

Item No.	Classification: Open	Date: 23 February 2016	Decision Taker: Cabinet Member for Regeneration and New Homes
Report title:		Southwark Regeneration in Partnership Programme Development Appraisal, Lot A and Lot B Allocation	
Ward(s) or groups affected:		All Wards	
From:		Director of Regeneration	

RECOMMENDATIONS

That the Cabinet Member:

1. Approves the Southwark Regeneration in Partnership Programme sites as listed in paragraph 15 for packaging and tendering as Lot A and Lot B, and notes the short list of bidders to be invited to tender as set out in the accompanying closed report.
2. Approves the tenure mix indicated for Lot A and Lot B as described in the closed report.
3. Notes the outcome of the financial appraisal as outlined in the closed report.

BACKGROUND INFORMATION

4. In July 2014, the Council renewed its pledge to deliver a fairer future for all in Southwark in a set of 10 new Fairer Future promises as well as specific commitments, including:
 - Deliver value for money across all services
 - Build more quality affordable homes of every kind across the borough
 - Become an age friendly borough
 - Improve standards across schools
 - Provide enough places to offer young people and families, including those who are vulnerable, the right support
 - Revitalise neighbourhoods
 - Support local people into work.
5. These promises are recognition of the need for new housing stock whilst improving existing housing, educational and health provision across the borough. The programme recommended in this report has the potential to make a significant contribution to that objective.
6. On 27 January 2015, Cabinet agreed the development of the Southwark Regeneration in Partnership Programme. The aim of the programme was to identify a number of council-owned sites of varying size and development potential, which would be packaged to create viable opportunities for development and regeneration. These sites could be developed for a range of mixed use schemes, predominantly housing, that would maximise the utility and value of these assets by leveraging in the investment and expertise of established developers.

7. On 20 October 2015, Cabinet approved the procurement of the Southwark Regeneration in Partnership Programme using the Greater London Authority's London Development Panel. The Leader also delegated to the Cabinet Member for Regeneration and New Homes powers to agree (in consultation with the Director of Regeneration) the financial viability of, and any variation to, Lots A and B of the Southwark Regeneration in Partnership Programme prior to tender.
8. Following earlier approvals, two valuation consultants (BNP Paribas and Lambert Smith Hampton) were procured to carry out development appraisals on all the sites within the Southwark Regeneration in Partnership Programme. A number of different tenure mixes and iterations of outline development schemes were considered, in each case comparing a specific tenure mix with a market value approach.
9. Specific tenure mixes initially were tested at one third each of new council homes, intermediate housing and properties for sale at each location. This was later refined to a blend of tenures delivering over 450 new council homes as well as community and commercial facilities.
10. The appraisals indicated that the original one third tenure mix for intermediate rent properties at an affordable rent (up to 80% of market rent) was having a negative impact on the viability and that the alternative of more council homes, a lower intermediate mix and slightly more private homes for sale would produce better balance both in terms of the objective of building more council homes for rent and overall viability. The number of council homes is now greater than originally anticipated from the programme.
11. Market value appraisals assume that a developer would buy the site and obtain planning consent on a policy-compliant basis, i.e. with 35% of the housing provision dedicated to affordable homes and split in line with policy between social and intermediate tenures. The result of this exercise is summarised in the closed agenda report.
12. As part of the process of procurement, a Bidders' Day was held on 17 November 2015 at which members and senior officers presented the proposals to an invited audience of 25 developers from the GLA Panel and associated developers, contractors and consultants. The council sought formal expressions of interest from members of the Panel in bidding for the two Lots. 21 developers from a total of 25 confirmed their involvement.
13. A Sifting Brief was issued to 21 developers on Thursday 12 November 2015 of which 11 returned submissions on Wed 16 December 2015. These were analysed by officers against the published criteria and a short list of bidders were selected on 25 January 2016 to receive the final tender information. Bidders were able to bid for both Lots but a selected bidder can only win one Lot. This is for reasons of capacity and to maintain competition throughout procurement.
14. The short listed bidders are named in the closed agenda report.
15. The two Lots now recommended for inclusion are:

Lot A

- 345 Southwark Park Road SE16
- Former Albion Civic Centre, Albion Street SE16

- Former council offices and retail premises, Manor Place/Stopford Road SE17
- Land at Calypso Way/South Dock, SE16
- Braganza Workshops, 42 Braganza Street SE17
- Land at Cherry Gardens School, Macks Road SE16
- Land at Albion Primary School, Albion Street SE16
- Seven Islands Leisure Centre, Lower Road SE16 (subject to the relocation of the Centre to new purpose built Leisure Centre accommodation).

Lot B

- The Flaxyard site, Sumner Road SE15
 - Sumner House, Sumner Road SE15
 - Fred Francis Day Centre, Lordship Lane SE22
 - Land at Angel Oak School, Longhope Close SE15
 - Wickway Community Centre, St George's Way SE15
 - Car Park, Copeland Road SE15
 - Land at Library Square, Peckham High Street SE15
 - Land at Wyndham Road/Redcar Street SE5
 - 233/247 Old Kent Road SE1
 - 21/23 Parkhouse Street SE5.
16. There is one site amendment, which is the Bellenden School site which may now be considered for development as part of a wider strategy for improving schools and will be the subject of a further report. It is therefore no longer part of the current programme.
17. Architects specialising in master planning and housing design were appointed to design schemes that have been subject of a series of public consultations to determine the council's preferred design solution and options, alongside pre planning application advice from the council's planners.

KEY ISSUES FOR CONSIDERATION

Objectives for evaluating the options

18. Cabinet agreed the financial objectives against which the scheme will be procured and these have been reflected in development appraisal evaluation. The financial objectives agreed were as follows:
- a. There will be no net capital cost to the council on completion of the programme
 - b. fixed price for the land value and a profit sharing overage on sale values,
 - c. the return on investment for the programme will be based on a minimum 30 year cash flow
 - d. The development costs for the council homes and council facilities will be delivered through either cross subsidy from sales or land values.
 - e. The council will retain the freehold (it is necessary to grant long leaseholds for the intermediate and private housing).
 - f. All social rent units will be council homes with rents and service charges in line with those delivered by Direct Delivery
 - g. Intermediate units and private units will be held by the developer.
19. Achieving the programme's objectives requires that both Lots could be expected to be viable from both the council's perspective and that of a developer. Evaluation of final

tenders will show how well each option meets the objectives that have been set out in paragraph 4 (above).

20. In line with industry standard practice, leases of at least 125 years will be granted on those parts of a development where interests will need to be sold in order to achieve a viable outcome. It will be necessary in some cases for the council to enter into leases as tenant of homes and facilities being provided as part of this programme. Where blocks of housing are mixed tenure and/or mixed use it may be necessary for the council to enter into service charge arrangements like any tenant and recovery of these costs may be limited by statutory provision.
21. GLA Grant to support the affordable homes has been sought and the outcome is expected in early March. Potentially Housing Zone funding via the Greater London Authority would be available and a proportion of this will be required to support the viability and cashflow of the programme.
22. The Director of Regeneration, in consultation with the Strategic Director of Finance will consider how much grant or other subsidies, e.g. Section 106, should be used to support the viability of the programme.

Outcome of development appraisals of options

23. Assessments of the development outcomes were carried out against each of the specified options with varying assumptions. These are set out in the closed report.

Financial implications

24. The outcome of the appraisals demonstrates that the Council can justify a land transaction based on the value of the homes and facilities it is to receive.
25. Further consideration of the implications are set out in paragraphs 24-38 of the closed report.
26. Grant funding could significantly improve the viability position in a preferred tenure mix. If this is not possible, further consideration of options and tenure mixes may be required.

Market considerations

27. Cabinet in October 2015 was advised that successful delivery of the programme in a partnership venture depends on the continued good health of the property market in Southwark. Growth in the residential market has been strong recently. This has been assisted by the borough's good communications and improvements in transport infrastructure. Relative to other parts especially in the north and west of London, Southwark still represents good value and will benefit from further enhanced transport links such as the Bakerloo extension. The wider demographics and strong demand generally for living space in London point to continued success. As long as economic factors remain positive, demand is anticipated to remain high.
28. Since that time the overall economic outlook has deteriorated slightly but not significantly. There are signs of market activity slowing to a certain extent but not sufficiently to cause alarm. There is no suggestion yet of prices falling, however rising construction prices and shortages of labour in some trades are impacting on viability.
29. Further market considerations are set out in the closed report.

Policy implications

30. 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. Development of sites in this programme will reflect the planning policy in force at the time applications are considered, and given the projected timing, this is likely to encompass both existing and future Southwark Plans.
31. The development plan for the borough consists of the Mayor's London Plan, the Core Strategy 2011, the Saved Southwark Plan policies, the Aylesbury Area Action Plan, the Canada Water Area Action Plan, the Peckham and Nunhead Area Action Plan and a revised Canada Water Area Action Plan.
32. The New Southwark Plan is being prepared in consultation with residents, land owners, developers, employers, local organisations and other groups over the next two to three years, having commenced in October 2014. This New Southwark Plan will set out the strategy to bring the full benefits and opportunities of regeneration to all Southwark's residents.

Resource implications

33. The Housing Regeneration Manager responsible for the delivery of the overall programme, under the management of the Head of Regeneration, Capital works and Development, will ensure that the programme is adequately resourced and coordinated to deliver its objectives and procured efficiently and effectively in accordance with best practice for major projects procurement. The Team has recently been restructured and along with new appointments is able to manage this additional workload.
34. The project required the earlier procurement of additional support strands such as architectural services to carry out feasibility studies and initial design development, financial and valuation consultants who undertook valuations and the development appraisals, legal consultants who provided procurement advice and drafted the DPA. Current costs of this work are stated in the closed report.
35. Should this programme be successful it will be possible to replicate much of the early work to a third Lot later in 2016/17.

Consultation

36. A robust consultation strategy to involve internal and external stakeholders will be central to the delivery of both lots of sites; a range of consultative tools are being applied to maximise engagement, involve residents and key partners, including those that live or have an interest in the immediate vicinity of any new development.
37. A comprehensive and inclusive approach to promote, educate and engage stakeholders on the regeneration development proposal has been adopted, supplemented by a consultation timetable. The Council's strategic and local consultative groups (area forums, community councils, tenant associations and resident steering groups and other interest groups) are being engaged using correspondence, public meetings, information packs and various social media formats.

38. The consultation programme is being delivered on a site specific and phased basis. Site specific consultation invitations and events are extensively publicised and each site has an allocated project co-ordinator lead to manage the development proposal consultation process. To maximise inclusiveness and participation project co-ordinators will provide sufficient meeting notice; and will minimise barriers of engagement by targeting all marginalised local groups.
39. Ward Councillors are being fully briefed prior to any public consultation and their comments/feedback incorporated into any initial proposals. Council officers will meet with T&RA groups following the Councillor briefings and again, prior to any public consultation.
40. As consultation has progressed we have been able to track progress from earlier consultations to demonstrate that the council has listened to the views of residents and their local perspective, before developing its final proposals.
41. A robust consultation programme, that takes into account the views of all residents and relevant stakeholders as well as engaging with those that live in the vicinity of any new development site, has been developed and is being implemented.

Community impact statement

42. To ensure community engagement is inclusive, open and accessible to all, we are also consulting with service users, internal stakeholders and affected businesses.
43. A community impact statement will be collated to capture community priorities, issues and needs, in particular groups displaced or impacted by the development proposal. It is proposed that the community impact statement will focus on two distinctive communities:
 - Geographical communities - people living, accessing or working close to the development
 - Community of identity – groups that share characteristics such as the older people, minority ethnic groups, faith groups, people with disabilities and young people, etc.
44. Under the Equality Act 2010's Public Sector Equality Duty (PSED), as a public body we must have due regard to the need to:
 - 1) Eliminate unlawful discrimination, harassment and victimisation
 - 2) Advance equality of opportunity between different groups
 - 3) Foster good relations between different group.
45. Officers will conduct an equalities impact assessment to ensure that there is no disproportionate or discriminatory impact on groups with protected characteristics.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

Director of Law and Democracy

46. This report seeks the approval of the cabinet member for regeneration and new homes to the tenure mix for lots A and B, as further detailed in the closed report. At the point of approving the procurement of the Southwark regeneration in partnership programme, the leader delegated to the cabinet member authority to agree the

financial viability of lots A and B prior to tender. The closed report sets out the tenure mix now proposed, and reasons for this option being recommended.

47. At paragraph 20 the report confirms that the sites will be disposed of on leases of not less than 125 years, other than the council housing, which will be retained. In respect of sites held in the general fund, the requirements of section 123 of the Local Government Act 1972 will need to be complied with.
48. S123 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.
49. The Council will keep in mind its obligation under s123 under review throughout the procurement process.
50. In addition the Council will obtain other benefits, details of which are set out elsewhere, such as income producing commercial space and community facilities.
51. The cabinet member is therefore advised that there are adequate powers for the council to dispose of the sites following the procurement process as set out in this report and the closed report.
52. The cabinet member's attention is drawn to the Public Sector Equality duty (PSED) under the Equality Act 2010, and when making decisions to have regard to the need to eliminate discrimination, harassment, victimisation or other prohibited conduct, and to advance equality of opportunity and foster good relations between persons who share a relevant protected characteristic and those who do not share it. The relevant characteristics are age, disability, gender reassignment, pregnancy and maternity, race, religion, religion or belief, sex and sexual orientation. The duty also applies to marriage and civil partnership but only in relation to the elimination of discrimination. The cabinet member is specifically referred to the community impact statement at paragraphs 42-45 setting out the consideration that has been given to equalities issues which should be considered when approving the recommendations in this report.
53. The cabinet member is also referred to paragraphs 36-41 of this report which set out the consultation that has taken place. The cabinet member should take into account the outcome of consultation when taking a decision on the recommendation in this report.
54. Officers from legal services have been advising on the procurement process for Lot A and B, and will continue to do so as the procurement progresses.

Strategic Director of Finance and Governance (CAP15/216)

55. This report is requesting the cabinet member for regeneration and new homes to approve the Southwark Regeneration in Partnership Programme sites as listed in the report and also approve the tenure mix as set out in the closed report. The report is also requesting the cabinet member for regeneration and new homes to note the financial implications as detailed in the closed report.
56. Further comments are included in the closed report.

BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
Viability Analysis Lot A	Property	Christopher Rhodes 0207 525 5480
Viability Analysis Lot B	Property	Christopher Rhodes 0207 525 5480
Site feasibility studies	Housing Regeneration	Nnenna Urum-Eke 0207 525 7810

APPENDICES

No.	Title
Appendix 1	Southwark Regeneration in Partnership Procurement Programme
Appendix 2	As per the closed report

AUDIT TRAIL

Lead Officer	Stephen Platts, Director of Regeneration	
Report Author	Bruce Glockling, Head of Regeneration – Capital Works and Development	
Version	Final	
Dated	23 February 2016	
Key Decision?	Yes	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	Comments Sought	Comments Included
Director of Legal Services	Yes	Yes
Strategic Director of Finance and Corporate Services	Yes	Yes
Cabinet Member	Yes	No
Date final report sent to Constitutional Team	23 February 2016	

APPENDIX 1

Procurement Project Plan (Key Decisions)

Activity	Complete by:
Enter Gateway 1 decision on the Forward Plan	27/04/2015
DCRB Review Gateway 1	20/07/2015
CCRB Review Gateway 1	17/09/2015
Notification of forthcoming decision - Cabinet	13/10/2015
Approval of Gateway 1: Procurement strategy report	20/10/2015
Scrutiny Call-in period and notification of implementation of Gateway 1 decision	29/10/2015
Completion of tender documentation	30/10/2015
Approval of Lots A & B Viability - IDM	01/11/2015
Expression of interest to GLA LDP Panel Members	02/11/2015
Closing date for receipt of expressions of interest	09/11/2015
Sifting Brief to EOI respondents	11/11/2015
Bidders' Day	17/11/2015
Closing date for receipt of response to Sifting Brief	16/12/2015
Completion of sifting exercise	25/01/2016
Invitation to tender to shortlisted tenderers	March 2016
Closing date for return of tenders	May 2016
Completion of any clarification meetings	May 2016
Completion of evaluation of tenders	June 2016
Forward Plan (if Strategic Procurement) Gateway 2	March 2016
DCRB Review Gateway 2:	N/A
CCRB Review Gateway 2	June 2016
CMT Review Gateway 2 (if applicable)	N/A
Notification of forthcoming decision – IDM	June 2016
Approval of Gateway 2: Contract Award Report	July 2016
End of scrutiny Call-in period and notification of implementation of Gateway 2 decision	July 2016
Contract award	September 2016
Add to Contract Register	September 2016
Contract start	September 2016
Initial contract completion date	June 2022
Contract completion date – (if extension(s) exercised)	June 2026