

LONDON BOROUGH OF NEWHAM

CABINET

Is it a key decision?	Yes
Is it in the Forward Plan?	Yes
Date report published	15/02/12
Date of meeting	23/02/12

Subject: London Pleasure Gardens

Source: Regeneration, Property and Planning

Wards affected: Royal Docks

Exempt Information

Appendix 2 (to follow) is exempt by virtue of paragraph 3 of the Access to Information Procedure Rules set out in the Constitution pursuant to Schedule 12A Local Government Act 1972, as amended, as the information therein relates to the financial or business affairs of both the Council and London Pleasure Gardens Ltd and pursuant to paragraph 5 in so far as it contains information which is legally privileged. It is considered more in the public interest to withhold this information as to release it may prejudice the Council's ability to obtain the best terms possible in the public interest from its negotiations with London Pleasure Gardens (LPG).

Reasons for Urgency

At the time of preparing this report the legal, financial and technical due diligence is on-going and the Heads of Terms of the documentation are being discussed. It is therefore not possible to include this with this report. However supplementary papers will be prepared as soon as possible to ensure that Members are fully apprised of the position with regard to the legal and financial due diligence and the negotiations on the terms on which any financial assistance by way of a short term repayable loan would be made available before they make their decision. This report has been prepared to give the Mayor and Members as much information as is possible at the time of agenda dispatch. It is not possible to defer this to a future meeting as the critical timeline would mean that any later decision would (a) miss the Full Council deadline for budget approval and (b) miss the critical timeline for works to be undertaken to keep to the proposed opening of the LPG in June 2012.

Purpose of Report

This report sets out the unique and exciting concept of the LPG, the significant progress made in making it a reality since the proposal was selected as a winner of the Meanwhile Competition and sets out the comprehensive community, economic and regeneration outcomes from the project which could be a catalyst for the future development in the Royals, with wider beneficial impact for Newham.

The Council has been offered an opportunity to invest in the pioneering project, by way of a short term repayable loan at a commercial rate of return to enable its delivery.

Recommendations

The Mayor in consultation with Cabinet is asked to:

- Agree to the principle of an allocation of a maximum of £2.6 million in the Capital Programme for a short-term, repayable cash flow investment in the project subject to approval of full Council on the 27th February 2012;
- Note that Officers will complete necessary legal, financial and technical due-diligence on the business plan and proposals to ensure that the investment is robust and on appropriate commercial terms before any loan or other related documentation is completed;
- Approve the principles of the Heads of Terms attached in the exempt report;
- Grant delegated authority for the Executive Director of Regeneration and Inward Investment (in consultation with the Mayor, Executive Adviser for Regeneration together with the Executive Director of Resources, Director of Finance, Divisional Director Regeneration, Planning and Olympic Legacy and Divisional Director Legal & HR) to agree the final commercial terms provided they are broadly consistent with the principles of the Head of Terms and enter into the related legal agreement(s) subject to satisfactory financial and due diligence.

Reasons for the Recommendations

Following the successful Meanwhile Competition, LPG have invested significant time and money in getting the project off the ground, overcoming a number of necessary bureaucratic hurdles and creating a business in which to invest to enable this ambitious project to proceed. The project promises to deliver something unique in terms of its scale, variety of entertainment and functions and its year-round facility, on a scale not previously seen before in London – becoming an arts and entertainment destination world-famous for its experiences, innovation and authenticity – delivering an estimated 1.6 million visitors in 2012 alone.

Out of a total of 1000 jobs on the project, circa 300 local jobs throughout the life of this project will be for local people, and LPG are already committed to working with Workplace. Workplace has confirmed that they will be able to fill the 300 positions

available to local people.

Why now and why so fast? – As this report indicates, the preparation has already been done, and it is critical that this project takes place and is established ahead of the Olympic Games. Being a meanwhile use, the site is only available for a maximum of 3 years so the clock is ticking – this project will play a major role in the period immediately leading up to, during and beyond the Olympic Games.

It is essential that the Games period euphoria does not fade away in Newham, this project will substantially persist continued momentum. The project is beneficial to the Games Travel Plan – acting as a ‘people sponge’ for those leaving Excel after events; and providing an area of interest and delight, where people would be encouraged to linger and have an even more memorable experience at Games time.

We are in the final straits in terms of planning and preparation of the LGP proposal.

What else could the money be spent on? – Given the set of circumstances, including the time constraints for maximum pre- and post-Games impact, we are confident that nobody could achieve the same level of benefits from a standing start in the time available. We do not believe that there are ‘oven ready’ projects which would deliver such a high degree of inspirational / aspirational impact or added value, job creation in the short timescale available.

We feel that the experience of such a phenomena occurring in Newham will have an extremely positive, beneficial impact, particularly on young people, giving them experience and the aspiration to go further. It is highly unlikely that Newham could issue a loan to similar projects with these levels of outcomes, particularly as most funding requests are for grants.

The wider economic position and unavoidable delays in the delivery, due to its scale and complexity, have meant that some of the large investors that were lined up to invest have fallen away, simply because of the uncertainty caused by the delay of assigning the lease. Given the imperative to be operational by June this year – both for financial and Olympic reasons - LPG have approached the Council for a short term repayable cash flow investment to enable the project to proceed. The proposals involve the Council receiving a share of future profits as well as the repayment of its loan with interest, and provide confidence for other investors to come on board.

The project plans to deliver exciting economic, community and regeneration outcomes that will assist in delivering the Councils aspirations set out in its Community Strategy – specifically around building an ‘inspirational place’, a ‘prosperous and forward looking Borough’ and being ‘a net contributor to London’s economy’. The project is in line with the Councils vision for the regeneration of the Royals and indeed it is seen as a vital catalyst in making this vision a reality.

LPG have made substantial progress in turning their concept into a reality - successfully achieving planning for phase 1, receiving a entertainment and alcohol licence for the full site, negotiating a lease for the land and developing full creative content and event bookings/hire and identifying investment partners. They have also lined up the Evening Standard, Guardian and YouTube as media partners, and there

is a full marketing strategy in place to drive publicity and draw in the audiences.

The LPG project team has undertaken all work to date at risk and have overcome a number of hurdles to enable this ambitious project to proceed. In tandem, marketing to investors commenced in the spring of 2011 and was positively received. A number of substantial investors had shown an interest in investing in the project but due to the wider economic position and significant delay of over 3 months in the signing of the lease a significant amount of investor confidence was lost at no fault of the project team.

The delay in securing investor commitment, due to the lease delay, has resulted in the project being at a critical tipping point affecting its ability to proceed. This has led to the Council being presented with the opportunity to invest in this project under appropriate powers.

The scale and complexity of the project has been a challenge to the project team but the progress made and interest generated is robust and impressive. The Council has the opportunity – which wasn't originally intended – to make an investment in a business that the LPG team have created since winning the competition and which promises to be a catalyst for the regeneration of the Royal and Newham as a whole. Given the inherent meanwhile nature of the project and a desire to be operational by the Olympics, the window of opportunity to invest is immediate.

This request for an investment is backed up by a strong commercial business case that Officers are undertaking initial due-diligence on and are currently negotiating on the legal Heads of Terms – key principles of which are included in the exempt report.

Subject to final financial and technical due diligence, and agreeing the detailed commercial and legal agreement(s), Officers are recommending that this represents a strong case for investment.

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POSITION: Executive Director of Regeneration and Inward Investment

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Local Government (Access to Information) Act 1985
Background papers used in preparing this report:

N/A

List of enclosures / Appendices:

- Appendix 1 – LPG vision, site plans and conceptual images of the site
- Appendix 2 – Exempt report (Finance, Legal and Contract Heads of Terms) – to follow

- Appendix 3 – Additional comments from LBN Officers
- Appendix 4 – Letters of support for LPG
- Appendix 5 – LPG programme

Report - Part A

1. Introduction and Background

The 'Meanwhile London' competition was launched by Newham Council and the London Development Agency, in association with Property Week magazine in November 2010. The aim was to introduce interim, innovative activities on derelict spaces to help kick start regeneration - activating the areas, providing benefits to residents, and testing the potential for community and urban regeneration.

The London Pleasure Garden (LPG) proposal emulates and provides a 21st century version of the pleasure gardens of the 19th century, which included not only Vauxhall but also Royal Victoria Gardens in North Woolwich, Newham. The proposal has been put forward by Strong and Co, and collaborators, the creators of the opening of the Cultural Olympiad in Hackney and Shangri-La at Glastonbury – and was the outstanding proposal for a 21st Century Pleasure Gardens on the derelict Silvertown Quays site for live-music events and cross-cultural collaborations, featuring year-round attractions.

The LPG project team is working closely with Planning to finalise the phase 2 planning conditions, and to submit the 3rd and final planning permission which will include the use of the large outdoor space for the festivals and concerts. Further planning comments are included in Appendix 3.

Key Programme dates

The LPG programme and critical path information are included in Appendix 5.

The LPG Project Team has presented a Business Case that requires up to £2.6 million investment to 'cash flow' the initial working capital required to enable the project to proceed. Whilst the assumptions in the project business plan indicate that the project will make significant returns over its three year life, it is not possible for the project to become operational without some up front cash flow investment. In order to secure other income – contracted deposits from site hire, preferred supplier income and so on, the total funding has to be secure. Once operational, then the project will generate income, but it cannot become operational without immediate support on its cash flow

Since the proposal, Officers have been working with LPG to undertake due-diligence on the financial model / business plan and have commenced negotiation of the legal agreement to loan the funds.

2. Key Considerations and Sustainability

Appendix 2 is exempt by virtue of the fact that it relates to the detailed financial due-diligence undertaken by Officers to date, and the proposed Heads of Terms detailing the commercial and legal principle for the proposed investment.

To be able to ensure that this proposal represents a viable and value for money investment for the Council, Officers are undertaking a range of due-diligence work specifically looking at;

- Cash-flow requirements – are they appropriate and adequate;
- Robustness of the financial assumptions;
- Strength of the agreements already signed;
- Enquiries into the Company and directors track record;
- Commerciality of the loan proposal and strength of guarantee;
- Sensitivities (based on the risks below);
- Legal powers that the Council can rely on to enter into the proposed arrangements.

The outcome of this work will be reported to Cabinet verbally at the meeting, and will be contained in the exempt legal and financial reports (which will follow).

The project will deliver a wide range of economic, community and regeneration benefits, many of which will to a greater or lesser extent support the full range of themes contained with Newham's Sustainable Community Strategy.

Economic

LPG estimate that there will be a total of 1000 jobs for the project. Of these, 300 jobs will be for local people, over the life of the project. This equates to circa 75% paid roles, 20% work experience roles and 5% apprenticeships. These jobs would primarily be part time sessional jobs for the duration of the events schedule in bar work, security, stewarding, waste management, gate staff and hotel staff in a variety of roles - equating to between 30/40 full time equivalent jobs. The table in Appendix 3 shows a breakdown of these roles and contractors who have already been introduced to Workplace.

There will be other work related opportunities such as work experience in some of the more specialised, highly skilled areas such as production, art department and LPG will approach Workplace as well as local universities and colleges with their specification for these roles. It should be noted that Workplace would have a limited supply of suitable applicants for these roles. As the project develops from event-based (weekends) in 2012, to Leisure Park (weekends and weekdays) in 2013 and 2014, longer term employment opportunities will become available.

LPG will be required to produce quarterly local jobs and local spend monitoring reports for the Council.

Community benefits are:

- Community engagement process to inform and involve Newham residents in the activities on site including residents blog, regular newsletters, attending established events (such as Newham Show), and providing tours. The LPG has employed a Community Engagement Manager to undertake this work and to oversee Volunteer Co-ordinators managing the volunteering programme.
- Free passes for up to 2000 Britannia Village residents to access the Pleasure Gardens during Games time to be able to be part of the experience and offer an opportunity for knowing and socialising;

- Offering community use of facilities for performances and provide a platform for Newham's most talented artists and building community pride
- Contributing to Healthy Newham through enabling access to the Docks and new open space;
- A test event is planned with feedback and assessment in order to effectively mitigate against disturbance to residents from future events;
- Comprehensive engagement programme of local schools and community groups in the development design and use off the community focused uses of the 'Far Away Tree' arts venue, play area and community garden areas.

Regeneration

- Bring a 60,000m² (40 acres) derelict and vandalised site back into use;
- Act as a pedestrian 'sponge' for people leaving the Excel Centre in Games time and ensure their experience of Newham is of more than standing in a derelict site. The proposal has received full support from LOCOG, RODMA, LDA and the GLA. Letters of support are included in Appendix 4;
- Become a 'test bed' for creative and visitor economy uses that when successful can be imbedded in the new development coming forward on Silvertown Quays and leave a lasting legacy.
- Put Newham well and truly on the international cultural and visitor map, dramatically increasing footfall and demonstrate an unrivalled partnership between enterprise, culture and public sector will.
- Support the Councils regeneration ambitions through demonstrating we are a 'can do' Borough;
- A commitment to environmental sustainability in the management and use of the site;
- Celebrate the heritage of the site and use of the external of the Millennium Mills and Silo D.

3. Service Delivery and Performance Issues

Refer to Section 2 of Part A for full details of how this proposal will improve service delivery and performance.

4. Comments of the Finance Officer

A full financial report is included in exempt Appendix 2. Members must be satisfied that the investment represents value for money and should consider the regeneration and commercial benefits alongside any financial risks.

The initial due diligence carried out on the business plan, using the given assumptions, indicates that there will be a peak cash flow deficit in May of £2,6m but that sufficient income will then be generated to repay the loan in full by September 2012. The proposed investment is to cover this cash flow gap.

Given the initial due diligence, the proposal is not considered to be high risk but Members need to be mindful of the financial and other risks when considering the investment and the value for money. The proposal has been discussed with the external auditor.

Further comments regarding the best and worst case scenario, are set out in Appendix 3.

5. Comments of the Legal Officer

Legal due diligence has commenced and the position immediately before the proposed decision is taken notified to the Mayor in order that he is apprised of the most up to date position as at the time of the decision.

The key legal issues are noted below, and are further detailed in Appendix 3:

- Powers
- State Aid
- Fiduciary Duty/Administrative law principles
- Adequate protection of the Council's interests

Members are specifically asked to refer to Appendix 3 before making their decision.

6. Risk Management

Key identified risks are:

- Possible early termination of the lease;
- Unable to achieve phase 3 planning consent (or number of visitors are required to be reduced)
- Land contamination mitigation is extensive – delay and cost.
- Bridging amount is not sufficient and prevents project from commencing;
- Loan is not able to be repaid – impact on Council budget
- Procurement challenge – specifically from other Meanwhile winners or the organisations not shortlisted;
- State aid challenge;
- Delay in infrastructure works starting on site means that the site is not open for the Olympics – impact on business model and rational for investment;
- Reputational risk for the Council.

7. Consultation

There has been a wide range of consultation undertaken as part of the Meanwhile Competition – of which the London Pleasure Gardens was one of the 4 winning entries.

LPG have also done considerable consultation with local ward members and residents – including leaflets and tours of the site – which has had lead to a high level of support locally. For example, from the 10,413 letters send to the local community for the phase 2 submission only 1 letter of objection was received. LPG has appointed a Community Engagement Manager who will lead both on outreach work and on ensuring that any enquiry is answered swiftly.

The Mayor and Operational Executive have also been consulted on this proposal.