

# Gloucester City Council

<b>Committee</b>	: <b>Cabinet Council</b>
<b>Date</b>	: <b>12<sup>th</sup> January 2012 19<sup>th</sup> January 2012</b>
<b>Subject</b>	: <b>Kings Quarter – Development Agreement</b>
<b>Decision Type</b>	: <b>Executive</b>
<b>Ward</b>	: <b>Westgate</b>
<b>Report By</b>	: <b>Director of Regeneration</b>
<b>No. Of Appendices</b>	: <b>1 – Concept Plan (December 2011) 2 – Plan of King’s Quarter area and Council ownership 3 – Draft Heads of Terms (CONFIDENTIAL)</b>
<b>Reference No.</b>	: <b>PT12012A</b>

## 1.0 Purpose of Report

- 1.1 To update Cabinet / Council on progress to deliver a major retail led regeneration scheme in the King’s Quarter area.
- 1.2 To seek Cabinet / Council decisions on the acceptability of the heads of terms of the Development Agreement that has been negotiated with Stanhope plc in respect of the King’s Quarter regeneration scheme.

## 2.0 Recommendations

- 2.1 Cabinet / Council is recommended to resolve to:
  - A. Approve the Heads of Terms of the draft Development Agreement set out in Appendix 3 (Confidential Document) of the report.
  - B. To authorise the Director of Regeneration, subject to appropriate consultation with the Leader of the Council, to undertake all necessary further detailed negotiations, amendments, approvals and completion of the Development Agreement by 31<sup>st</sup> July 2012.
  - C. Subject to the completion of an appropriate contract (Development Agreement) to instruct officers to publish a Voluntary Ex Ante Transparency Notice (VEAT) in the OJEU, to advise the EU market of the intended award of contract in respect of the King’s Quarter regeneration project.
  - D. That a progress report be made to Cabinet by July 2012.

## 3.0 Background

- 3.1 In February 2009 the Council commenced a procurement process for what is, without doubt, the most significant and highest priority central area regeneration scheme in Gloucester.

- 3.2 The King's Quarter regeneration project is all about elevating and repositioning the city's retail and broader city centre economy, by providing the quantum and quality of right sized retail units. It will create step change in terms of the city's performance in retail destination league tables, reverse long term "leakage" of catchment spend and physically transform a tired part of the city centre around the bus station and King's Square areas. It will not be a stand alone scheme but will consolidate the existing city centre and drive up the vibrancy and vitality of the broader central area.
- 3.3 The OJEU procurement process proved to be complicated and protracted and was conducted in market conditions that were, and remain, weak and challenging. However, the process did culminate in Cabinet's appointment in July 2011 of Stanhope plc as the Council's Developer Partner. Through a 6 month Exclusivity Period, Stanhope had produced an acceptable draft concept scheme together with a financial appraisal which demonstrated a viable and deliverable scheme.
- 3.4 At its 6<sup>th</sup> July 2011 meeting, Cabinet formally resolved to:
- A. Appoint Stanhope plc as the Council's Developer Partner for the development of the King's Quarter regeneration scheme subject strictly to the successful negotiation and completion of an appropriate Development Agreement, to be approved by Full Council, by 31<sup>st</sup> December 2011.*
  - B. Advise Stanhope to begin a full programme of public consultation and engagement.*
  - C. Subject to the successful negotiation and completion of an appropriate contract (Development Agreement) to instruct officers to publish a Voluntary Ex Ante Transparency Notice (VEAT) in the OJEU, to advise the EU market of the intended award of contract in respect of the King's Quarter regeneration project.*
- 3.5 This report principally concerns progress on the Development Agreement (resolution A) and presents the outcome of negotiations for consideration by members. It should be noted that there has been some unavoidable (and agreed) slight slippage from the December 2011 deadline.

#### **4.0 Progress**

- 4.1 Regular project meetings of the Stanhope professional team and the Council's Director of Regeneration and his team of officers have made significant progress since Cabinet's decision in July 2011.
- 4.2 The concept scheme itself has evolved somewhat since July. Although the fundamentals remain the same there has been a need to redesign the parts of the scheme closest to Bruton Way to avoid easements relating to a culverted watercourse. This has resulted in a tighter layout and a much more regular sized public space (a "squarer" square). There has also been considerable work on evolving a workable bus station solution. Overall these changes make for a much improved scheme in my view. A copy of the latest concept plan layout is appended (Appendix 1).

- 4.3 The revised scheme was presented to an invited stakeholder audience on 2<sup>nd</sup> November 2011 at the Guildhall. The reaction from a wide range of business and community representatives was universally positive and supportive. Useful feedback was received on a range of detailed issues.
- 4.4 The commercial negotiations between the City Council and Stanhope have reached agreement, at officer level, on the “Heads of Terms” for the Development Agreement (which will be the formal contract between the two parties).
- 4.5 In essence, the negotiated deal would see the Council putting some 3.606 acres of its land in to the scheme, principally in the form of the existing King’s Square and the bus station, and the Council would grant the developer a long lease of this land. A plan showing the land is attached (Appendix 2). The Council would also undertake to make a capital contribution towards delivering high quality public realm works in the area. The Council’s return from this investment will be in the form of a geared ground rent with an annual guaranteed minimum annual payment. Any “super profit” which is achieved at the end of the development will be shared with the Council on an agreed basis.
- 4.6 A more detailed, strictly confidential, paper is provided for members on green paper. Given its commercial confidentiality it is essential that members treat it accordingly in terms of secure storage, prevention of circulation outside of the council and secure disposal of any unwanted copy.
- 4.7 Your officers and the Council’s appointed external property advisors are of the opinion that this represents the basis of an acceptable commercial arrangement for the council. The geared ground rent model is much preferable to a simple capital sale of the landholdings as it will ensure that the Council maintains an interest in the scheme over the longer term and secures an ongoing revenue stream which should grow over time as the scheme, and Gloucester’s city centre economy, develops and improves its status as a shopping destination.

## **5.0 Future Work**

- 5.1 Subject to Cabinet and Council’s approval of the Heads of Terms future work will involve:
- A programme of public consultation and engagement
  - Development Agreement – detailed drafting and completion.
  - Issue of notice in the Official Journal of the European Union (OJEU) advising of the Council’s intended award of contract.
  - Planning application submission and determination.
  - Compulsory Purchase Order / Inquiry if needed.
  - Scheme delivery and completion.

## **6.0 Conclusions**

- 6.1 King’s Quarter is the most significant and important regeneration scheme for Gloucester. It will regenerate and revitalise the city centre’s shopping core and create a step change in the city’s performance as a shopping and leisure destination. It will generate significant employment and have very significant economic benefits for the city.

- 6.2 Last summer Stanhope presented the Council with a potentially viable and deliverable high quality scheme that, subject to further negotiation and refinement, had very good prospects. Cabinet subsequently appointed Stanhope plc as its Developer Partner on a “subject to contract” basis.
- 6.3 Since that time the scheme design has been evolved and improved.
- 6.4 Negotiations on the commercial arrangements between the developer and the council have made good progress. They have reached a position where officers are satisfied that the key issues of principle have been agreed and that these should now be presented to Council for consideration and ratification.
- 6.5 The “non confidential” summary of the negotiated package is that the council will receive a geared ground rent, based on a percentage of the scheme rent roll, in return for its input of land and a one off contribution to public realm works in the area.
- 6.6 In the interests of transparency and openness, subject to those negotiations being successfully concluded, it would be prudent and sensible to publish a Voluntary Ex Ante Transparency Notice (VEAT) in the Official Journal of the European Union OJEU. Such a notice advises the EU market of the intended award of contract in respect of the King’s Quarter regeneration project.
- 6.7 It is important to note that these are still early days in this development and there is considerable work to be undertaken to deliver this transformational step change scheme for Gloucester. However, Council’s approval of the Heads of Term will represent a very significant milestone.

## **7.0 Financial Implications**

- 7.1 The EU contract criteria for this project include a provision that the council’s existing revenue stream must be at least maintained. The negotiated commercial package fulfils this requirement. Details of the financial package are set out in the confidential Appendix 3 to this report and are described in narrative in paragraph 4.5 of this report.

## **8.0 Legal Implications**

- 8.1 The procurement is being undertaken in line with European Union law. Subject to Council’s approval of the heads of terms the next steps will involve the completion of the Development Agreement which will form the legal contract between the Council and the Developer to deliver the scheme. The detailed terms of the agreement will be commercially confidential.
- 8.2 In the interests of transparency and openness the publication of a notice in the OJEU is recommended before the contract is executed.

## **9.0 Risk Management Implications**

- 9.1 There are no high scoring risks identified associated with the specific recommendations.

9.2 However, there are inevitably risks associated with the progression of such a major and complex project. Subject to Council's approval of the Heads of Terms a formalised Project Management structure will be implemented. This will ensure that all risks are identified, mitigated and managed through the life of the project.

### 10.0 People Impact Assessment (PIA):

Please ensure you complete this section even if a PIA is not required.

Is a PIA required?	Yes	No	Explanation: The decision does not have direct people impacts.
		X	
Has an initial PIA screening been completed?	Yes	No	Explanation: N/A
		X	
Has a full PIA been completed?	Yes	No	Explanation: N/A
		X	
Is the PIA available?	Yes	No	Explanation: N/A
		X	
Has the PIA identified any negative impacts on any protected characteristic or community cohesion?	Yes*	No	*Please ensure PIA is available

#### Any Further Relevant Information:

None.

### 11.0 Other Corporate Implications (this may include Community Safety, Environmental, Staffing, Trade Union)

**Background Papers** : OJEU Contract Notice, Pre-Qualification Questionnaire (PQQ), Invitation to Tender (ITT)

**Published Papers** : As above and Cabinet Report 6<sup>th</sup> July 2011

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