Le Frak Organisation, Chelsfield Partners, and Glebe Holdings], chose not to submit a bid shortly before the closing date.

10. A preliminary evaluation of the two bidders was reported to the council in December 2006 and it was agreed that both bids were compliant and should therefore proceed to the detailed evaluation process. This involved a series of interviews and consultation with Transport for London, Greater London Authority and the London Development Agency. Discussions with bidders were successful in improving on the proposals received.
11. Interviews and negotiations have now been completed and final bids have been received prior to the June 29 2007 deadline. These are being analysed with a determination made by the council’s Executive on July 24.

Post-Selection Process

12. The Stage 3 documentation issued to the two bidders set out the Council’s proposed legal structure in the form of heads of terms for a regeneration agreement. This proposes a contractual [rather than a corporate] relationship under which the master development partner [MDP] will carry out the main elements of the project and will commit itself to this role for the duration of the programme. The agreement assumes that a “Business Plan” will be agreed between the parties which will set out the main scheme elements against a clear timetable with the responsibilities and obligations of both parties made explicit. This will be a key decisions and subject to call in by scrutiny.
13. In the first instance the major objectives of the Regeneration Agreement are to secure a major area wide planning consent and confirmed Compulsory Purchase Order to bring all land into the ownership of the Council. From this consolidated land holding long leases will be granted either to the MDP in order to proceed with phased development of the overall scheme or will be sold through a competitive process to third party developers on the basis of strict definition of the development that is to be carried out on the site. The agreement will contain flexibility to adapt the pace of land release and site development to suit market conditions but this will be within limits defined by key milestones that will be set out in within the contract.

14. The basis of evaluation is a “baseline” assumption that the Council will provide a vacant and cleared Heygate site as its primary equity contribution to the “partnership”. Along side this the selected partner will contribute all other land within the regeneration area which has been identified for redevelopment. This includes the shopping centre [including securing vacant possession from all occupiers], and undeveloped sites on the Walworth Road. The value of these respective inputs can be assessed and related one to another as a basis for setting the initial proportions in the deal structure. During these negotiations the Council has indicated that it considers its equity contribution to be in the order of £150m. Once established based on initial valuations the proportions of the two parties can then be modified to make allowance for other factors such as additional expenditure commitments, cost underwritings and risk profiling.
15. The Council’s position is that it wishes generally to minimise its cost and risk exposure to a degree that remains consistent with the achievement of overall scheme objectives. Both bidders, and indeed all past participants in the selection competition, have emphasised the need for the Council to play a continuing role in supporting the regeneration scheme and therefore a non participative role is not a practicable option. The post submission negotiations have therefore tended to focus upon reaching a position where the Council’s initial costs are recouped as early as possible, public benefits are gained early in the life of the programme [Leisure centre, open spaces etc] and the commercial partner is encouraged and incentivised to carry market risk in order to secure a market return.

Ongoing Consultation and Communication

16. A major exhibition of the Elephant and Castle development proposals including details of early housing sites, current planning applications, optional movement strategies etc was held at the Elephant in January. The event attracted over 1000 visitors of whom 550 completed written consultation response forms. The overall public response as assessed by the Council’s independent market research consultants showed 94% support amongst written respondents for the overall programme of regeneration as described at the exhibition. This is consistent with very strong and continuously growing general support for the council’s regeneration proposals/
17. The programme continues to be accompanied by continuous consultation, communication and engagement activities including exhibitions, market opinion surveys, newsletters, research programmes, and detailed housing referencing centred on the Heygate estate. The project team are undertaking a full Equalities Impact Assessment (EqIA) of the scheme within the overall the corporate programme for production of EqIA’s. The scope of the exercise includes the SPG framework, the processes associated with the scheme including rehousing, communication, and procurement. The exercise also addresses the council’s intended project outcomes, monitoring and review arrangements.
18. Separate from the decision about the development partner, one interest group that has been a particular area of council interest and active involvement is local businesses. Generally, the response from businesses, especially retailers, in the wider regeneration area has been strong. However, the small, independent traders in the KPI-owned shopping centre have been understandably worried by the

prospect of demolition of their premises. As well as working to provide as much support as possible to local businesses, the council is using the EQIA process to track and wherever possible, mitigate adverse impacts upon priority groups.

19. The Council is doing everything in its power to secure continuity for local businesses in the local area, although none of the retail property is in the ownership of the Council. In particular, it is using its position as the local planning authority to require all new commercial developments in the locality to offer a proportion of their units to shopping centre businesses on a first refusal basis. The success of the Elephant & Castle project in attracting new investment has led to a number of major schemes coming forward in the immediate area around the shopping centre and this gives the Council confidence that sufficient opportunities will arise for all businesses who have expressed a wish to stay in the area.
20. In 2006 the Regeneration and Resources Scrutiny Committee produced a report on Business Continuity at Elephant & Castle (attachment 1), which made a number of important recommendations to the Executive. The Executive considered this report along with a draft charter in January 2007 (attachment 2). Since then, the council has sought to consult and communicate with local businesses and to respond to concerns raised by them. Progress on this has been difficult since February, as there has been some upheaval within the traders' representative organisations. The former Elephant & Castle Traders Association continues to exist after a period of some contention over its status, while the BME Traders Group has dissolved itself and its remit has effectively shifted to the Elephant & Castle Tenants Association. Officers have met with both organisations in order to resolve conflicting claims of legitimacy and to determine what lines of membership and representation exist, and establish a forum where both parties are prepared to meet to develop the charter and work with the other parties. Both have agreed recently to proceed in this way and meeting dates have been offered by the council

Other Economic Development Issues

21. Economic Development & Strategic Partnerships have worked closely with the Elephant & Castle development team on developing long term desired outcomes for employment, skills and enterprise as evaluation criteria to be used in developer selection.
22. Officers from Regeneration & Neighbourhoods and Major Projects have managed to resumed meetings with the LDA following a recent restructure within the LDA. Southwark has formally requested details of the LDA's commitment in order to allow more detailed planning of investment proposals.
23. 20% of the evaluation of bidders relates to economic development strategies for delivering employment space and supporting long-term viable job creation for local people. The next phase of the project will involve contractual agreements to enforce this. While issues of supply chain contracting to support the council's policy objectives formed part of the 20%, it is not currently Southwark policy to build the London Living Wage into contracts.

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Dated: Friday June 29 2007