	London Borough of Hammersmith & Fulham **CABINET** **2 MARCH 2015**
KING STREET REGENERATION PROJECT AND 84-90B HIGH STREET FULHAM	
Report of the Leader of the Council – Councillor Stephen Cowan; the Cabinet Member for Economic Development and Regeneration – Councillor Andrew Jones; and the Cabinet Member for Finance – Councillor Max Schmid	
Open Report A separate report on the exempt part of the Cabinet agenda provides exempt information on the value of the offers and the implications of the proposals	
Classification - For Decision **Key Decision: YES**	
Wards Affected: Hammersmith Broadway, Ravenscourt Park and Palace Riverside	
Accountable Executive Director: Nigel Pallace, Interim Chief Executive	
Report Author: Maureen McDonald-Khan, Director of Building and Property Management	**Contact Details:** **Tel: 020 8753 4701** **E-mail: Maureen.McDonald-Khan@lbhf.gov.uk**

1. EXECUTIVE SUMMARY

1.1. **King Street Regeneration Project -** Planning permission was granted last year for this housing-led mixed use scheme, but the scheme does not contain any affordable housing. Following recent negotiations, the Council's contracted developer partner, King Street Developments (Hammersmith) Ltd, has offered to pay the Council a commuted sum in lieu of changing any of the market units in the approved scheme to be affordable. Under the terms of its Development Agreement and Agreement for Lease with the Council, the development partner can proceed to detailed design, procurement and construction without the need for any further approvals from the Council. The commuted sum

represents the quickest way of providing new affordable units for occupation, by funding off-site development of affordable housing.

1.2. **84 - 90B Fulham High Street -** The Council has a restrictive covenant on this site dating from 2002 requiring the provision of affordable units in any development. Spen Hill Developments Ltd, a development arm of Tesco Stores Ltd, own the site and has a recent planning consent that requires the provision of fewer affordable units but the restrictive covenant makes this consent neither viable nor implementable. The housing grants that supported the quantum of units in the restrictive covenant are no longer available and recent negotiations have resulted in an offer from the developer of an additional affordable unit together with a balancing payment to the Council for release of the restrictive covenant. The configuration of the residential blocks in the approved scheme meant that negotiating a capital payment for off-site affordable housing provision was preferable to further increasing the number of affordable units within the development.

2. RECOMMENDATIONS

2.1. That approval be given to accepting the offer from King Street Developments (Hammersmith) Ltd to pay a commuted sum (as set out in the exempt report) under the King Street Regeneration Project to the Council for off-site affordable housing;

2.2. That approval be given to accepting the offer from Tesco Stores Ltd to pay a sum (as set out in the exempt report) to the Council and provide a total of six shared ownership residential units as consideration for releasing the restrictive covenant on the site at 84 - 90B High Street in Fulham; and

2.3. That the transactions in recommendations 2.1 and 2.2 be completed simultaneously.

3. INTRODUCTION AND BACKGROUND

King Street Regeneration Project

3.1. Under the previous Administration, Cabinet approved the appointment of King Street Developments (KSD), a joint venture company formed by Helical Bar plc and Grainger plc, as the Council's development partner for the King Street Regeneration Project on 4 February 2008 and this decision was formalised by a Development Agreement and Agreement for Lease document (DA) dated 19 March 2008. The Agreement was last amended on 14 June 2013.

3.2. The structure of the transaction determines that the Council makes three sites (Nigel Playfair Avenue car park & former Registrar's Office,

Town Hall Extension Building and 181/187 King Street) available to form the core of the development site and at completion the Council becomes the freeholder of the entire development site, including two third party sites (Friends Meeting House and King Street cinema) acquired by and at the cost of KSD. A 250 year lease on the commercial elements of the scheme is awarded to KSD at completion. These commercial elements of the scheme comprise 196 no. market residential units, a small food store, restaurant / cafes, a three screen cinema and basement parking.

3.3. The Council does not contribute financially to the project but receives a new purpose built office building, car parking (both basement & surface) a refurbished north façade to the Town Hall, a new town square, a £4.25 million contribution towards remodelling & refurbishing the Town Hall and a £1 million contribution towards regenerating the King Street area.

3.4 The previous scheme, approved in November 2011 but subsequently withdrawn, proposed a comprehensive redevelopment of a wider site, including the demolition of the existing Town Hall Extension, demolition and redevelopment of the Cromwell Avenue flats (owned by the Thomas Pocklington Trust), a bridge over the A4 and works to Furnivall Gardens.

3.5 The scheme proposed to provide a new civic square, 8,150 M2 of new civic offices, 290 residential dwellings, 255 basement parking spaces (126 public, 99 resident & 30 Council), a neighbourhood food store, five retail units within Use Class A1, A3 and A4 and a new pedestrian bridge link to Furnivall Gardens. Overall building heights were 6, 9, 10 and 15 storeys.

3.6 The Council's Planning Applications Committee resolved to grant planning permission for these earlier proposals in November 2011. However, the decision was subsequently made to withdraw the applications when it became apparent that the Mayor of London was about to direct the Council to refuse planning permission because of widespread concern over building heights and the harmful effect on riverside views.

3.7 The Council's Planning Applications Committee approved the current improved scheme in November 2013 and Mayoral approval was subsequently obtained in January 2014.

3.8 Following the recent change in Administration the scheme has been reviewed in order to determine how it might better meet manifesto commitments. A review of the Council's accommodation strategy concluded that, following release of leased premises such as Cambridge Grove and 77 Glenthorne Road and the substantial financial savings generated, the Council will still require replacement office accommodation for the town hall extension and that the current

scheme offers the best value solution currently available to the Council. Should the Council's office floorspace requirement fall at a faster rate than has been assumed, then there will be opportunities to sell or let all or part of the new office space. Negotiations with the council's development partner have therefore focused on achieving an improvement in the affordable housing offer.

84 - 90B High Street, Fulham

3.9 The Council is the beneficiary of a restrictive covenant on the freehold of 84 - 90B Fulham High Street that requires the provision of a minimum of 28 no. affordable residential units within any development. The covenant was created in 2002 but the housing grants that then supported this quantum of affordable residential units are no longer available.

3.10 Spen Hill Developments Ltd, a development subsidiary of Tesco Stores Ltd, owns the site and recently secured a planning consent with a Section 106 requirement to provide 5 no. shared ownership units (2 no. x 1 bed & 3 no. x 2 bed). The Council's restrictive covenant determines that Spen Hill's current planning application is neither viable nor implementable.

3.11 Under the previous Administration negotiations took place with a view to releasing the covenant in return for a capital receipt. Terms were agreed but the transaction was not completed before the election last year. Since the change in Administration, the negotiations have continued with a view to improving the affordable housing offer in line with manifesto commitments.

4 PROPOSAL AND ISSUES

King Street Regeneration Project

4.1 The residential units in the approved scheme comprise entirely of market units. KSD are currently projecting a profit on cost for the scheme that is above the viability threshold prescribed in the Development Agreement. Under the terms of the Agreement the Council would be entitled to receive part of the increased profit arising from this as overage.

4.2 At the request of the Council, KSD have explored a small number of options for providing some affordable residential units, facilitated by the utilisation of the forecast increase in profit over and above the threshold that are summarised in Section 5 of this report.

4.3 The proposal involves KSD making a commuted payment towards the provision of off site affordable housing, the payment to be made at the

time when the Development Agreement becomes unconditional, i.e. anticipated to be at the end of 2015 or early 2016.

4.4 This proposal would not change the terms of the overage provision as currently incorporated within the Development Agreement that provides for the Council and KSD to share the profit on cost above the threshold, but any future overage will be calculated on profit made after payment of the additional affordable housing contribution.

4.5 The present content of the King Street Regeneration Project addresses several key elements of the manifesto commitments:

Cutting council tax and waste, increasing efficiency , not wasting money on the Town Hall, not spending money on town hall offices which are not needed, etc:

The scheme does not require any expenditure of money by the Council, the only input being a part of the site, and the Council retains the freehold of the entire development upon completion. KSD is required to pay the Council £5.75 million under a Section 106 Agreement, comprising:

- £4.25 million for refurbishing the Town Hall building. The scheme will allow the council to afford the remodeling and refurbishment of the Town Hall, accommodating far more of its reducing staff numbers in an open plan layout. This in turn has allowed the Council to terminate the leases on Council offices at Cambridge Grove (August 2014) and Glenthorne Road (March 2015) saving the general fund. Over £1.3m per year. This saving directly contributes to the budget strategy, thereby enabling Council Tax to be reduced;

- £1 million for regenerating the west end of King Street; and

- £0.5 million for highway works.

Recent negotiations by the new Administration have led to KSD agreeing to a further payment to the Council for off-site affordable housing, as there is no affordable housing within the development itself. This will be a significant contribution towards the Council's own affordable housing programme and, as the payment will be made early in the construction programme, will allow the earliest possible delivery of affordable housing.

There is a substantial backlog of maintenance on the Town Hall Extension building of circa £18.5 million, involving the cost of decanting staff to temporary rented accommodation elsewhere for approximately 2 years. This cost will be avoided as responsibility for the building will be transferred to KSD.

At present, the assumed numbers of Council staff means that the projected need is for smaller sized replacement offices to be built on the site of the cinema, at no cost to the Council. However, if the Council is able to secure an alternative even more cost-effective way of providing the necessary floorspace, the new offices could be disposed of or leased commercially, either a floor at a time or the whole building, for income further helping the Council to manage its finances.

The estimated net value of the assets deployed by the Council and the estimated value of the benefits received is heavily in the Council's favour.

Should the new office building not be needed by the Council, it can either be sold for a capital receipt or leased out either a floor at a time or the whole building.

The Council avoids expenditure in the order of £18.5 million by relinquishing the Town Hall Extension building.

Supporting homes for residents, not overseas investors, providing more new affordable homes for residents to buy or rent, tackling housing supply, encouraging institutional investment and innovative new financing in new developments:

The approved scheme does not include any affordable housing. The Council is contractually bound to make its land available and to allow the scheme to proceed under the Development Agreement. However, the new Administration has been able to renegotiate the terms of the Development Agreement by reducing the projected developer's return to the minimum threshold, enabling the release of a further payment to the Council for investment in alternative affordable housing. This sum will deliver more affordable housing and much sooner that it would if spent converting a proportion of the dwellings within the current town hall development into affordable units. The new homes to be built by KSD will only be marketed in the United Kingdom initially.

Backing business and a strong local economy, supporting small local firms and local retailers, the Council's role as custodians of high streets and other local amenities:

The scheme will help revitalise the western end of King Street by introducing a higher concentration of office workers, many new residents, new shops and a cinema. It will also directly provide a fund for investment in practical measures to regenerate this end of King Street, supporting local businesses and boosting the commercial attractiveness of this end of King Street, all controlled by the Council.

84 - 90B High Street, Fulham

4.6 The most recent terms negotiated with Spen Hill are largely driven by the configuration in the residential blocks in the approved design for Fulham High Street. There are a total of three residential blocks comprising 10 no. townhouses in Block C, 6 no. apartments in Block B and 42 no. apartments on Block A. The 5 no. shared ownership units provided by the Section 106 agreement are in Block B.

4.7 The proposal is that Spen Hill provide shared ownership units in Block B and a balancing capital payment to the Council.

4.8 Capita are the Council's appointed property advisers on the King Street Regeneration Project and also dealt with the negotiations with Spen Hill Developments Ltd on Fulham High Street. Capita have confirmed in respect of both transactions that the recommended terms represent the best consideration reasonably obtainable.

5 OPTIONS AND ANALYSIS OF OPTIONS

King Street Regeneration Project

5.1 KSD presented four options for consideration by the Council:

Option 1 - involves the Council in identifying alternative sources of funding for the fit-out of the new office building in the order of £2 million and foregoing 16 no. basement parking spaces. The gain for the Council would be a total of 11 no. units in Block E (6 no. x 2 bed & 5 no. x 3 bed) changed to social rented with rents capped at £145.80 per week and £153.90 per week for 2 no. and 3 no. bed units respectively.

Option 2 - involves the provision of a total of 7 no. units in Block E (4 no. x 2 bed & 3 no. x 3 bed) changed to discounted market sales at a maximum capital value of 3.5 times the average income threshold of £45,000, based on the London Plan, giving a unit value of £157,500.

Option 3 - involves the provision of a total of 7 no. units in Block E (4 no. x 2 bed & 3 no. x 3 bed) changed to discounted market rent with 1/3 of units up to £30,000.00, 1/3 of units up to £40,000.00, and 1/3 of units up to £64,300 for all types. Therefore both two and three bed flats would have an average rent of £240 per week.

Option 4 - involves KSD making a commuted payment towards the provision of off-site affordable housing, payment being made at the time the DA becomes unconditional i.e. anticipated to be at the end of 2015 or early 2016.

5.2 There are no alternative sources of funding as required by Option 1. The project has always been progressed on the basis that there is no financial contribution by the Council.

5.3 The Council's brief to KSD for the new office building is that it should be constructed to a commercial standard and be capable of being sub-let on a floor by floor basis. This provides the Council with the ability to re-act to fluctuations in its future accommodation requirement by renting either a part or the whole of the building, or by disposing of it on the open market. In pursuing any of the foregoing, the availability of parking would be a major factor in the marketability of the offices and therefore the loss of parking in Option 1 could become a significant issue in the future.

5.4 Options 1 and 3 would entail the payment of service charges in addition to rent, this would most likely determine that the units in these options would not be affordable.

5.5 Having regard to the anticipated development programme, the affordable units provided in Options 1, 2 and 3 would not be available for occupation until circa 2019/20. However, adopting Option 4 would enable the associated affordable units to be available within the next few years.

6 CONSULTATION

6.1 KSD undertook comprehensive consultation with local residents and amenity groups prior to submitting their planning application for the King Street Regeneration Project.

6.2 There has been no consultation undertaken on either of the two proposals contained in this report.

7 EQUALITY IMPLICATIONS

7.1 There are no equalities considerations in this report other than the preferred option represents the best offer with regard to increasing the supply of affordable housing which meets the housing need of those unable to afford market housing.

8. IMPLICATIONS FOR BUSINESS

8.1 The King Street Regeneration Project is a mixed use scheme and upon completion will stimulate the regeneration of King Street by creating a new destination to attract visitors with a high quality public realm, a range of café / restaurant spaces, food store and a new 'community' cinema.

8.2 The King Street Regeneration Project will create a regeneration fund with a contribution of £1 million from KSD towards regenerating the west end of King Street.

9. LEGAL IMPLICATIONS

9.1 Comments are in the separate report on the exempt cabinet agenda.

9,2 Implications verified/completed by: David Walker, Principal Solicitor, tel: 020 7361 2211.

10. FINANCIAL AND RESOURCES IMPLICATIONS

10.1 Comments are in the separate report on the exempt cabinet agenda.

10.2 Implications verified/completed by: (Maria Campagna, Head of Financial Controls, Systems and Payments, tel: 020 8753 6014 and Christopher Harris, Head of Corporate Accountancy and Capital, tel: 020 8753 6440).

11. RISK MANAGEMENT

11.1 Comments are in the separate report on the exempt cabinet agenda.

11.2 Implications verified/completed by: Michael Sloniowski, Tri-Borough Risk Manager, tel: 020 8753 2587

12 PROCUREMENT AND IT STRATEGY IMPLICATIONS

12.1 There are no direct procurement or I T strategy implications contained in this report.

12.2 Implications verified/completed by: Alan Parry, Procurement Consultant (TTS), tel: 020 8753 2581.

LOCAL GOVERNMENT ACT 2000
LIST OF BACKGROUND PAPERS USED IN PREPARING THIS REPORT

No.	Description of Background Papers	Name/Ext of holder of file/copy	Department/ Location
1.	None		