

Item No.	Classification: Open	Date: 05 February 2019	Meeting Name: Strategic Director of Place and Wellbeing
Report title:		Southwark Regeneration in Partnership Programme Lot A1(Former council offices & retail premises, Manor Place/Stopford Road, SE17) and 42 Braganza Street SE17 Disposal of Lease and Acquisition of Sub Lease	
Ward(s) or groups affected:		Newington	
From:		Director of Regeneration	

RECOMMENDATION(S)

That the Strategic Director of Place and Wellbeing authorises

1. The Head of Property and the Director of Law and Democracy to grant, on practical completion of the proposed scheme, a 250 year lease at a peppercorn rent, in Manor Place and Braganza to Durkan Ltd to deliver 89 new homes of which there are 20 social rented council homes 1,543m² of commercial space that will be retained by the council and a residual land offer to the council of £4,600,000. The council will retain the Freehold interest.
2. The Head of Property and the Director of Law and Democracy to grant a building lease to the developer at contract award stage.
3. The Head of Property and the Director of Law and Democracy to enter into a 250 year less one day sub lease in the social rent and commercial units, to be granted on practical completion of the development. The sub lease to be at a peppercorn rent.
4. Note that the council will receive a total benefit of £11,300,306 consisting of 20 rented units valued at £300,000 per unit, reimbursement of preparation costs of £700,306 a land offer of £4,600,000 which is approximately £2,400,306 greater than if the land was sold on the open market with an estimated value of £8,900,000. (see paragraph 25- table 3)

BACKGROUND INFORMATION

5. Cabinet agreed on the 27 January 2015 to the creation of the Southwark Regeneration in Partnership Programme (SRPP). This programme will now be consolidated into the council's New Homes Programme. The aim of the programme was to identify a number of council owned sites of varying size and development potential, which could be packaged into individual lots presenting viable opportunities for development and regeneration. These sites could be developed for a range of mixed use schemes, including housing, which would maximise the utility and value of these assets by leveraging the investment and expertise of established developers through a joint partnership.

6. In March 2016 the council ran a tender for Lot A and Lot B of the SRPP using the GLA Framework. The Gateway 2 approved by Cabinet in September 2016 recommended a developer for Lot B it also reported that no development partner had been identified for Lot A. This was due to developers believing that the sites needed further risk reduction, perceived market risks related to Brexit and an unwillingness to bid for lots containing larger sites.
7. Following further viability assessment and market intelligence, Lot A was divided into 6 sub lots (A1, A2, A3, A4, A5 and A6 as shown in Table 1) and on 21 March 2017, Cabinet approved the procurement strategy to secure developers for a repackaged Lot A through the OJEU Competitive Procedure with Negotiation Route with an estimated total Gross Development Value of £278,300,000. It was agreed that successful bidders would enter in to a development agreement with the Council committing to the delivery of the proposed scheme, subject to planning. In accordance with the development agreement, and on receipt of planning consent, the development partner is to be granted a building lease to deliver the consented scheme. On practical completion the proposed 250 year lease will be granted to the developer with a sub lease of 250 years less one day being granted back to the Council for the social rent and commercial units.

Sites in Lot A- Table 1

Lot A	Site Name
Lot A1	Braganza Workshops, 42 Braganza Street, SE17 Former council offices & retail premises, Manor Place/Stopford Road, SE17
Lot A2	Former Albion Civic Centre, Albion Street, SE16 Land at Albion Primary School, Albion Street SE16
Lot A3	345 Southwark Park Road, SE16
Lot A4	Land at Cherry Gardens School, Macks Road SE16
Lot A5	Beormund School site at Long Lane (95 Units) and New Beormund School to be developed at the Former Bellenden School site on Reedham Street
Lot A6	South Dock Marina, Boatyard, Plough Way SE16 (201 units).This lot was later removed from this procurement programme and will now be considered in the next programme as part of Lot C or another procurement or development route.

8. In March 2017 Cabinet approved the delegation of the award decision in the Gateway 2 reports for lots A1 – A4 inclusive to the Chief Executive in consultation with the cabinet member for regeneration and homes.
9. In September 2018, the regeneration department was no longer part of the Chief Executive Department and became part of the Place and Wellbeing Department.
10. The disposal of this site has been authorised by the Leader who has given notice of the variation to the executive scheme of delegation allowing the decision for the disposal of the site to be taken by the Director for Place and Wellbeing rather than the requirement that this would need to be confirmed by Cabinet.
11. On 13 December 2018, following a competitive tender process, the contract award of Lot A1 to Durkan Ltd was approved by the Strategic Director of Place and Wellbeing. (Gateway 2)

KEY ISSUES FOR CONSIDERATION

12. This report relates to the land at Manor Place and Braganza, SE16, Lot A1, (site map attached as Appendix 1) which has an estimated total Gross Development Value of £24,210,000 and will deliver:
- 89 new homes of which 25% will be council owned (all social rent) and an additional 15.4% will be intermediate based on habitable rooms (Table 2 breaks this down by tenure and bed size and notes that the split by units equates to 22.5% council owned units and 14.6 % intermediate units); Intermediate units consist of 80% of market rent, London Living Rent or Shared Ownership units.
 - Health Centre/Office Space of (745m²) Use Class D1/B1
 - Pharmacy/Shop (85m²) Use Class A1 and Café (285m²) Class A3 with associated landscaping and public realm works and 428m² B1 work space at Braganza.
 - a land receipt of £4,600,000
 - Council's preparatory costs of £700,305 will be paid by the developer on completion of the building lease.
 - a potential for overage payment at 33.33% of sales above £38,000,000 projected sales, not exceeding cost of sales of 5% of actual sales and valuation of unsold units. No overage is payable if the expected sales of £38,000,000 is not realised.
 - Fourteen apprentices in both trades and administration/professional roles through a combination of direct employer through Durkan or sub contractors or through Durkan's preferred training partner.
13. In addition to the above, the scheme will also deliver private sale homes which will be marketed to Southwark residents in the first instance and this scheme will benefit from plots which fall into the government Help To Buy Scheme which will assist the sales rate.

Table 2:

Lot A1 Accommodation Schedule-Manor Place

	Council Retained units	Intermediate	Private Developer's units	Total
1 Bedroom	5	2	7	14
2 Bedroom	5	5	15	25
3 Bedroom	10	1	6	17
Total Units	20	8	28	56
Percent (%) by habitable room	36%	14%	50%	100%
Total Habitable Rooms	80	28	96	204
Percent (%) by habitable room	39%	14%	47%	100%
Commercial Space	1,115m ²			

Lot A1 Accommodation Schedule-Braganza

	Council Retained units	Intermediate	Private Developer's units	Total
1 Bedroom	0	1	9	10
1 Studio	0		1	1
2 Bedroom-Maisonette	0	1		1
2 Bedroom-Flats	0		11	11
3 Bedroom- Maisonette	0	3	3	6

4 Bedroom- House	0		4	4
Total Units	0	5	28	33
Percent (%) by habitable room	0%	15%	85%	100%
Total Habitable Rooms	0	21	94	115
Percent (%) by habitable room	0	18%	82%	100%
Commercial Space	428m ²			

Lot A1 Combined Accommodation Schedule- Table 2

Tenure	Social Rent habitable rooms (units)	Intermediate rent habitable rooms (units)	Private habitable rooms (units)	Total
Braganza Street	0 (0)	21 (5)	94 (28)	115 (33)
Manor Place	80 (20)	28 (8)	96 (28)	204 (56)
Total habitable rooms (units)	80 (20)	49 (13)	190 (56)	319 (89)
Percentage of total habitable rooms (units)	25% (22.5%)	15.4% (14.6%)	59.6% (62.9%)	100% (100%)

14. The proposed scheme was granted planning permission subject to conditions on the 19th September 2017. The developer will build according to the approved planning permission subject to a Section 96A non- material amendment.
15. Manor Place and Braganza sites have been appropriated to planning to ensure the consented schemes can be delivered without risk of an injunction. The report was approved by Cabinet on the 11 December 2018.

Key/Non Key decisions

16. This report deals with a key decision.

Policy implications

17. The programme has been shaped by the promises and commitments made in the Council Plan, such as building more quality affordable homes of every kind and revitalising our neighbourhoods making them places in which we can all be proud to live and work.
18. The council is now reviewing the Southwark Plan and Core Strategy to prepare a local plan called the new Southwark Plan. This new plan will set out our regeneration strategy from 2017 to 2033 and will also be used to make decisions on planning applications.

Community impact statement

19. Preliminary consultation to capture the needs and priority of displaced or impacted groups as a result of the development proposal has been undertaken. Groups engaged under the council's statutory consultative procedures so far have focused on two distinct communities (geographical communities and community of identify) consultees have been internal stakeholders and residents that lived or accessed services at Manor Place and Braganza
20. The next stage of engagement to fully meet obligations under the Equalities Act 2010 are as follows:
 - Provide an in-depth equality data collection and analysis
 - Data collection processes will incorporate households and businesses in the vicinity of the site

21. In addition to the above, residents were consulted as part of the planning application as follows:

- An extensive community involvement strategy was set out for the SRPP, this consisted of community and online consultations and a public exhibition presenting the final design proposal and were relevant highlighted changes that were made to the scheme during the consultation process.
- Three consultation dates for Braganza Street Workshops and Manor Place Shops took place as highlighted below:
 - First consultation was held on 28 January 2016 – 33 resident attended
 - Second consultation (online) was held from 31 May – 31 June 2016
 - Third consultation (final exhibition) 15 September 2016.
 - As part of the planning processes further opportunities were offered to residents and local businesses to comment on the development proposal.

22. In addition to these key events the SRPP design team met with stakeholders and individuals most impacted by the development proposal, see list of groups engaged below:

No	Manor Place and Braganza Stakeholder Consultees
1	The Royal British Legion
2	Doddington TRA
3	Keyworth Primary School
4	Chapel Nursey
5	Party Wall residents
6	Local businesses and Charities
7	Friends of Pasley Park
8	Walworth Society
9	Shop Owners
10	Local Doctors Surgery

23. A number of objections were received and were considered by the planning committee as part of their decision making.

24. It should be noted that the proposed lease and sub lease will not be granted until practical completion of the scheme. Therefore at the time of granting the lease any PSED issues would have been satisfactorily resolved.

Financial implications

25. Section 123 of the Local Government Act 1972 permits the council to dispose of (most types of non-housing) land without the Secretary of State's consent providing that this is done for not less than the best consideration that could reasonably be obtained. If the land was sold on the open market, the estimated value is £8,900,000. The contract has been awarded under a competitive tendering process and the net benefits, which are estimated to be £11,300,306, exceed the estimated open market land value. The overriding aim of this disposal was to develop new council homes for social rent, which will be achieved. The table below provides a breakdown of the net benefits to the council.

Table 3: Benefits Summary

Recoverable cost	£700,306
Financial land offer	£4,600,000
20 social units at £300,000 *per unit based on recent comparative costs from developers' on the SRPP Lot A programme, and the cost to deliver a social unit by the council's Direct Delivery Team	£6,000,000
Total Benefit	£11,300,306

26. In addition, the council will receive 1,543m² of commercial space and may receive additional payments by way of overage based on the values achieved on the sales of the private units. The agreed sales overage payment to the council will be 33.33% of sales revenue received above the developer's projected total sales of the private units and the valuation of the unsold units, less projected sales cost not exceeding 5%. This will be calculated 12 months after practical completion of the development. No overage will be payable if the developer fails to achieve a sales revenue beyond the agreed sales of the private units at bid stage.
27. The net capital returns from the appraisals have not taken into account any grant input or planning and sales overage. GLA and Housing Zone Grant may be available to subsidise the scheme costs. The estimated grant for the 20 social rental units is £1,140,000 which will be payable to the council from the GLA to subsidise the council's scheme cost. The council will be responsible for applying for the social housing grant and the developer will be responsible for applying for the intermediate housing grant.
28. The financial offer for the land of £4,600,000 will be paid no later than the sale of the first private unit is achieved and the council's preparatory costs of £700,306 will be paid by the developer as soon as the building lease is signed to commence the development. The residual land offer of £4,600,000 is a condition of the contract and if the developer decides to rent the private units or is unable to sell the private units, the £4,600,000r still has to be paid within 12 months of the completion of the private units. There is also provision in the Development Agreement that overage will still be payable if the developer decidwes to rent the private units based on an independent valuation of the properties. The council's preparatory costs of £700,306 will be paid by the developer upon the date of completion of the building lease.

Investment implications

29. The scheme has been competitively tendered on the open market via the OJEU and the council undertook a series of detailed negotiations and clarifications during the procurement process to ensure that the scheme is de-risked and reduce the development risks significantly. The residual land offer to the council is also a fixed sum of £4,600,000 as well as the payment to the council a significant amount of the council's preparatory costs of £700,306 and 40.4% affordable habitable rooms which includes 20 social rented units.
30. The final submission from Durkan that now forms part of this report meets with the council's requirements in terms of the number of 1, 2 and 3 bed units which is in compliance with Southwark's Planning Guidance and also ensures that the proposed development mix was based on habitable room basis and not just by unit numbers as shown in Table 2 above.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

Strategic Director of Finance and Governance (H&M18/094)

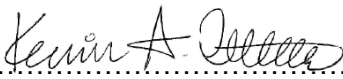
31. This report recommends the disposal of land at Manor Place and Braganza Street to Durkan Ltd through a 250 year development lease. In exchange for the land, the council will receive 20 new council homes for social rent with an estimated value of £6m together with commercial space and a land receipt of £4.6m and reimbursement of its preparation costs. The benefits the council is due to obtain from the disposal exceed the open market value of the land, which is estimated to be £8.9m, and the financial implications section sets out how best consideration has been achieved. Further benefits may accrue from GLA grant towards the cost of the development and the possibility of overage from the sale of private homes. The delivery of new homes will contribute towards the council's ambitious plan to deliver 11,000 new homes by 2043

Director of Law and Democracy

- 32. The proposal is for the Head of Property to authorise the grant in the first instance of a building lease and on completion of the development a 250 year lease at a peppercorn rental to Durkan Limited in respect of the sites at Manor Place and Braganza. The proposal is outlined at paragraph 7 of the report and the intention is to deliver 89 new homes of which 20 will be social rented unit.
- 33. Durkan Limited have been selected after a procurement exercise. The disposal of this site has been authorised by the Leader who has given notice of the variation to the executive scheme of delegation allowing the decision for the disposal of the site to be taken by the Director for Place and Wellbeing rather than the requirement that this would need to be confirmed by Cabinet.
- 34. The Council has the power to dispose of land which is not held for housing purposes in accordance with section 123, Local Government Act 1972 provided that the consideration is the best that can be reasonably obtained. This is confirmed by paragraph 25 of the report.
- 35. The report also refers to the Public sector Equality Duty and paragraphs 19 to 24 outline the steps which have been taken in order to discharge this.

PART A – TO BE COMPLETED FOR ALL DELEGATED DECISIONS

Under the powers delegated to me in accordance with the council's Contract Standing Orders, I authorise action in accordance with the recommendation(s) contained in the above report.

Signature  Date...19/02/2019..

Designation .Prof. Kevin Fenton, Strategic Director of Place and Wellbeing

PART B – TO BE COMPLETED BY THE DECISION TAKER FOR:

- 1) All key decisions taken by officers

- 2) Any non-key decisions which are sufficiently important and/or sensitive that a reasonable member of the public would reasonably expect it to be publicly available.

1. DECISION(S)
-

2. REASONS FOR DECISION
-

3. ALTERNATIVE OPTIONS CONSIDERED AND REJECTED BY THE OFFICER WHEN MAKING THE DECISION
-

4. ANY CONFLICT OF INTEREST DECLARED BY ANY CABINET MEMBER WHO IS CONSULTED BY THE OFFICER WHICH RELATES TO THIS DECISION
None

5. NOTE OF ANY DISPENSATION GRANTED BY THE MONITORING OFFICER, IN RESPECT OF ANY DECLARED CONFLICT OF INTEREST
<i>If a decision taker or cabinet member is unsure as to whether there is a conflict of interest they should contact the legal governance team for advice.</i>
Not applicable

6. DECLARATION ON CONFLICTS OF INTERESTS
I declare that I was informed of no conflicts of interests.

BACKGROUND DOCUMENTS

Background documents	Held At	Contact
Title of document(s) Gateway 1 Procurement Strategy Approval Southwark Regeneration In Partnership Programme	Regeneration/ Place and Wellbeing	Prince Kamanda 0207-525 7480
Link: X:\Housing\Housing regeneration initiatives\Major regeneration projects & SEI schemes\Housing Regeneration Programme\Procurement\Reports\Report Gateway 1 - Procurement Strategy Approval Southwark Regeneration in Partnership Programme Pr.pdf		
Title of document(s) Gateway 2 SRPP Procurement Approval Cabinet Report	Regeneration/Place and Wellbeing	Prince Kamanda 0207-525 7480
Link: X:\Housing\Housing regeneration initiatives\Major regeneration projects & SEI schemes\Housing Regeneration Programme\Procurement\LOT A\A1 Contract Award\GW2_OPEN Southwark Regeneration in Partnership Programme Lot A1.pdf		

APPENDICES

No	Title
Appendix 1	LOT A1 Contract Award\GW2_OPEN Southwark Regeneration in Partnership Programme Lot A1
Appendix 2	H:\DISPOSAL\Braganza Street OS Map.pdf H:\DISPOSAL\Manor Place OS Map.pdf

AUDIT TRAIL

Lead Officer	Kevin Fenton	
Report Author	Prince Kamanda	
Version	Final	
Dated	05 February 2019	
Key Decision?	Yes	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	Comments Sought	Comments included
Strategic Director of Finance and Governance	Yes	Yes
Director of Law and Democracy	Yes	Yes
Cabinet	NA	NA
Date final report sent to Constitutional/Community Council/Scrutiny Team		

