

<b>Committee/Meeting:</b> Cabinet	<b>Date:</b> 9 February 2011	<b>Classification:</b> Unrestricted	<b>Report No:</b>
<b>Report of:</b> Corporate Director Development and Renewal  <b>Originating officer(s)</b> Andy Algar Service Head, Asset Management		<b>Title:</b> Chrisp Street regeneration: update and next steps  <b>Wards Affected:</b> East India and Lansbury	

<b>Lead Member</b>	Cllr Rania Khan
<b>Community Plan Theme</b>	A great place to live
<b>Strategic Priority</b>	

## 1. **SUMMARY**

- 1.1 This report outlines the current position on Poplar HARCA's proposed regeneration of Chrisp Street, details the Council's interest in the regeneration and seeks authority to commit to the scheme, subject to detailed terms being agreed (which will be reported back to Cabinet).

**NB – all decisions in this report relate to the Council as landowner/developer and not as planning and highway authority, or any other of the Council's statutory or regulatory functions.**

## 2. **DECISIONS REQUIRED**

Cabinet is recommended to:-

- 2.1 Note the current position and background to the proposals.
- 2.2 Agree the appointment of London & Regional as preferred bidder for the scheme.
- 2.3 Authorise the Service Head, Asset Management to negotiate heads of terms for the Development Agreement (the final details of these terms to be reported back to Cabinet).
- 2.4 Authorise the Strategic Director, Development and Renewal, to conclude Memoranda of Understanding with (a) Poplar HARCA and (b) Poplar HARCA and London & Regional on the principal terms outlined in the appendices attached to this report.

### **3. REASONS FOR THE DECISIONS**

- 3.1 In order for the proposed scheme to proceed, it is necessary for the Council to commit to the transfer of its land holdings to provide comfort to both Poplar HARCA and the proposed developer. Completion of the Memoranda of Understanding will support this. The detailed terms of any transaction will be subject to negotiation and further approval by Cabinet.

### **4. ALTERNATIVE OPTIONS**

- 4.1 The regeneration options that were considered are set out in the body of the report. The Council may choose not to proceed with the recommended option, in which case the proposed regeneration would not proceed in its current format.

### **5. BACKGROUND**

- 5.1 Chrisp Street forms part of a broader regeneration scheme that has evolved from “Reshaping Poplar” which has been developed by Poplar HARCA and Leaside Regeneration.
- 5.2 Poplar HARCA is leading on the proposed regeneration and the procurement of a development partner.
- 5.3 In October 2009, Cabinet considered a report proposing the Council’s participation in the scheme as landowner. Cabinet noted the current position and agreed, in principle, to the Council participating in the procurement process, which included Council officers sitting on the evaluation panel. The report made clear that this placed no contractual obligation on the Council.
- 5.4 In January 2010 the first evaluation took place between the two remaining proposals. The evaluation panel comprised four Council representatives, four Poplar HARCA representatives and four resident/traders’ representatives. Each representative’s vote carried the same weight.
- 5.5 The two proposals were very different – one proposed refurbishment/extension of existing shop units, minimal demolition and some new-build houses on the Cordelia Street site. The refurbishment of existing housing stock was excluded and would remain Poplar HARCA’s responsibility. All new Council facilities were to be provided at nil cost. This scheme showed a potential receipt (to be shared between LBTH and HARCA).
- 5.6 The second proposal involved a far higher level of demolition and new building. It proposed the comprehensive redevelopment of the southern part of the site for new retail and flats. The retail element would be “anchored” by a new supermarket. Financially, the bid assumed significant HCA funding and showed no “up front” payment for land.

- 5.7 Both bids were scored by the evaluation panel using pre-set criteria. The second proposal (from London and Regional) received the higher scores. However, there was significant information needed in relation to both schemes to enable a final recommendation to be made. It was therefore agreed with HARCA prior to the evaluation that once an initial selection had been made a 3-6 month exclusivity period would be necessary to work with the potentially preferred bidder to clarify aspects of their proposals. The second bidder would then be held in reserve.
- 5.8 Following the evaluation it was agreed that negotiations be held with London and Regional for an initial three month period in order for them to address some of the areas of concerns (particularly around financial, planning and deliverability).
- 5.9 Poplar HARCA, their consultants and the Council spent significant time working with London & Regional on those areas of their proposal that needed to be addressed. Poplar HARCA's consultant team were satisfied that the risk areas identified with the proposal in January 2010 had been or could be significantly addressed. The evaluation panel's unanimous decision was to proceed with London & Regional as formal preferred bidder.

## **6. BODY OF REPORT**

- 6.1 In order for the scheme to proceed, the Council needs to formally commit to the proposal. Detailed commercial terms will need to be negotiated with both Poplar HARCA and London & Regional before contracts can be signed, and these terms will be reported back to Cabinet. All negotiations will be undertaken on an "arms length" and transparent basis to ensure the Council obtains the best terms possible for its interests.
- 6.2 Crisp Street is predominantly owned by Poplar HARCA. However, the Council owns a number of significant parcels of land – in particular the market square and the Idea Store (see plan attached as appendix 1). There are also a number of Council and other public sector services provided from buildings owned by Poplar HARCA.
- 6.3 If the Council's sites were excluded, it would be a very difficult regeneration, more focussed on housing alone and not reshaping the market area and shops because of the location and importance of the Council's land.
- 6.4 The current scheme proposes 100,000 square feet of retail space (inc. 40,000 sq ft supermarket) which is broadly equivalent to the existing amount and 50,000 sq ft offices/community space.
- 6.5 480 private homes are proposed and 287 affordable which represents an overall increase of around 540 (400 private homes and 137 affordable). The developer has advised that their proposals will comply with Planning requirements. The figures (which are indicative at this stage and may alter as the design evolves) are summarised in the table below

	<b>Existing</b>	<b>Proposed</b>	<b>Increase</b>
Affordable	150	287	137
Private	83	480	397
Totals	233	767	534

### **New facilities**

- 6.6 The Council is supportive of the proposals generally but also sees an opportunity to re-provide and improve its existing properties in the area. This is a prerequisite for the Council's support for the scheme. There have been a number of workshops with service providers and the developer's architect around how properties could be improved/reprovided.
- 6.7 In broad terms, the principle has been agreed that the existing two children's centres premises will be co-located and improved (broadly in their current location). There are also proposals for a new building, adjoining the Idea Store, that would house Poplar HARCA's reception and headquarter offices, a new One Stop Shop and space for a localities base for local Council/police staff. There is also scope to link the One Stop Shop and Idea Store at first floor and host other local services.
- 6.8 The co-location of services in this manner provides a possible model for grouping localised services – the benefits are reduced running costs for buildings, a greater presence for the Council through having a single "front door" and a better experience for citizens through joined up services.
- 6.9 Under the terms of any proposal, these facilities must be provided early in the development at no cost to the Council.
- 6.10 The market will be retained in its existing location and will form an important part of Chrisp Street's future as a retail centre. The developer will be preparing a retail strategy for Chrisp Street. The issue of the eventual ownership and management of the market is open for discussion but the Council can control this via its negotiation position.

### **Other terms**

- 6.11 There are significant commercial terms that need to be negotiated with Poplar HARCA and London & Regional. These will cover the value of the Council's land and other interests and also the management of and income from the market. The market will have a key role in regenerating the retail area. It has been made clear during all discussions to date that negotiations between the parties are entirely at "arm's length" and the Council expects to receive the best terms possible from this transaction.
- 6.12 At this stage it seems unlikely that there will be any "up front" capital receipts due to market conditions, the proposed phasing of the scheme and the significant infrastructure costs needed in the early stages. It is therefore more likely that any future income will be secured via profit share or overage.

The precise details of this, and the terms of an overall Development Agreement, will be subject to negotiation and reported back to Cabinet.

- 6.13 Both Poplar HARCA and London & Regional have asked that the Council sign a Memorandum of Understanding to provide confidence as to the Council's commitment to the scheme. This is common practice in advance of formal contractual terms being negotiated and governs the parties approach to such a negotiation. The principal terms of both Memoranda (one with just Poplar HARCA and the other jointly with Poplar HARCA and London & Regional) are attached as appendices to this report.

## **7. COMMENTS OF THE CHIEF FINANCIAL OFFICER**

- 7.1 This report asks Members to note the current position on the proposed regeneration of the Chrisp Street area, to approve the appointment of London & Regional as preferred bidder for the scheme, and to authorise officers to negotiate heads of terms for the development agreement and to conclude memoranda of understanding.
- 7.2 The proposal involves the disposal of Council owned land to Poplar HARCA in order that the redevelopment scheme is viable. Officers consider that it is unlikely that any "up-front" capital receipts will be realised due to a combination of current market conditions and the profiling and nature of the scheme. It is considered likely that the non-realisation of a receipt will be mitigated by future profit sharing or overage. As stated in paragraphs 6.1 and 6.9 any disposal will be subject to negotiation on a transparent basis to ensure the Council obtains the best terms possible for its interests, and secures value for money for the use of public assets.
- 7.3 Although negotiations will be entered into and proposals developed, the terms of any disposal will be reported back to Cabinet for decision.
- 7.4 As stated in the report there are a range of Council and other public sector services delivered from buildings within the proposed regeneration area. As part of the scheme development the facilities will be improved. The impact on services will be assessed in conjunction with the providers to ensure that services are provided efficiently and the best use made of the assets (see paragraphs 6.4 to 6.7).
- 7.5 At this stage, the only costs falling on the authority as the result of the recommendations in this report will be officer time and associated overheads which will be met from within existing resources.

## **8. CONCURRENT REPORT OF THE ASSISTANT CHIEF EXECUTIVE (LEGAL SERVICES)**

- 8.1 The Council is empowered under section 2 of the Local Government Act 2000 to do anything which it considers likely to promote the social, economic or environmental well being of Tower Hamlets, provided the action is not

otherwise prohibited by statute. This power includes the ability to incur expenditure or to give financial assistance to or enter into arrangements or agreements with any other person. The power may be exercised in relation to, or for the benefit of: (a) the whole or any part of Tower Hamlets; or (b) all or any persons resident in Tower Hamlets. In exercising the power, regard must be had to the Community Plan.

8.2 The Council has also produced the Community Plan which details the priorities that the Council has set in respect of the economic social and environmental well being of the Borough.

8.3 In the Community Plan Section “A Great Place To Live” the Council has identified a number of priorities which include:

8.3.1 “Providing decent homes in well designed streets and neighbourhoods”

8.3.2 “Increasing the overall supply of housing for local people including a range of affordable family housing”

8.3.3 “Providing first-class and well managed centres where people come together for business shopping leisure and recreation”

8.4 It is clear that a successful Chrisp Street Regeneration project will help to achieve these aims and therefore, the Council is empowered by Section 2 of the Local Government Act 2000 to engage in this project should it so wish.

8.5 Should the Council decide to proceed with the project whether as a direct contracting party to the developers or in a supporting role to Poplar HARCA the Council must ensure that proper procurement processes in line with European and domestic law must be followed.

## **9. ONE TOWER HAMLETS CONSIDERATIONS**

9.1 It is proposed that new Chrisp Street development will bring the local community closer together as it creates a new retail centre at the heart of Poplar with integrated Council services. The lead owner, Poplar HARCA, has undertaken significant consultation to ensure the proposals have local support. Once the proposals have crystallised the impact on housing and shops, and other implications on local people, will be assessed through a full equalities impact assessment, as necessary.

9.2 It is considered that the regeneration of Poplar will help create local leadership amongst residents and will increase the level of personal responsibility by achieved through delivering a scheme that residents are proud of and therefore the proposal should create a great place to live for local residents.

## **10. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT**

- 10.1 The proposal will potentially replace Council owned facility's that are compliant with modern day building regulations and are "green and sustainable" buildings.

## 11. **RISK MANAGEMENT IMPLICATIONS**

- 11.1 The project is an ideal opportunity for the Council to consider new ideas that allow its property to be creative in terms of use of space and building design. In the event the Council does not participate in the project it is arguable the opportunity will be missed.
- 11.2 The Council's adopted UDP (1998), Interim Planning Guidance (2007) and emerging LDF Core Strategy all designate Chrisp Street as a 'District Town Centre' In the event the Council chooses not to participate in the project there is a risk that there will be delay on helping to deliver this aim.

## 12. **EFFICIENCY STATEMENT**

- 12.1 In general terms by including Council owned property into the project the Council pro-actively considering overall efficiencies in terms of how it uses its property assets in the Chrisp Street area. For example there might be scope to integrate all "back of house" (offices, staff facilities, meeting rooms etc) into one new building.
- 12.2 In addition to this there might be other services currently being provided in the area that might sit better in Chrisp Street and this might allow other buildings put to alternative uses.

## 13 **APPENDICES**

Appendix 1 – principal terms of proposed Memorandum of Understanding – LBTH/Poplar HARCA

Appendix 2 - principal terms of proposed Memorandum of Understanding – LBTH/Poplar HARCA/London & Regional

Appendix 3 – site plan

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**Local Government Act, 1972 Section 100D (As amended)**  
**List of “background Papers” used in the preparation of this report**

Brief description of “background papers”	Name and telephone number of holder and address where open to inspection.
<b>None</b>	F <b>N/A</b>



# MEMORANDUM OF UNDERSTANDING: LBTH & POPLAR HARCA

## PRINCIPAL TERMS

**NB – for the avoidance of doubt, the Council’s role is limited to that of landowner only. Officers are unable to represent the Council’s other statutory functions (e.g. Highways, Planning, Housing) and landowner’s support for the scheme or elements of it does not imply consent or approval from the Council’s other functions. The project team and development partner will need to make their own enquiries of the Council’s other functions.**

### 1.0 The Site

The Chrisp Street Market site comprises approximately 3.1 hectares (7.66 acres). It is bounded by East India Dock Road to the south, Chrisp Street to the east, Cordelia Street to the north and Kirbey Street to the west. A site plan is attached at Appendix 1. The site comprises retail, residential and community uses and an open air market. It was constructed in a number of phases between 1950 and 1973. In addition, the site will also include the Somerfield car park to the east of Chrisp Street.

### 2.0 Principal Ownerships

The site is in the principal ownership of Poplar HARCA and LBTH. Poplar HARCA is the main freehold landowner. The freehold property was transferred under a stock transfer from LBTH to Poplar HARCA in 2006. LBTH retains the freehold interest in the Market and 1-15 Vesey Path. The Somerfield store and car park and Iceland unit are in separate freehold ownerships. A plan showing the respective land ownerships is enclosed at Appendix 2.

There are a number of other underleases affecting the freehold property

- 75 Chrisp Street – 80 year lease from 1962 to Poplar Boys Club
- 55 Chrisp Street, known as Callaghan’s – 80 year lease from 1950 to Mann, Crossman and Paulin Ltd
- Festival Inn Public House, Kirby Street – 80 year lease from 1956 to Truman Hanbury Buxton and Company Ltd
- Ground Floor Arch, Somerfield store – lease for 999 years from 1993
- 15 Market Square – lease of 99 years from 2006 to LBTH

In addition a number of the residential properties have been sold by way of a long leasehold under the right to buy scheme and the shop units are subject to various occupational tenancy agreements.

### 3.0 Overall Project Objectives

The Parties to the agreement are committed to working together to seek a Development Partner who will enter into a Development Agreement with the Parties to redevelop the Site to provide:-

- Attractive and vibrant retail and leisure facilities;
- Improved public and pedestrian realm;
- Inspirational design solutions that are distinctive and connect with the local environment;
- High quality private and affordable housing;
- A development with minimal environmental and ecological impacts;
- Other social and economic regeneration benefits including jobs and training opportunities.

#### **4.0 LBTH Project Objectives**

In addition to the above Overall Project Objectives, LBTH has the following specific project objectives:-

- An enhanced IDEA Store
- A re-provided Sure Start Centre in a single location with a safe, secure external play area
- A re-provided One Stop Shop
- Accommodation for a local office/localities base
- An enhanced Market

The above are to be provided at nil capital cost to LBTH, fitted out and ready for use to a specification to be agreed.

LBTH will expect to receive an appropriate consideration for the proposed disposal of any of its property assets in order to demonstrate compliance with Section 123 of the Local Government Act 1972.

LBTH will expect to receive an appropriate share of any agreed overage.

#### **5.0 Poplar HARCA Project Objectives**

In addition to the above Overall Project Objectives, LBTH has the following specific project objectives:-

- A revenue to HARCA on the commercially let non-residential units.
- A financially viable project to HARCA.

- A Capital Receipt at the conclusion of the project.
- New affordable housing.
- Provide suitable temporary office accommodation for HARCA during the development process.
- Deliver a new head office.

## **6.0 Duties of Both Parties**

The Parties to this agreement will:-

- Support the Project;
- Work in partnership to develop robust and effective structures to deliver the Project Objectives;
- Work in partnership to agree;
  - A joint negotiation position with the Development Partner;
  - The terms of a comprehensive Development Agreement with the selected Development Partner;
  - The project management and governance arrangements for delivery of the Project Objectives;
- Undertake all tasks assigned to them to bring about the delivery of the Project Objectives in a timely manner;
- Ensure appropriate officer/consultant/decision maker attendance at all meetings of the Parties and other meetings where required.

## **7.0 Duties of LBTH**

LBTH as landowner and without any intent to fetter or prejudice LBTH's statutory functions as planning, highways and regulatory authority confirms that it will:-

- Promote the obtaining of all necessary Cabinet, Mayoral or other approvals required to allow the Project to proceed in accordance with the agreed programme;
- Seek to agree with Poplar HARCA and the Development Partner an acceptable form of Development Agreement;
- Seek to agree with Poplar HARCA and the Development Partner acceptable specifications for the delivery of the LBTH Project Objectives;
- Seek to agree with Poplar HARCA and the Development Partner appropriate land transfer arrangements for LBTH's current land interests within the Development Agreement subject to agreement as to the terms of transfer and compliance with LBTH's statutory obligations under Section 123 of the Local Government Act

1972;

- Provide appropriate Officer/consultant input into the Project;
- In the event that a planning consent has been achieved for the Project and it is considered necessary in order to deliver the Project, LBTH will consider promoting the use of its CPO powers as necessary to enable the required site to be assembled and subsequently manage the implementation of the same subject to appropriate indemnities from L&R and Poplar HARCA..

## **8.0 Duties of Poplar HARCA**

Poplar HARCA will seek to:-

*Poplar HARCA to provide*

## **9.0 Subsequent Agreements**

This agreement is intended to define the roles and responsibilities of the Parties in relation to achieving the Project Objectives. It is intended that the Parties will subsequently enter into a Development Agreement.

## **10.0 Duration**

This agreement will continue in effect until any of the following events occur:-

- The Project is completed;
- The Development Agreement is not entered into by 31 December 2011 ;
- The Development Agreement is terminated;
- Prior to entering into the Development Agreement either party gives not less than 3 months written notice to withdraw.

# MEMORANDUM OF UNDERSTANDING: LBTH, POPLAR HARCA & LONDON & REGIONAL

## PRINCIPAL TERMS THAT AFFECT LBTH

### The Vision and Project Objectives (as per LBTH/Poplar HARCA Memorandum of Understanding – above)

### Poplar HARCA Project Objectives (as per LBTH/Poplar HARCA Memorandum of Understanding – above)

### LBTH Project Objectives (as per LBTH/Poplar HARCA Memorandum of Understanding – above)

### L&R Project Objectives

1. In addition to the above overall project objectives, L&R has the following specific project objectives:
  - An agreed return to L&R on total development costs incurred on Private Development on the Site (“Minimum Private Return”), an agreed return on total development costs incurred on Public Development on the Site (“Minimum Public Return”) and an agreed return on total development costs incurred on Infrastructure on the Site (“Minimum Infrastructure Return”), collectively referred to as the “Developer’s Return”;

NB – the percentages have been agreed but are commercially sensitive and are not referred to enable

- L&R have agreed to hold back a percentage of profit at the end of each stage in order to improve the viability, if required, of a subsequent phase. Exact percentage to be agreed at Heads of Terms;

“Private Development” is defined as homes for private sale or private rent, retail and leisure units, commercial units for sale or rent (but excluding any premises to be occupied by HARCA, LBTH or any body providing public or social amenities).

“Public Development” is defined as any premises to be occupied by HARCA, LBTH or any body providing public or social amenities, social or shared equity housing,

“Infrastructure” is defined as any roads pathways or public realm intended for general public use, utilities services outside the walls of any buildings to be developed.

L&R will not charge a Developers Return on:

- Land acquisition costs (to include freehold and leasehold acquisitions); and
- Fees in relation to achieve a planning consent.

2. L&R's planning costs will be repaid from the proceeds from the first and second phases of the development. The exact repayment structure will be agreed at Heads of Terms stage.
3. L&R will receive an agreed share of any overage once an agreed threshold has been met.
4. Should L&R fail to complete all phases of the development then any surplus at the time the project ends will be paid to HARCA / LBTH.

**The Site (as per LBTH/Poplar HARCA Memorandum of Understanding – above)**

**Project Timescales**

5. The Parties are to make reasonable endeavours by [21 January 2011] to have agreed the detailed Heads of Terms for the DA to allow lawyers to produce the draft DA by 28 February 2011. It is the intention of the Parties to execute the DA by 31 July 2011. The 'long stop' date by which the Parties have to enter into a Development Agreement is 31 December 2011. There will need to be agreement in the Heads of Terms over the exact timings and there will need to be provision to agree an extension of both timescales should it be required in certain circumstances.

**Duties of the Parties**

6. L&R has been appointed by HARCA and LBTH as the preferred developer with the intention of entering into a Development Agreement ("DA") relating to the development of the Site and the delivery of the Project Objectives ("the Development").
7. The Parties to this Agreement will:-
  - Work to achieve a viable and deliverable planning consent which secures the future redevelopment of Chrisp Street Market. A minimum of RIBA stage C will be achieved over the lifetime of this MOU;
  - Support the Project;
  - Work in partnership to develop robust and effective structures to deliver the Project Objectives;
  - Work in partnership to agree the project management and governance arrangements for delivery of the Project Objectives;
  - Work in partnership to agree the terms of the DA;
  - Undertake all tasks assigned to them to bring about the delivery of the Project Objectives in a timely manner;

- Ensure appropriate officer/consultant/decision maker attendance at all meetings of the Parties and other meetings where required.
8. The Parties shall agree a strategy to approach existing land and lease holders within the proposed development and will use their reasonable endeavours to negotiate the acquisition of those land interests to comprise the Site.
  9. The Parties will agree a strategy to approach and approve both existing and new retailers with the objective of securing a sustainable blend of goods and services from the new supermarket, new retail occupiers, such existing retailers that are to continue within the Development and market stall holders.
  10. The Parties agree to respond to requests for information or actions from the other party as soon as practicable particularly where information requests are made so as to ensure that the parties can enter into the DA within the long-stop date referred to below.

### **L&R – Specific Duties**

11. L&R are to provide a suitably qualified and experienced Project Manager and HARCA and LBTH need to be satisfied of their suitability acting reasonably.
12. L&R will, at its own cost, use its reasonable endeavours to undertake consultations with key stakeholders prior to execution of the DA.
13. L&R will, at its own cost, use its reasonable endeavours to advance the designs for the Development to a RIBA Stage C prior to execution of the DA. *L&R will provide a budget prior for costs up to RIBA stage C prior to the completion of the MOU*
14. L&R will provide monthly budget estimates in advance for all constants fees for Poplar HARCA to approve such approval not to be unreasonable.
15. During the life of the MOU L&R will procure that copies of all drawings, designs and studies will be deposited within a project internet based data room as and when they are created and HARCA/LBTH will be informed of any updated project information deposited therein. HARCA/LBTH will own the copyright of all documents and drawings.
16. Any public announcement from L&R in relation to the Chrisp Street Market Redevelopment must be approved in writing by HARCA/LBTH before any form of public comment or press release is made.

### **Poplar HARCA / LBTH – (as per LBTH/Poplar HARCA Memorandum of Understanding – above)**

### **Approval of Consultants**

HARCA has the right to approved L&R's proposed consultants.

### **Costs**

17. Poplar HARCA and London and Regional have an agreed position in respect of possible abortive costs. The Council is not affected by this and has no liability.