

Gloucester City Council

Meeting:	Cabinet Council	Date:	13 January 2021 28 January 2021
Subject:	Kings Quarter Delivery Proposal		
Report Of:	Leader and Cabinet Member for Environment		
Wards Affected:	Westgate		
Key Decision:	Yes	Budget/Policy Framework:	Yes
Contact Officer:	Philip Ardley, Consultant - Place		
	Email: philip.ardley@gloucester.gov.uk	Tel:	396107
Appendices:	A - Site & plot layout plan B - Development Commercial Business Plan C - Heads of Terms for Development Agreement D - Specialist financial appraisal and cost plan E - Updated Legal summary for compliance and fiduciary duties F - Updated Legal summary for procurement issues		

FOR GENERAL RELEASE (Report and Appendix A)

EXEMPTIONS (Appendices B-F)

The public are likely to be excluded from the meeting during consideration of appendices B to F of this report as they contain exempt information as defined in paragraph (3) of schedule 12A to the Local Government Act 1972 (as amended). All sections of these appendices B to F are considered confidential and commercially sensitive.

1.0 Purpose of Report

- 1.1 To secure approval from Council that they authorise Officers to enter into a legally binding Development Agreement with a partner to deliver Kings Quarter The Forum development in its entirety, following completion of the Exclusivity and Co-Operation Agreement previously approved by Cabinet on 17th June 2020.

2.0 Recommendations

- 2.1 Cabinet **RECOMMEND to COUNCIL** that The Head of Place in consultation with the Leader of the Council and Cabinet Member for Environment, the Head of Policy and Resources and the Council Solicitor is authorised to enter into a Development Agreement with our partner to implement the construction and development of Kings Quarter The Forum in its entirety at an estimated total cost to the Council of £107m, to create a high quality mixed use hub, packed with community features aimed at attracting new companies to Gloucester, based on the latest proposal outlined in this report.

- 2.2 Cabinet **RECOMMEND to COUNCIL to DELEGATE** authority to the Head of Place in consultation with the Council Solicitor to take all necessary steps and undertake necessary procedures, including entering into any legal arrangements or other documentation as may be required to implement or facilitate the Kings Quarter The Forum Redevelopment Scheme.
- 2.3 Cabinet **RECOMMEND to COUNCIL** that the estimated total cost be incorporated into the council's Capital Programme and Treasury Management Strategy.

3.0 Background and Key Issues

- 3.1 This report seeks approval for the continuing delivery of Kings Quarter and directly relates to approvals and the previous updates submitted to Cabinet on the 11th March and 17th June 2020. To recap the primary approval given was:
That the Head of Place in consultation with the Leader of the Council and Cabinet Member for Environment and the Head of Policy and Resources is authorised to enter into a Co-Operation and Exclusivity Agreement to continue to negotiate a joint venture to develop Kings Quarter into a high quality mixed use hub, packed with community features aimed at attracting new companies to Gloucester, based on the latest proposals outlined in this report. Once agreed, officers will bring a final proposal back to Cabinet and Council for approval.
The Co-Operation and Exclusivity Agreement was duly completed, and this is now the proposal report for Council approval.
- 3.2 Both the Joint Core Strategy and the emerging City Plan clearly emphasize that “the primacy of Kings Quarter is fundamental to the delivery of the city centre regeneration and that it will act as a significant catalyst for the City’s transformation bringing considerable positive effects to the local economy”.
- 3.3 The actual delivery of the remainder of the scheme is now crucial, and the appointment of a delivery partner is the key to its success. It was reported in the last update paper that there was considerable occupier interest being generated in Kings Quarter. The Officers and Project Manager are pleased to be able to report that working together with our joint venture partner for Kings Walk, who has an adjoining land interest in Market Parade immediately adjacent to our vacant car park at the rear of Kings House, more detailed proposals have been brought forward for approval.
- 3.4 The scheme is similar to that shown in the Kings Quarter planning permission consented on 3rd March 2020 but increases the office element on plot 4 to cater for the present demand from specialist digital companies favouring this area but not being able to occupy grade A office accommodation as none presently exists in the city centre. The design has also been refined as a result of consultation and to ensure buildability. This increase in city centre offices has been welcomed by employers who are in discussion with our joint venture partner. In addition, the delivery of over 1,000 new jobs in the city centre will vitalise both the lunch time and evening economies, offer opportunities for local employment and assist struggling retailers. This is an essential objective in the City Council's overall strategy for the economic recovery of the city centre as a result of Covid-19.
- 3.5 The immediate first phase to achieve the successful re-location of Tesco and build 19 high quality apartments is located at the rear of Kings House on both the land

owned by the City Council and our joint venture partner. This is plot 3b on the plan included as Appendix A. A detailed planning application for this slightly modified development has been submitted and is presently under consideration. It is anticipated that determination of this application could be made early in January 2021.

This first phase of the development has just been tendered by our partner using the County Council's Framework Agreement and initial results show a small saving on the budget cost plan thereby assisting viability.

- 3.6 The detailed design for the remainder of the scheme together with a planning application to modify the presently consented scheme is being prepared by our partner for imminent submission with determination anticipated in Spring 2021.
- 3.7 The affordable housing for Kings Quarter, comprising some 25 units are to be built separately on plot 1 in Northgate Street which is presently being marketed by a local agent with the expectation that this will be delivered by a registered housing provider.
- 3.8 We have received detailed advice on financial viability and demand issues from specialist consultants and this is included in Appendices B and D. The viability of the whole scheme remains challenging especially in the early years as a result of the current unprecedented circumstances which result in considerable uncertainty for demand from potential tenants. This remains as one of the major risks to the scheme. This development is a very significant investment on the part of the city council largely funded by borrowing. Continuing negotiations with our development partner has resulted in financial concessions and risk mitigation during the construction period to assist cashflow until the income from the various phases is more than sufficient to fund all outgoings. In addition to the extensive regeneration and community benefits of this scheme, considerable long term income will be available to the city council for further regeneration purposes in the future. The city council will own the entire development on completion.
- 3.9 Legal fiduciary, procurement and state aid advice have been obtained from our consultant lawyers Trowers & Hamblins in conjunction with One Legal and the latest updated summaries are included at appendices E and F.
- 3.10 Whilst this is an extremely significant investment it provides a massive opportunity to regenerate the city centre thereby benefitting the Kings Walk shopping centre including many surrounding properties. Together with the enhanced railway station, bus station and refurbished Kings Square a modern and impressive gateway into the city centre will be created as well as creating very significant employment opportunities both in the short and longer term.

4.0 Social Value Considerations

- 4.1 The social value of the Council's plans for Kings Quarter are considerable and the Officers and Project Manager have been working with the Council's Economic Development Team to maximise this impact with involvement from our specialist consultants the Social Value Portal.
- 4.2 The joint development proposals for Kings Quarter expect that over the next 3-4 years an additional 1,000 new job positions could be created in the city centre. Our

joint venture partner is offering to put in place a task force to ensure that a programme to help the local community upskill appropriately is created and the development is fully linked to the new digital access programmes at local Higher Education and Further Education institutions. There have been initial discussions to ensure that the tender process includes clear guidance and expectations for delivering these community benefits, all in accordance with our Social Value Policy.

5.0 Environmental Implications

5.1 The proposal emphasises how sustainable design has underpinned the redevelopment of Kings Quarter. All buildings will be constructed with a design life well beyond the 60-year industry standard, with layouts, utilities infrastructure and floor to ceiling heights future proofed for new technologies and uses. For instance, the design has incorporated a way in which the proposed multi-storey car park can be readily converted to alternative use should our current reliance on the car lessen. We have committed to incorporating features such as cycle storage, car sharing systems, electric charging points and have considered how solar panels and green walls and roofs can technically be included.

6.0 Alternative Options Considered

6.1 The Council Officers have reviewed alternative options to bring forward the redevelopment of Kings Quarter. The options include:

- Solely utilising Public Works Loan Board funding and managing the redevelopment of the site in house using procured contractors for each separate phase.
- Advertising for a development partner and seeking expressions of interest.
- Selling the site on a plot by plot basis with planning consent.

6.2 There are several disadvantages with each of the reviewed options such as: insufficient internal resources and experience, inability to maintain control over an important council regeneration asset, and significant delay in achieving activity on site at a time when action is required to commence building.

7.0 Reasons for Recommendations

7.1 The proposal offered has the potential to provide a high quality and rapid opportunity for the Council to see its regeneration aspirations for Kings Quarter realised. It would potentially create employment space for over 1,000 new employees, which could equate to £102m injected into the local economy each year. Being able to secure that number of new workers into the city centre would not only boost the local spend, but the provision of the 18-hour facilities proposed would extend that spending window from presently only working hours, into the evening and night-time economy.

7.2 Considerable recent negotiations have taken place both to improve the viability and reduce the risks for this scheme thereby strengthening the city council's position with regard to defining the viability within the Development Agreement. At the same time the changes have underlined that the joint venture arrangement accords with market sentiment and practice for such a significant investment.

- 7.3 Officers believe the proposal put forward by the joint venture party is a practical and expedient way forward and recommend that approval is given to enter into the Development Agreement to deliver the proposition at an early date. Extensive due diligence has been undertaken by our external consultants in conjunction with our Head of Policy and Resources, the Head of Place and our Regeneration Consultant to evaluate and negotiate the financial appraisal. Legal opinion has been provided by Trowers & Hamlins for procurement, state aid and to advise on the Development Agreement. The intention is to continue refining the viability and the financial returns and ultimately sign a binding legal agreement for all the phases of this regeneration scheme.
- 7.4 Cabinet have previously approved the in principle use of seeking a Compulsory Purchase Order to ensure “clean” title should negotiations fail to acquire the remaining small land holdings in plots 3c and 3d. Such a CPO will also be available to extinguish any rights that we may not know exist but become apparent during this development.

8.0 Future Work and Conclusions

- 8.1 The Council will continue to require the assistance of the property experts and external lawyers to scrutinise the final Development Agreement and to negotiate the legal contract and act as the expert client during the construction phases.

9.0 Financial Implications

- 9.1 Cabinet and Council approval is required to enter into the Development Agreement which will result in substantial costs for the planning, design and construction elements set out in Appendix D. These costs have been calculated jointly by our own and our partner’s cost consultants and quantity surveyors. The actual construction of the major phases will be procured by open tender and during negotiations our development partner has guaranteed that the construction costs detailed are capped at those shown in the final appraisal. Any savings obtained during the tender process will be apportioned between the parties. The planning and design fees were approved by Cabinet decision on 17th June 2020.
- 9.2 As part of the negotiations, our development partner has agreed to take an over-riding five year lease for the start-up incubator offices either on plot 2 or plot 4 from completion. In addition, guarantees are being provided for five years for the hotel income. Both these are subject to tenant incentives as set out in the cost plan. It is expected that a significant proportion of the offices on plot 4 will be let prior to construction under the test for viability. This ensures early income, avoids the vacant risk and results in these areas being properly managed on behalf of the city council. Our partner has also agreed to fund the substantial architectural design costs leading to a full planning determination and these costs would only be recoverable, if for any reason, the city council cancelled the Development Agreement, in which case they become payable on transfer of all necessary warranties and copyright of the proposals.
- 9.3 Appendix E rightly highlights accounting treatments for capital and investment strategies to accord with MHCLG and CIPFA guidance and our Head of Policy and Resources has had initial discussions and advice from our auditors to ensure compliance in this regard.

- 9.4 The current legal and due diligence costs were budgeted for within the original Kings Quarter approval and can be funded from existing arrangements.

(Financial Services have been consulted in the preparation of this report.)

10.0 Legal Implications

- 10.1 Initial independent specialist legal advice is being provided by Trowers & Hamblins. Our lawyers have also provided advice for the procurement and State Aid issues surrounding this development and a draft summary was previously provided to Cabinet. Updated reports are included at appendices E and F following the very recent announcement from HM Treasury relating to PWLB borrowing. Providing that proper notices are submitted under EU and UK rules at the appropriate times, then Trowers & Hamblins, in consultation with One Legal, believe that any risk of challenge will be minimised, and that risk is presently very low. A Voluntary Transparency notice referred to by the solicitors has been prepared for publication. A summary of the joint venture between our partner and the City Council has been outlined in Appendix C.

(One Legal have been consulted in the preparation of this report.)

11.0 Risk & Opportunity Management Implications

- 11.1 The main risks associated with this proposal are financial. The overall level of funding required to bring forward a development opportunity of this magnitude is considerable. Whilst all due diligence can be applied, investing in property can be particularly difficult to accurately predict.
- 11.2 It is a known fact that development in Gloucester can be financially challenging and whilst the latest independent financial appraisal completed on behalf of the city council for this development shows an improvement on previous assessments, there is still a potential gap between value that can be generated and total development cost especially in the early years. The development costs rarely sustain any initial land value. Therefore, we have explored mechanisms that utilise the potential income generating value of the development. When viewed over a longer-term period, the income generated can support the costs. Obviously, predicting the growth of revenue projections is difficult and there is a risk that they may not grow as predicted. Equally, there is also a possibility of greater returns than anticipated. The Council should take comfort in the fact that a private developer is sufficiently confident that an offer of a joint venture has been made, in which they intend to share in the risk and cost whilst providing some guarantees.
- 11.3 Council officers have sought independent advice to verify the financial appraisals underpinning this offer in order to mitigate future risk. Because of the significant technological survey work and planning consent process undertaken by the city council directly, it is in a good position to verify the projected development costs. The risk of further abnormal costs and complications have already been minimised by capping the construction cost. Further conditions can also be applied as part of the legal agreement to limit the financial and programme risks to the Council.

11.4 Other significant risks are outlined in appendices E and F and include fiduciary and compliance issues which are being carefully monitored and managed with considerable input from our lawyers and consultants. The relevant notices are being issued at appropriate times and any responses will receive due regard.

12.0 People Impact Assessment (PIA) and Safeguarding:

12.1 At present there are no adverse impacts identified for any of the Protected Characteristic Groups. As the regeneration of Kings Quarter progresses, the design process has been carefully devised to ensure maximum community engagement with a focus on achieving engagement with disabled and other minority groups. Further Impact Assessments will be considered as part of the development process where relevant.

13.0 Community Safety Implications

13.1 There are believed to be limited community safety implications at this stage. Any agreement to proceed with this proposal will involve construction taking place within a busy part of the city centre. During construction periods the contractors will be legally obliged to ensure the health and safety of not just their staff but also the local community.

13.2 The final design of the development will need to be agreed via the normal planning mechanisms and this is providing an opportunity for further scrutiny by key stakeholders such as police, counter terrorism teams, and the Fire Service.

14.0 Staffing & Trade Union Implications

14.1 There are no staffing and trade union implications at this stage.

Background Documents: None