

Item No. 11.	Classification: Open	Date: 9 March 2021	Meeting Name: Cabinet
Report title:		Investment proposal for plots A1, A2 and K1 at Canada Water	
Wards or groups affected:		Rotherhithe and Surrey Docks	
Cabinet Member:		Councillor Rebecca Lury, Finance, Business and Jobs	

FOREWORD - COUNCILLOR REBECCA LURY, CABINET MEMBER FOR FINANCE, BUSINESS AND JOBS

We remain excited and committed to supporting the development at Canada Water and look forward to seeing progress over the coming months and years.

2020 was of course a difficult year for the council and the whole country as we responded to Covid-19. It has placed significant additional financial burdens on the council, and will have long-term implications for our ability to be able to make spending decisions.

Therefore, at this time, we are recommending that the council retains land interest but makes no further contribution towards plot development cost.

We will continue to review our options as the scheme develops and look forward to a continuing close working relationship with the developer and local community.

RECOMMENDATION

1. That further to the Master Development Agreement (MDA) between the council and British Land (BL) the council should invest its land only in plots A1, A2 and K1.

BACKGROUND INFORMATION

2. This report deals with an option for the council to invest in the first phase of development of the BL masterplan at Canada Water; comprising the three plots A1, A2 and K1 located as shown on the plan at appendix 1.
3. On 13 March 2018 cabinet agreed the recommendation to conclude the Canada Water Master Development Agreement (MDA) with BL. The primary purpose in entering into the MDA was to bring about the comprehensive regeneration of the area for the benefit of the local community. Another consideration was to generate income to support service delivery. To that end, the agreement gives the council an option to invest on commercial terms in the project.

4. The MDA was signed on 10 May 2018 since when BL has worked to progress the masterplan, including obtaining planning consent for the scheme, which was granted on 29 May 2020. A section 106 agreement was entered into on 28 May 2020 to secure the council's strategic objectives for the masterplan and to mitigate the impacts of the development. The planning permission is a hybrid, with detailed permission granted for the initial development plots in phase 1 and the remainder of the permission granted in outline.
5. The first phase of the masterplan forms the basis of the investment proposals and is made up of three plots:
 - Plot A1 is a mixed use development comprising offices, retail, private housing and a small number of intermediate housing units.
 - Plot A2 includes the council's new leisure centre and offices.
 - Plot K1 is made up of 79 affordable housing units that in planning terms are linked to the private homes on A1.
6. The decision to grant planning permission was the subject of a claim for judicial review, but in October 2020 the High Court refused permission for the claim to be pursued. The masterplan is now free from challenge and preliminary works, including the construction of the interim petrol filling station and enabling works to the rear of the Printworks, have already begun on site.
7. BL announced recently the first pre-let for the project, that TEDI-London has chosen Canada Water as the location for their new engineering higher education campus. This is another clear statement of confidence in the regeneration of Canada Water and that the project has entered the delivery phase.

Council service delivery from phase 1

8. The first phase of the masterplan is important to the council not only because it launches the project, but because it will accommodate important council services.
9. The council has previously decided to investment up to £35 million in a new leisure centre, which will be house on plot A2. In January of this year the council decided to take up the option to buy the 79 affordable homes to be built on plot K1, which will be operated and managed as council homes.
10. Both of these investments are budgeted for and included in existing council programmes. As such they do not form part of the decision in this report but are relevant background.

The council commercial investment opportunity

11. Over and above investing in council services as part of phase 1 of the masterplan, the council has the option of investing in the project on commercial terms. The objective being to generate a profit that would fund council front line services.
12. The MDA is a flexible form of partnership agreement. It is structured as a land transaction that credits the council with a 20% ownership stake in project land, as well as the right to invest up to 20% of the cost of developing each plot; in return for a commensurate share of the development value created.
13. The MDA anticipates the Canada Water project being delivered in phases comprising single or linked development plots over approximately 15 years. As plots come forward for development the council has an option to invest as set out in the MDA 'Plot Proposal' process. On a plot by plot basis the council has the choice to take up one of three options:
 - A. Sell the council's land interest in the plot and take no further part in its development.
 - B. Retain the council's land interest in a particular plot but make no further contribution towards plot development costs.
 - C. Retain the council's land interest in the plot and invest in its development, up to a limit of 20% of the total development cost.
14. The principle behind the MDA is that the council and BL invest side by side; so that to the extent the council invests in a plot it shares in the income generated by the plot. Income is generated either as capital receipts (for example in the case of private housing sales) or rent (for example from the letting of shops or employment space).
15. To the extent the council 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's investment will represent, and be rewarded as a smaller proportion of total development cost.
16. When making a plot proposal to the council BL must provide information so that a considered investment decision can be taken. Once the information is received and validated the council has a limited period of time to confirm its response, which in this case ends on 23 March 2021.

The general economic position

17. 2020 was of course a difficult year for the council and the whole country as we responded to Covid-19. First and foremost this has been a terrible human tragedy. It also meant additional demands put on council front line services and further stretched the council's financial resources.

18. At the national level, over the year as a whole, 2020 saw GDP fall by 9.9%. This contributed to an increase in the level of public sector debt as a % of GDP, rising to levels not seen since the early 1960's when the country was recovering from WWII. And of course these challenges have been compounded by the ending of the transition period that marked the UK's exit from the EU.
19. There has been much speculation on what should be the government's response to these events and how to 'repair' the public finances. How this will play out and what will be the implications for the council's short to medium term financial position is simply not known at this time.
20. This uncertainty has played a significant part in formulating the report recommendation.

KEY ISSUES FOR CONSIDERATION

21. The council recently adopted a new Asset Management Plan, which includes as one of its elements the council's Investment Strategy. The principles of the Strategy have been applied to the investment options available under the MDA. That is, the three options:
 - A. Sell the council's land interest in the plot and take no further part in its development.
 - B. Retain the council's land interest in a particular plot but make no further contribution towards plot development costs.
 - C. Retain the council's land interest in the plot and invest in its development, up to a limit of 20% of the total development cost.
22. The logic behind the report recommendation is as set out below.
23. Option C is rejected on the basis that council investment in phase 1 should be prioritised on the delivery of front line services and that committing additional capital to a commercial investment in the current difficult economic climate would not be prudent and cannot be afforded.
24. Neither option A nor B requires additional capital investment by the council. Option A would generate a small one off capital receipt but no income; option B would in time generate a series of capital receipts and creates an income stream throughout the life of the development.
25. On the basis of an analysis of the projected returns, the Director of Regeneration recommends option B; the council to retain its land interest in the plots but to make no new additional capital investment.

Policy implications

26. Cabinet is being asked to consider a recommendation to invest in the development of Canada Water via its partnership with BL. The

recommendation to invest has been informed by financial criteria but also by the principles established in the council's Asset Management Plan and its Investment Strategy.

Community impact statement

27. The public sector equality duty at section 149 of the 2010 Equality Act (PSED), 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 people when carrying out their activities.
28. The recommendation in the report boils down to a decision between which of two investment options offers the better return. This is not considered to give rise to any equality implications.

Resource implications

29. This report deals with a technical matter that is a direct consequence of a previous cabinet decision. As such it gives rise to no new direct resource implications.

Legal implications

30. As the recommendation does not result in the disposal of any land or the investment of any capital there are no direct legal implications other than those discussed within the body of the report.

Financial implications

31. The Canada Water site is to be developed out by way of plots. Each plot is intended to comprise a manageable area of development (manageable in both a practical and financial sense) comprising a building or a group of buildings. The council has received three plot proposals covering the first phase of the masterplan and contractually the council has a fixed period of time in which to confirm whether or not to take up the option to invest.
32. The recommendation to invest is set against a background of the council having already committed very significant capital investment in front line service delivery within phase 1 of the masterplan. It is also recognised that property investment on this scale, by its very nature, involves several years of capital outlay before any income is returned.
33. In carrying out the assessment of the plot proposals officers have been supported by external specialist contractors. The output from that exercise is summarised above in paragraphs 23 to 25.
34. Should cabinet agree the recommendation in this report, the council's contribution to the commercial investment of the first phase would be to leave its land in the project and make no further capital contribution.

Post investment decision

35. Once the council confirms its decision to invest there are time limits as to when BL must commence the development of the plots, or else the council is given the right to reappraise the plot and make a new investment decision. This situation applies in circumstances where works do not commence within 12 months of the date of the plot proposal or if the costs of the works at the commencement of plot works exceed 115% of the costs contained in the original submitted plot proposal. In these scenarios the council is entitled to re-appraise its investment decision.
36. At completion of a plot there is a reconciliation process when the partners' contributions to financing development of the plot are calculated. This fixes the share of capital receipts and future rent from the plot to be enjoyed by each MDA partner.

Consultation

37. There has been internal consultation between officer in regeneration, legal services and finance.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

Director of Law and Governance

38. The report sets out the three options open to the council in terms of its investment into a plot. The legal framework behind the options is all set out in the Master Development Agreement of 2018. It is open to the council to make an investment decision in respect of each plot as it is brought forward.
39. If the recommended option is chosen, there will be no disposal of land and no additional capital investment. Instead the council will retain its right to receive an income from the development of the relevant plot, albeit at a reduced level than if further capital expenditure had been made.

Strategic Director of Finance and Governance

40. The implementation of the British Land Masterplan for the regeneration of Canada Water provides the council with an opportunity to invest in plot proposals as they are brought forward and to potentially benefit from profits associated with those developments.
41. The Strategic Director of Finance and Governance notes the recommendation that the council does not invest in the first phase of development of the BL Masterplan at Canada Water (plots A1, A2 and K1) for the reasons set out in the financial implications (paragraphs 31 to 34). The council will retain its 20% ownership stake in project land.

42. The recommendation in this report does not give rise to any new financial commitments.

BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
Report to Cabinet: Canada Water Master Development Agreement		
Link: copy and paste into browser: http://moderngov.southwark.gov.uk/documents/s74525/Canada%20water%20Report.pdf		
Corporate Asset Management Plan 2021		
Link: copy and paste into browser: http://moderngov.southwark.gov.uk/ieListDocuments.aspx?CId=302&MId=6665&Ver=4		

APPENDICES

No.	Title
Appendix 1	Site plan

AUDIT TRAIL

Cabinet Member	Councillor Rebecca Lury, Finance, Business and Jobs	
Lead Officer	Eleanor Kelly, Chief Executive	
Report Author	James Oates	
Version	Final	
Dated	25 February 2021	
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	25 February 2021	