

Item No. 23.	Classification: Open	Date: 13 March 2018	Meeting Name: Cabinet
Report title:		Canada Water Master Development Agreement	
Ward(s) or groups affected:		Rotherhithe and Surrey Quays	
Cabinet Member:		Councillor Mark Williams, Regeneration and New Homes	

FOREWORD - COUNCILLOR MARK WILLIAMS, CABINET MEMBER FOR REGENERATION AND NEW HOMES

This report sets out how the council will enter into a master development agreement at Canada Water with British Land to enable the delivery of the comprehensive redevelopment of the area. The details of this report and the masterplan agreement are in line with the revised heads of terms agreed by cabinet in September 2017. This agreement will underpin the delivery of around 3,000 new homes, up to 20,000 new jobs, significant improvements to the public realm, a new council leisure centre, and secures the council's future options for benefiting from the proceeds of growth at Canada Water. The agreement with British Land will guarantee a policy compliant level of affordable in the first phase (35% affordable housing split 70% at social rents and 30% at intermediate rent), and that the council will have the first option to purchase the social rented homes and let them as council homes, at council rents, on council tenancies. The report and agreement sets out that affordable housing in future phases will be subject to viability reviews – given the long development timeline of 15 years this will ensure that any future policy changes and availability of grant can be taken into account.

The agreement sees the council increase its land holdings at Canada Water to include 20% of the Mast Leisure Park (which is currently in the freehold of British Land), and will see the council take a 20% ownership over the whole development. The council will have the option as each plot comes forward for development to either invest in that plot to maintain our ownership, sell out our interest, or to retain our land interest and not invest into that plot. This arrangement is detailed in the report, the key consideration is that this approach will give the council the opportunity to benefit from the increase in rents and capital receipts as the development is built out over the next 15 years. This will allow the council to receive income (either as rent or as receipts) to support our capital programme or invest into service provision for our residents. At a time when local government budgets have been heavily reduced by central government this will help us to maintain top quality services for our residents.

The report also endorses the masterplan that British Land have consulted on extensively since 2014 and which has broad local support, this endorsement is as the council in our position as landowner and the determination of the planning application will be subject to the separate statutory planning process. The masterplan includes the proposed location of a new council leisure centre to serve our borough – and in particular residents of Bermondsey and Rotherhithe – to replace the existing Seven Islands Leisure Centre. After careful consideration we support the location proposed by British Land which is a significant improvement on the previous proposed site. It should be noted that the location will sit at ground and basement of the office building on the proposed plot and we have agreed a cost cap with British Land for delivering the new centre which protects the council's position.

This report also updates on the development of a Social Regeneration Charter and the four themes that have emerged from public consultation, this report therefore instructs officers to complete this work and to report back to cabinet ahead of the planning application being determined.

RECOMMENDATIONS

1. That the council agrees to enter into the master development agreement for the site shown at Appendix 1 with British Land on the basis outlined in the report.
2. That the council agrees to take a long lease of all of British Land's freehold interests within the master development agreement area pursuant to s227 of the Town and Country Planning Act 1990 on the basis outlined in the report.
3. Delegates to the director of regeneration authority to conclude by 31 May 2018 the legal documentation for the master development agreement and any other documents arising there from in a way that is consistent with the information in the body of the report.
4. Delegates to the director of regeneration authority to enter into a CPO indemnity agreement.
5. Cabinet endorses the masterplan summarised in Appendix 5 & 6 of the report which will provide the framework for the redevelopment of the area over the next 15 years.
6. Cabinet delegates to the director of regeneration final authority as landowner to agree the submission of the planning application consistent with the masterplan framework summarised in Appendix 5 and 6 of the report.
7. Cabinet confirms that plot A2 is the preferred location for the new Canada Water leisure centre and endorses the framework for taking forward the project as set out in paragraphs 52-58 of the report.
8. Cabinet endorses the four social regeneration themes outlined in paragraph 60.
9. Instructs officers to complete work on the social regeneration charter taking into account work undertaken as part of the Southwark conversation and to report back to cabinet before the planning application is determined.

BACKGROUND INFORMATION

Introduction

10. The regeneration of Canada Water has been a long term objective for the council. In November 2015 following an extensive programme of consultation and discussion with local stakeholders the council adopted the Canada Water Area Action Plan which will guide development in the area in the period up until 2026.
11. The introduction to the CWAAP states that the Rotherhithe peninsula was transformed during the 1980s and 1990s. Over 5,500 new homes were built during this period along with the shopping centre and the Harmsworth Quays

print works. It notes that a second phase of regeneration is now underway focussed on the area around Canada Water itself. The opportunity to regenerate the substantial amounts of surface car parking, the out-of-town style shopping and entertainment facilities to create a new town centre for Rotherhithe and for Southwark is recognised and supported.

12. The CWAAP identifies that the “focus of development within the AAP will be a core area around Canada Water” and that this area is most suitable for more development and change due to its character, public transport accessibility, and opportunity and capacity for growth.
13. The council and BL are proposing to enter into a long term partnership to combine their property interests within this core area to deliver a masterplan which is consistent with the scale and ambition established by the CWAAP. The agreement covers three main sites (but with the ability to be expanded to include other land): the former Print Works (PW); the Surrey Quays Shopping Centre (SQSC); and, the Mast Leisure Centre (MLC), as shown on plan 1 attached. All of the land is owned freehold either by the council or BL and all of the council freehold land (other than some small miscellaneous sections of amenity land and highway) is occupied by BL under a number of long leases.
14. It has been provisionally agreed to extend the agreement site to include the former Rotherhithe Police Station and the Old Dock Office, and these are shown in the plan at appendix 1. It is possible the site may be further extended to include Canada Water Basin, as shown in the plan at appendix 2. The agreement also allows for a management area to be established and subject to the outcome of public consultation the extent of this is shown in the plan at appendix 3.
15. This is intended to be a long term partnership between the public and private sectors. It will deliver not only the physical transformation of the area in the form of a genuinely mixed use town centre but also a programme of social regeneration ,which the partnership will commit to in the form of a social charter, to ensure local communities have the opportunity to benefit from this investment.
16. This partnership has been developing since November 2014 when Cabinet endorsed 10 core priorities which were intended to set the parameters for the negotiations with British Land. At the heart of that decision was an ambition to put in place a commercial structure which would ensure that the council secures long term financial returns from the regeneration process which will help fund the services the council provides to our residents. The acquisition of the land which is envisaged in the changes to the land ownership will therefore facilitate the carrying out of development on that land which will contribute to providing improvements in the economic, environmental and social well being of the area as detailed in the report.
17. The agreement is based on the principle of the council and BL pooling their ownership and sharing the risk and reward of the development. Under the arrangement a masterplan will be created to direct future activity and this distributes development across the whole area in the most logical way irrespective of ownership.
18. The commercial principles which are intended to deliver this core objective were formally established by the Heads of Terms which were endorsed by cabinet in

September 2017. The MDA which is the subject of this report builds on these previous decisions and is consistent with the approach taken in the previously approved Heads of Terms. In particular the MDA is based on the initial landowner shares of BL 80% and council 20% established by that decision. In addition the council also secured the right as landowner to agree the masterplan prior to submission of planning consent and this is addressed in the report.

KEY ISSUES FOR CONSIDERATION

19. Set out below is a summary of the operation of the provisionally agreed master development agreement.

Master development agreement

20. The key document in the deal with BL is the Master Development Agreement for Canada Water (MDA), that will be signed by the council; BL CW Holdings Ltd, the property owning entity; BL CW Developments Ltd, that will deliver the development; and, The British Land Company PLC, that will stand as guarantor on appropriate terms.
21. In total the agreement with BL will have a maximum potential life of 500 years, but the MDA itself will exist only for the first cycle of development; that is, until the masterplan is delivered. It is anticipated this will take around 15 years.
22. The MDA performs a number of functions, some of the key ones being:
- It details the property ownership structure between the council and BL that is to be put in place and that will facilitate development of the site.
 - Governs how individual plots will be developed during the first cycle of development.
 - Sets out the financial arrangement between the council and BL and the options for the council to invest in the scheme and how it gets its return.
 - It commits BL to deliver the council's new leisure centre in the first phase of the masterplan subject to securing vacant possession of a suitable site. And;
 - Sets out the developer's obligations for delivery of affordable housing.
23. The timetable to complete the MDA is that following cabinet agreement the council and BL will have until 31 May 2018 to complete the legal formalities and sign a conditional MDA. To ensure this timetable is met Cabinet are asked to delegate the approval of the full suite of MDA documentation to the director of regeneration. Cabinet are asked to note that the Director of Regeneration will have regard to the assessment as to whether the Council has met its obligation under Section 123 of the Local Government Act 1972 to secure the best consideration that can be reasonably be obtained for the disposal of it's land when making this decision. Following this BL will then have 28 days to submit a planning application for the masterplan.
24. The conditional MDA contains a number of conditions precedent that must be satisfied before the deal comes into full effect. The conditions precedent include

obtaining planning consent and there is a 10 year long stop date for them to be satisfied, failing which the agreement can be terminated.

Ownership structure

25. Un-conditionality of the MDA (when the conditions precedent are met) will trigger a series of property transactions that will create the land interests out of which development will take place. BL will grant the council a 500 year lease of its freehold land. At the same time, the council will create, out of its freehold and the new long lease from BL, an overarching Head Lease of the entire site such that BL's existing leasehold interest will merge with the new Head Lease and no longer subsist.
26. The Head Lease is a key feature of the agreement. It will be between the council and BL CW Holdings Ltd and will run for 500 years. The rent payable under the Head Lease is the mechanism by which the council receives a return for investing in the development (the operation of the rent is dealt with in more detail below).
27. It is the council's aspiration to see emerge at Canada Water a truly mixed use town centre that includes a range of activities: retail; employment space; a range of housing tenures; community facilities; and, public realm. These different uses have different commercial risk for developers / investors and will generate different rates of return.
28. Pooling ownership and creating an overarching ownership structure allows the deal partners to take a balanced view of the different level of profit from each site. In effect, and to some degree, there will be an element of cross subsidy between some uses. The Head Lease also makes it possible to breakup delivery of the masterplan into manageable chunks by allowing the carving out of individual development plots. If it is thought advantageous to the project then these can be delivered by third parties
29. Delivery of the Canada Water masterplan will be a long term undertaking that will require significant financial resources. The commercial reality is that any regeneration on this scale must deal with the need to bring in additional sources of finance. It is also essential that all parties have options to exit the arrangement should they need to and the proposed ownership structure addresses all of these matters.
30. Once a plot is identified for development it will be the subject of a long lease arrangement (either a sublease of the head lease or a separately identified plot within the head lease). The rent and other receipts generated by the long lease will be the commercial return to the plot developers
31. The MDA also gives BL a number of tools to introduce additional finance or for them to exit the arrangement. This can be done by:
 - BL can sell some or all of its stake in BL CW Holdings Ltd (the company that holds the main property interest in the project).
 - BL can create financial products within the ownership structure that will enable them to sell the right to receive the income generated by one of more plots.

- BL can sell up to 30% of the developable area of the site by way of outright sale on a long lease basis (Third Party Sale) – in which case the council will be paid 20% of the sale proceeds and will have no further interest in the land.
 - For all non Third Party Sale plots the council will have the right to participate as an equity partner in the development plots. In these cases BL will have the right to sell its involvement in the development of the plot, but leaving the council's investment rights intact.
32. The council is also protected financially so that, should it so wish, it has a number of ways to exit the project, either in whole or in part:
- The council can sell its freehold interest in the Head Lease and cease direct involvement in the project.
 - The council can sell its right to be involved in individual plots as they come forward for development.
 - The council can sell the right to receive some or all of the rent under the Head Lease for a period of time.
33. For all of these reasons the ownership structure envisaged by the MDA is recommended to cabinet as one that: creates the overarching ownership interest needed to deliver a mixed use scheme and to bring about the better planning of the area; has the flexibility needed to introduce additional funding sources; and, give both parties options to exit the arrangement should they wish.

Implications for rent

34. One of the consequences of the structure outlined above is that it creates a particular dynamic around the collection of rent:
- The council currently collects rent from the Surrey Quays Shopping Centre (5% turn over rent) and the Print Works (around £400k per annum) and when BL enters into the new Head Lease the rent to the council will stop.
 - Simultaneously, under the new Head Lease the council will be able to collect 20% of the rent from Surrey Quays Shopping Centre and the Mast Leisure Centre (and potentially from other sites if the MDA is extended).
 - Going forward, the rent from the Shopping Centre and Mast Leisure will reduce as they are emptied to facilitate redevelopment.
 - As development plots are completed the council will receive its shares of the rent generated by these new buildings.
35. Exactly how this dynamic will play out cannot be known with certainty until the masterplan is confirmed and the sequencing and timing of development is clearer. However, early financial modelling confirms that in the first five years following drawdown of the head lease the rent position for the council should be at least neutral.

Site boundary

36. At Heads of Terms stage cabinet endorsed the position that the agreement with BL should cover three sites: PW, SQSC and MLP, with the ability to extend the site with the agreement of both parties. Cabinet also endorsed the principle of entering into a management agreement that could extend beyond the boundary of the main agreement area. The purpose being to secure investment in areas of public realm – inclusion of public realm being subject to public consultation.
37. Provisional agreement has been reached to extend the contracted area to include the: former Rotherhithe Police Station on Lower Road; the Old Dock Office on Surrey Quays Road; and, subject to the outcome of public consultation and the grant of planning consent, to Canada Basin itself. Agreement to this would bring the areas into the masterplan and the full scope of the development agreement with BL so that they become part of the comprehensive treatment of the new town centre.
38. Inclusion of the former Police Station and the Old Dock Office are not considered to be contentious. and should benefit the comprehensive treatment of the wider area. BL has been consulting local people on the benefit of including the Basin in the development; the process has not yet concluded but initial indications are that there is support for the proposal.
39. It is envisaged that the council may be required to use CPO powers at a future date in order to obtain possession of parts of the site that are occupied and in respect of which vacant possession cannot be achieved by agreement. The use of CPO powers would be the subject of a separate decision of cabinet at the appropriate time. In order to protect the council's position, the council and BL will enter into a CPO indemnity agreement which will govern the relationship between the parties in respect of any CPO and importantly which will indemnify the council against the costs incurred in making a CPO and the costs of compensating any parties whose interests are compulsorily purchased.
40. It is further provisionally agreed that the management area should include the Plaza around Canada Water Library and Redbridge Square (the link route between the town centre and Greenland Dock) as shown on plan 3 attached. This is conditional on the outcome of public consultation and on BL receiving planning consent for their proposals.
41. BL has run a number of consultation events on the treatment of public realm that included the Basin, Plaza and Redbridge Square, with a view to including them in the planning application for the emerging masterplan. A summary of the findings from the most recent consultation events held in February this year are generally positive and are summarised in Appendix 4.
42. Cabinet is asked to endorse the provisional agreement and to instruct the Director of Regeneration to conclude the appropriate formalities to document these points as follows:
 1. To extend the boundary of the agreement with BL so that both the MDA and the Head Lease include the former Police Station on Lower Road and the Old Dock Office on Surrey Quays Road; their inclusion being to allow the better planning of the area.

2. To enter into a CPO indemnity agreement whereby, should the council at some point in the future make a specific decision to use its CPO powers in support of the project, BL will indemnify the cost for doing so. Cabinet is asked to agree that the completion of this document on appropriate terms is delegated to the Director of Regeneration for completion by May 31st.
3. Subject to the outcome of public consultation and the grant of an appropriate planning consent, to include Canada Water Basin in both the MDA and the Head Lease. Inclusion to be on the basis that responsibility for the future repair and maintenance of the dock structure is to pass to BL CW Holdings Ltd along with the council's existing water management responsibility.
4. Subject to the outcome of public consultation and the grant of an appropriate planning consent, to enter into a management agreement with BL to include Canada Water Plaza and Redbridge Square. This to be a 25 year agreement with BL and its successors to the MDA site to ensure the sections of land are managed to an acceptable standard as part of a comprehensive strategy

Masterplan

43. One of the specific provisions of the MDA is that the council as landowner agrees to the scheme masterplan. After confirmation BL has 28 days to submit the masterplan for planning consent.
44. BL agreed as part of the Heads of Terms the Council as landowner would have the right to consider the masterplan prior to submission for planning consent. The current masterplan scheme overview is attached as Appendix 5 of this report. Appendix 6 contains a summary of the proposed approach which will inform the planning applications. In line with the development principles which were approved by cabinet in November 2014 the masterplan will:
 - Deliver 35% affordable housing split 70/30 social rent/shared ownership in the first phase. Affordable housing in subsequent phases will be determined as each reserved matters applications is brought forward in accordance with up to date viability reviews. It is envisaged that review points will also be an opportunity to assess the availability of grant to support the delivery of affordable housing.
 - The council has secured an option to purchase the social rent homes (but not the intermediate homes) and retain them as council housing.
 - The phase 1 application includes on plot A2 [identified in Appendix 7] a new public leisure centre which will be owned by the council via a long lease. The proposed scheme is capable of accommodating the council's high level specification from November 2014. The design has evolved further since then and includes for an 8 lane swimming pool, 4 court sports hall, crèche, 146 station gym, two studios and cycle spinning room.
 - Incorporates a mix of uses that should be capable of supporting up to 20,000 new jobs, and training and business start up opportunities.

- The proposed mix of uses developed across the combined holdings has the capacity to accommodate an education hub providing significant new space for teaching, academic and research facilities.
 - School pupil projections have been assessed. A programme of interventions to provide additional capacity to meet needs arising from the scheme has been identified and this is set out in Appendix 6. The masterplan includes space for a new sixth form.
 - TfL and Southwark have commissioned a multi modal transport study. Emerging findings are summarised in Appendix 6. The planning application will be submitted with an assessment of the impacts on the immediate local highway network and this will be used to identify any further local mitigation measures that the developer may be required to deliver.
45. BL have been engaged in a process of consulting residents and local stakeholders since 2014. This culminated in a final exhibition in February 2018. The details of the consultation programme and a summary of the responses from the recent exhibition are set out in Appendix 6. In summary the approach is generally supported by local residents although there are some concerns about the implications of the scheme for local infrastructure including the impacts that it could have on the capacity of the transport system, schools and health facilities. The programme of work to address these concerns is set out in more detail in Appendix 5.
46. It should be emphasised that this is the start of a programme of development which will be constructed over a long period of time. Therefore the impacts of the scheme will be incremental and will not occur from day one. The council and its partners are committed to working together to ensure the capacity of the transport, health and education facilities are capable of meeting the increased demands that will increase over time. The council and GLA have therefore established a Strategic Forum to oversee the development and coordinate public and private investment in the area.
47. Cabinet is therefore asked to endorse the scheme overview and the summary of the masterplan (Appendix 5 and Appendix 6) which will provide the framework for the redevelopment of the area over the next 15 years. It should be emphasised that this decision is being made by the council in its capacity as landowner with an interest in the long term regeneration of the area. The determination of the planning application will be taken by the council's planning committee following statutory consultation. It will be determined in accordance with all relevant planning policies and material considerations as is the case with all other applications. The scale of the scheme also means that the application will be referable to the mayor for determination.
48. The next step in the process will take the form of a submission of a detailed phase 1 and outline planning applications for the remainder of the Site. The applications will be supported by a large body of technical supporting documents including a design guide, design specification, Environmental Assessment, Affordable Housing Statement. Cabinet is asked to agree that the council's approval as landowner for the formal submission of the planning applications and supporting suite of documents is delegated to the Director of Regeneration. The delegated decision will be undertaken within the parameters summarised in Appendix 6.

Affordable housing

49. The MDA requires BL to provide a policy compliant phase 1 affordable housing. Affordable housing in subsequent phases will be determined as each reserved matters applications is brought forward in accordance with up to date viability reviews. More detail on the proposals are set out in Appendix 6.
50. The council has also secured an option to purchase the social rent units within the scheme. There will be an affordable housing lease which will form part of the MDA which will guarantee that the council can secure these homes for a period of 200 years at a purchase price to be set through the planning viability process. Cabinet are asked to note that the completion of the option by 31st May on appropriate terms will be delegated to the Director of Regeneration.
51. The council will be required to support BL in securing grant to help deliver affordable housing within the scheme. This process has already commenced and it has been agreed that BL can use up to £12m of the £20m secured through the housing zone designation to support delivery in the first phase of the scheme.

Leisure centre

52. Cabinet agreed core priorities for the negotiations with BL in 2014 which included a requirement for a site in its ownership for a new public leisure centre. At the time the specification for the facility was to include a swimming pool, 4 court sports hall, crèche, gym and cycle spinning room. The design has evolved since then and the current base specification is now summarised in Appendix 6.
53. As noted in the section of the report concerning the CW masterplan the proposals BL intend to submit as a detailed phase 1 planning application include a new leisure centre on Plot A2 [Appendix 7]. The MDA establishes a framework for the delivery of this facility at this location. In addition the MDA also establishes exits points at which the council or BL may opt to not proceed with the project on the plot A2 site.
54. The provision of the facility at Plot A2 is conditional upon planning permission being granted, vacant possession being secured, and agreement on a final construction price within the financial parameters which are set out below:
 - The council's financial contribution is to be capped at no more than £35m. By comparison The Castle had a total cost of £20m. Since that facility was completed building costs have increased by over 30%. In addition the high level specification for the Canada Water centre has a footprint which is 15% larger than the Castle. The Canada Water centre would have an 8 lane pool (as opposed to 6 at The Castle). Furthermore Sport England guidance for sports halls has been updated resulting in an increase in the size of this component of the facility. Taking these changes into account would increase the Castle to a cost of £27m at today's prices.
 - At this point in the process there still remain significant cost risks which make it difficult to predict the final construction cost with any degree of certainty. In particular ground condition surveys are needed before construction risk can be assessed and the structural design of the building

confirmed. As noted the scheme is subject to planning and the date for vacant possession of the site has still to be confirmed. As a consequence build costs are likely to fluctuate in the period leading up to the date at which the actual construction price is fixed which is a further risk. In these circumstances it is necessary to set aside a sum for risk and contingency. The £35m budget cap allows for £8m to cover this and professional fees. BL have priced this at a higher level resulting in a total figure of £45.7m.

- As noted above, the project is at an early stage and final costs are inevitably subject to risk. To bring further certainty to the process the developer will undertake a ground survey within 6 months of obtaining vacant possession of the Petrol Filling Station (PFS), or earlier if agreement can be reached with Tesco whilst the PFS is still operational. Once the results of the ground survey are known, the developer will re-issue the cost estimate to build the Leisure Centre on an open book basis. If the revised total of all build and development costs including fees and contingencies are lower than £35m then the Council's cap will be reduced to this amount.
 - Once the costs have been re-stated, if the council no longer wish to proceed, it may withdraw on 4 weeks notice to the developer. At this point the Agreement for Lease (AFL) will be rescinded and the obligation to provide a Leisure Centre in the MDA will fall away.
 - If the restated costs have increased materially (>10%) above the £45.7m figure which BL currently price the project at, then the developer will have a right to rescind the AFL on plot A2 but will be obligated to put forward an alternative site for the Leisure Centre.
 - If the review demonstrates that the price is in excess of the cap of £35m and the council opts to proceed then the amount above the cap will be treated as a shortfall and recovered via the infrastructure account against the individual plots as they are brought forward. Costs will be met on an 80:20 basis or in accordance with the council's plot proposal investment decision at that time.
 - In the event the council opts to proceed a final construction price will be fixed following a competitive tender process using contractors from a pre agreed list.
55. Vacant possession of Plot A2 is dependent on BL and Tesco agreeing commercial terms for the relocation of the petrol filling station. While BL report that they are making good progress towards agreeing a deal there is at this time no guarantee that this will occur. The council therefore has the option to opt out of this site in June 2023 if VP has not been secured by the date.
56. A detailed specification for the construction of the centre will need to be agreed by 31 May 2018. Approval of the specification is to be delegated to the Directors of Regeneration and Leisure Services.
57. An agreement for the lease [AfL] of the leisure centre will also be completed as part of the MDA process. The principal terms are a lease of 125 years at a peppercorn rent. Approval of the completed AfL is to be delegated to the Director of Regeneration to conclude satisfactory terms including a requirement that the lease granted to the council can be freely assignable.

58. The development of the new leisure facility at Plot A2 would enable the council to close Seven Islands and it could opt to sell the site to generate a significant capital receipt which will be used to meet the costs of the new facility.

Social regeneration

59. The implementation of the masterplan provides an opportunity to deliver positive social, economic and health benefits for our residents across the design, construction, estate management and interim phases of the scheme. In pursuit of this objective Cabinet in September 2017 resolved to ask British Land to work with the Council and the local community to develop a social regeneration charter which will set out proposals to ensure the redevelopment plans also contribute to the social regeneration of the local area. The Charter is to be a shared document and set of priorities, to be jointly adopted and owned by the partnership, and involving the local community at each point in its development, delivery and review.
60. Since then, British Land has undertaken baseline research of local social and economic conditions which is intended to inform the development of the charter. This first phase has also involved engagement with the local community. Feedback from BL's most recent exhibitions on the approach to the social regeneration charter is summarised in Appendix 4. The conclusions from this first phase have identified the following four intertwined themes which will inform every stage of the masterplan to maximise social, health and economic benefits. These are;
- **A place to learn and grow** - local schools, organisations and businesses working together to support people to learn and create pathways to employment and opportunities for all.
 - **A place to belong** – liveable accessible local places bring people together, supporting a more connected and resilient community that celebrates its shared heritage and culture.
 - **A place to work** - local businesses old and new, large and small, thrive side by side with empowered residents, accessing opportunities created.
 - **A place to be happy and healthy** – people enjoy and healthier and happier quality of life in a place that connects them to other people , to nature and active learning.
61. Cabinet is asked to endorse the four themes as a framework to inform further development of the charter and the community engagement that is planned in the next phases of the process. BL intend to submit a document outlining the charter as a supporting document as part of their planning application. This will be necessary as some aspects of the charter such as employment and training targets will be required to be delivered through legal obligations set out in the s106 agreement.
62. The full scope of the charter is not defined at this point and therefore there are likely to be aspects of it which will require other delivery mechanisms and partnership arrangements. The governance arrangements also require further development and consultation. There will be a further report to cabinet addressing all these matters and setting out a full social regeneration charter for

approval before the planning application is determined. This report will also consider relevant matters raised during the Southwark Conversation.

Project governance

63. Governance of the project can be considered in two parts. During delivery of the masterplan the partners' relationship will be governed via the MDA. Individual plots will be built out under a separate long lease arrangement and as these plots complete the provisions of the MDA will fall away. From that point forward the council's involvement in that plot will be governed through the head lease and any plot specific subleases created out of it.
64. Following signature of the conditional MDA (the summer of 2018) a steering group will be established to oversee governance of the delivery phase. Under this arrangement BL will be responsible for the day to day management of the project but with a duty to keep the council informed of key matters and to consult the council.
65. To assist with this a project baseline will be created and through the life of the MDA will be the subject of a change management arrangement administered by the steering group. The baseline will compose a suite of documents and other information that together fully describe the project and include: the masterplan; parameters for each development plot; delivery programme; and, financial information.
66. For budgeting and project planning purposes a financial model has been built that anticipates future development activity. The model is currently being audited by technical specialists to ensure it is consistent with the MDA and that it operates as intended.
67. The steering group will meet as necessary, during periods of high activity this might be as frequently as every 6 to 8 weeks. One of its key functions will be to administer the plot proposal process by which the council invests in development plots.
68. Once development of a plot is initiated it will become the subject of a long lease arrangement (either a sublease of the head lease or a separately identified area of land within the head lease). The terms and conditions of the long lease arrangement will govern the council's further involvement in the plot.
69. Cabinet is asked to endorse the provisionally agreed approach to governance.
70. Cabinet is also asked to delegate to the Director of Regeneration authority to agree the final details of the suite of documents and information that will form the project baseline as part of completing the MDA by 31st May. This to be done in such a way that the council has a complete understanding of the project and that arrangements are in place to update and provide accurate, timely information so that the council can make informed decisions on investment options and to understand the budget position generally. In exercising this delegated power officers are to have full regard to the outcome of the audit of the financial model.

Development of plots

71. Under the MDA BL is to be responsible for obtaining planning consent for the

masterplan, which will identify building plots and the parameters for their development. It will also be BL's responsibility to create serviced plots capable of development (build access roads, bring in utilities and the like).

72. Once these plots are created it is anticipated that most of them will be developed out by BL with the council as its development partner. However, the MDA gives BL the option to sell a long lease interest in up to 30% of plots to a third party, who will carry out development (referred to as Third Party Plots).
73. In these cases the plot is sold on a long lease for a premium and the council will receive 20% of the sales receipt. The third party will be required to deliver a scheme that is not to the detriment of the masterplan, but other than that the MDA will not apply to that plot.
74. The delivery of non Third Party Plots is governed by the full provisions of the MDA. In these cases the council's opportunity to invest in plots is covered by the Plot Proposal process that is administered through the steering group.
75. Once a serviced plot has been created, and as the development programme dictates, the council will be given a Plot Proposal for that plot. This includes a full set of information such that the council can make an informed decision on whether or not to invest in that particular plot.
76. The council will have the right to invest in individual plots on a side by side basis with BL up to a maximum level derived from the council's overall ownership share in the total site (agreed in the September 2017 heads of terms report to cabinet to be 20%). The arrangement is very flexible in that at a plot proposal the council can: sell its land interest in the plot at market value and have no further involvement in the development of that plot; agree to retain its land interest in the plot; or, leave its land interest in the plot and invest anything up to 20% of the plot development costs.
77. At completion of the development the plot developer will create occupational leases in the new building. These leases will either generate capital receipts (for example in the case of private housing) or rent (for example in the case of shops or employment space). The council will be entitled to a share of these receipts and rent in line with the level of investment it made in the plot development.
78. Cabinet is asked to endorse this provisionally agreed approach to the development of plots.
79. Cabinet is also asked to delegate to Director of Regeneration authority to conclude the full suite of contract documents that will give effect to this approach to the development of plots. This will include but is not limited to:
 - Plot sublease – the terms and conditions for a leasing arrangement created out of the Head Lease that will allow individual plots to be developed.
 - Form of plot proposal – the information to be supplied by BL to the council to allow the council to make an informed decisions on its investment options for individual plots.
 - Infrastructure provision – agreement on the arrangements for on how infrastructure works will be planned and delivered.

Financial arrangements in the MDA

80. The MDA is a framework arrangement that gives the council a number of routes to invest in the development project. These opportunities will be spread over a period of years and as they arise will be the subject of specific cabinet decisions.
81. The general rule is that to the extent the council invests in a plot it will share in the income generated by development. To the extent it does not fully invest BL will be entitled to charge interest and a priority return on all non match funded contributions. This means that if the council should not fully invest in a plot, the plot will have to bear additional charges (interest and priority return on non match funded elements) and the council will be entitled to a smaller share of any (now reduced) profit.
82. The MDA includes a number of formula and worked examples to show how the investment and income distribution processes work. Operation of these formula is part of the audit of the financial model.
83. The routes for the council to invest are:
- By investing in infrastructure. Infrastructure cost is the term used to describe the cost of creating serviced plots that are capable of development. It includes the cost of creating the masterplan and obtaining planning consent.
 - Through its land value. For the purposes of making investment decisions and distributing profit under the development agreement the council is credited with having a base ownership position of 20% of the entire masterplan area and of each plot as it comes forward for development.
 - Contributing to plot development cost. That is, the cost of actually building out a plot in line with the plot proposal.
84. It is inevitable that infrastructure cost will be incurred before any plot proposals come forward: BL has already had to meet significant cost in preparing the masterplan and there will be more cost in creating serviced plots before any plot development can begin. So as to avoid incurring interest on these historic and other costs the MDA includes a mechanism for the council, should it so wish, to invest in infrastructure costs as they arise. Consideration of these opportunities will be the subject of specific cabinet decisions.
85. One of the issues arising from the treatment of infrastructure costs is how to deal with historic costs. Preparation of the masterplan and other early work has been going on for a number of years and BL has incurred considerable costs. It has been provisionally agreed that historic costs will be treated as development costs on the following basis:
1. The cost must relate to work carried out after 23 February 2015.
 2. Historic costs will become legitimate project costs at the drawdown of the Head Lease.
 3. At drawdown the council will be given the opportunity to fund historic costs

and to the extent the council does not, BL will be entitled to charge interest on non match funded expenditure from the date it was incurred.

86. At heads of terms stage cabinet agreed the position that for the purpose of making investment decisions and distributing profit under the MDA the council is credited with having a base ownership position of 20%. As it is now proposed to extend the boundary of the agreement to include the former Rotherhithe Police Station and the Old Dock Office, a mechanism is needed to adjust the ownership position.
87. In order to ensure the council continues to enjoy the full 20% interest it has been provisionally agreed the council will contribute 20% of the purchase price of the former Rotherhithe Police Station and the Old Dock Office; a sum of £3.1m, payable on drawdown of the Head Lease.
88. Cabinet asked to endorse the provisionally agreed approach to the financial arrangements within the MDA
89. Cabinet is asked to delegate to Director of Regeneration final agreement on the treatment of historic costs and how these are accounted for in the MDA.

Policy implications

90. As referred to elsewhere in this report the council in November 2015 adopted the CWAAP which sets out planning guidance for the redevelopment of the sites referred too in this report for the period up until 2026. The report details a number of property transactions which will come into effect once certain conditions are met. In the event these circumstances occur the agreement will pave the way for the implementation of a masterplan over a 15 year period which has the capacity to deliver the CWAAP vision and objectives for this core area.

Community impact statement

91. The public sector equality duty ["PSED"] , at section 149 of the 2010 Equality Act requires public bodies to have due regard to the need to eliminate unlawful discrimination , harassment and victimisation and to advance equality of opportunity and foster good relations between different people when carrying out their activities.
92. The public sector equality duty ["PSED"] , at section 149 of the 2010 Equality Act requires public bodies to have due regard to the need to eliminate unlawful discrimination , harassment and victimisation and to advance equality of opportunity and foster good relations between different people when carrying out their activities.
93. The council will continue to have regard to the PSED issues raised by this commercial transaction at the point at which individual plot investment decisions are taken. The development proposals will be the subject of separate decisions via the council's planning processes and decisions on these applications will also be required to have regard to the council's PSED duty.
94. It should be noted that the CWAAP adopted in November 2015 which has been referred too in this report was the subject of a separate equalities analysis and this can be viewed via the council's planning portal.

Resource implications

95. The resource implications arising from this decision will be officer time to conclude preparation of the development agreement and funding for external specialists to support the process. All of this activity forms part of existing budgets and gives rise to no new resource implication. Once the MDA becomes unconditional the council will be able to recover its costs of managing the agreement up to a cap of £250k per annum. The cap will be subject to an agreed indexation each year.

Legal implications

96. The legal implications are dealt with in the body of the report and below in the supplementary advice from the Director of Law and Democracy.

Financial implications

97. The financial implications are dealt with within the body of the report and below in the supplementary advice from the Strategic Director of Finance and Governance..

Consultation

98. There have been extensive internal consultation between officers in regeneration, legal services and finance.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

Director of Law and Democracy

99. This report recommends that Cabinet approve the entry into a development agreement with British Land on the terms set out in the report. As set out in paragraph 25 of the report, the agreement, once entered into and unconditional, will require the Council to acquire a 500 year lease of BL's land and to grant a new headlease of the whole site, much of which the council owns freehold.
100. It is recommended that the land to be acquired by way of the lease from BL is acquired pursuant to s227 of the Town and Country Planning Act 1990 ("the 1990 Act"). This provides that the Council may acquire by agreement any land which they require for any purpose for which a local authority may be authorised to acquire land under section 226. The purposes for which a local authority may be authorised to acquire land under section 226 (1) include purposes which it is necessary to achieve in the interests of the proper planning of an area in which the land is situated. For the reasons set out in the report the acquisition of this land to form part of the masterplan area will contribute to the proper planning of the area.
101. The grant of the headlease will be a disposal made pursuant to s123 of the Local Government Act 1972 which states that except with the consent of the Secretary of State, a council shall not dispose of land under that section, otherwise than by way of a short tenancy, for a consideration less than the best that can reasonably be obtained. The report delegates authority to the Director of Regeneration to agree the final terms of the agreement. These terms will include the mechanism by which the consideration for the grant of the head lease will be assessed, and a report from external advisers confirming that the

disposal represents best consideration will be obtained at the appropriate time and prior to any disposal being made. That report will confirm that the requirements of s123 have been complied with.

Strategic Director of Finance and Governance

102. The principal financial implications of this proposal are set out within the main body of the report.
103. The implementation of this masterplan through a long term partnership with British Land should allow for regeneration of Canada Water whilst providing the council with an opportunity to potentially benefit from profits associated with this development.
104. At each opportunity for further investment, arising from an individual plot proposal by British Land, an investment appraisal report would be brought to cabinet for decision as part of a detailed financial and commercial assessment undertaken by the council.
105. The initial Canada Water site is proposed to be expanded by inclusion of the former Rotherhithe Police Station and the Old Dock Office, acquired separately by British Land. To ensure that the council retains the 20% ownership across the whole site the council will agree to reimburse British Land for 20% of the acquisition cost for both properties. The acquisition cost of £3.1m will only become due when the MDA becomes unconditional, which is expected to be in the financial year 2020-21.
106. The council has committed to incorporate within the Canada Water area a high specification public leisure facility. The council will make a financial contribution to include the leisure centre within the development. The council's standalone contribution is capped at £35m.
107. The forecast cost for this leisure facility would need to be incorporated into the council's medium term capital strategy, but that the cost could be partially offset by funding from any subsequent sale of the existing Seven Islands site.

BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
Canada Water Area Action Plan	Regeneration Division Fifth Floor, Hub 1 160 Tooley Street London SE1 2QH	James Oates 020 7525 5633
Link: http://www.southwark.gov.uk/planning-and-building-control/planning-policy-and-transport-policy/development-plan/area-action-plans?chapter=3		
Cabinet Report Canada Water Regeneration November 2014	Regeneration Division Fifth Floor, Hub 1 160 Tooley Street London SE1 2QH	James Oates 020 7525 5633

Link (please copy and paste into your browser): http://moderngov.southwark.gov.uk/documents/g4864/Public%20reports%20pack%20Tuesday%2018-Nov-2014%2016.00%20Cabinet.pdf?T=10		
Cabinet Report Canada Water Regeneration September 2017	Regeneration Division Fifth Floor, Hub 1 160 Tooley Street London SE1 2QH	James Oates 020 7525 5633
Link (please copy and paste into your browser): http://moderngov.southwark.gov.uk/documents/g5751/Public%20reports%20pack%20Tuesday%2019-Sep-2017%2016.00%20Cabinet.pdf?T=10		

APPENDICES

No.	Title
Appendix 1	Site Plan
Appendix 2	Canada Water Basin
Appendix 3	Estate Management Plan
Appendix 4	Canada Water Masterplan Consultation Update
Appendix 5	Scheme Overview
Appendix 6	Canada Water Masterplan Summary
Appendix 7	Plot A2 –Phase 1

AUDIT TRAIL

Cabinet Member	Mark Williams, Regeneration and New Homes	
Lead Officer	Eleanor Kelly, Chief Executive	
Report Author	James Oates, Principal Surveyor	
Version	Final	
Dated	1 March 2018	
Key Decision?	Yes	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	Comments Sought	Comments Included
Director of Law and Democracy	Yes	Yes
Strategic Director of Finance and Governance	Yes	Yes
Cabinet Member	Yes	Yes
Date final report sent to Constitutional Team	1 March 2018	