

Appendix 8

Station Approach - Cabinet 28 August 2019

Matters raised by Scrutiny Committee 14/8/2019

This appendix summarises key issues raised at the Scrutiny Committee and gives more information relating to those matters.

Specific comment was put forward by Cllr Tod and supported in general by the committee:

In addition to the other comments made, that Cabinet is further requested to specifically consider the following issues:

- Putting in place a realistic schedule and timing for spending LEP funding that manages the risk of repayment in the event of development problems and the possibility that LEP funding can be suspended by the Government at any time
- As well as defining desired outcomes, setting clear 'go / no-go' red-line criteria as a checkpoint in the developer selection process – including a clear reserve value and a robust process for managing design changes – including legal preconditions and other options to protect the council's interests
- Finding ways to adjust the marketing timing for the project, if necessary, to reflect the likely high levels of uncertainty in the Commercial Property market in November/December 2019 and early 2020."

To assist cabinet, commentary on these proposals is set out in the report and in the paragraphs below

Ref	Issue raised	Comment
1	How the EM3LEP grant spend profile can be understood and managed to reduce the council's risk of payback	<p>The LEP offers grant money on standard conditions as set out in the Heads of Terms. Points of clarification were sought by the Committee such as the likely risk of payback and this has been clarified with the EM3 LEP as set out below</p> <p>The £5m grant approved for the Station Approach project in Winchester is significant consisting of c £1million for a archaeological investigation and c £4million for public realm work. This award has been subject to rigorous due diligence by the EM3 LEP who remain committed to the scheme due to its strong economic benefits and increased focus on clean growth.</p> <p>It is a condition of the LEP grant draft agreement that the grant monies of £5m are spent by 31 March 2021 at the latest and that the whole project is completed by 31 March 2023. The draft agreement contains provision for the project completion date to be extended by agreement between the parties acting reasonably. The LEP have given assurance that, provided sufficient progress is being made against the milestones, then the LEP will not arbitrarily recall the funding if there is some justifiable overrun. The site preparation and public realm works (and therefore the spend of the LEP grant) will be completed in advance of the office development, and the LEP require spend of that money by end March 2021. The council will look to secure flexibility in respect of the project end date under the terms of the grant agreement as much as possible to mitigate risk of grant claw back.</p>

		<p>The table below sets out a projection of milestones and estimated payment timings and amounts. The council will need to be mindful of the progression of the site sale process whilst meeting the LEP spend deadline.</p> <p>The council will also endeavor to pass as much of this potential claw-back risk down to the contractors and professional team responsible for this work being carried out (under their duties of care). In addition, the Council will seek to pass the onto the buyer of the site. However it should be borne in mind that these parties will, in the usual way, seek to cap their liability (both generally and probably in this limited respect of claw back).</p> <p>Overall, the selection of the right developer, and their track record and assurance of delivery, will be an important element towards mitigating this risk.</p>
2	Control of development quality and timing through a leasehold disposal	<p>The sale process for the site will involve testing the track record of bidders, and will be on terms which given the purchasers obligations to meet long dates and adhere to planning requirements which include an outline planning permission. As the sale process will be a land transaction, it will not be possible to specify the works (i.e. define and control the design). However, through the terms of the lease, it will be possible to retain a degree of influence and an ability to ensure that a quality development is delivered. This will include an ability to consider and respond to design changes put forward by the developer. The main determining factor will be the planning process, including outline planning permission, and various means that will regulate the development.</p>
3	How do we achieve best consideration / best value, in particular as they relate to the gross costs of the scheme so far	<p>Under section 123 of the Local Government Act 1972, a local authority has the power to dispose of land with the caveat that an authority must not do so for a consideration less than the best that can be reasonably obtained i.e. the best achievable price in the open market. If the Council can demonstrate that value is being received in other ways that justify the monies foregone to the public purse it may dispose of land at less than best consideration with the consent of the Secretary of State for Housing, Communities and Local Government.</p> <p>The sale process will result in competitive tension between bidders and therefore an assurance that best consideration is being achieved.</p> <p>The gross revenue and capital costs of the scheme see 7 below.</p>
4	The risks of marketing the site in the current uncertain economic climate, in particular relating to Brexit situation	<p>There are potential risks associated with marketing the site in the current economic climate (Brexit) which include:</p> <ul style="list-style-type: none"> • Developer interest • Occupier interest <p>These should be monitored. However, despite these potential risks, advice is that these risks are not significant in relation to the marketing of Station Approach. Due to the medium-term nature of development, developers are well versed in looking beyond current micro and macro-economic environments. The occupational demand for the developed scheme is deemed to be strong despite the current economic climate. This coupled with the very limited supply of high-quality new build space means that the economic fundamentals underpinning development are good. The more general current economic uncertainty will be a factor in the sale, but prospective purchasers will have taken a medium to long-term view of the opportunity. Overall therefore, no advantage is gained by delaying the date until market conditions are seen to be “right”, both due to the LEP funding position, and because there is no obvious prospect of the current uncertainties lifting, This is to be judged against the known market interest, which will have been based on informed judgements.</p>

5	Disposal decision making criteria including legal pre-conditions and other options to protect the council's interests	<p>Cabinet will determine the disposal process at its meeting on 18th September 2019. As part of devising this process consideration will be given as to the appropriate disposal methodology and parameters that should be set.</p> <p>It is anticipated that Cabinet will consider disposal options for the site in early 2020 following the conclusion of the agreed disposal process.</p> <p>The sale particulars will reference the criteria by which the successful purchaser is to be selected. These will be a mix of price and quality factors. Whilst price will focus on the lease premium and rent to be paid, the quality factors will pay attention to factors such as the bidder's approach to design and delivery, access to funding, and marketing approach (to secure tenants /occupiers). The tender invitation will not specify detailed design, but will reference work carried out to date, and point to the overall design philosophy and planning context, Bidders will be encouraged to innovate within that framework. The tender process will be on terms which enable to Council to delay or (if necessary) cancel the process. The criteria may include minimum requirements, as to land value or other factors.</p> <p>The selected purchaser will enter into an agreement for lease containing pre-conditions which will need to be satisfied in order for the lease to be granted; these pre-conditions will be subject to deadlines (i.e. long stop dates).</p>
6	Concern expressed that planning permission is a "fait accompli"	<p>The report makes it clear in recommendations 11 and 12 that the decision on site disposal is subject to planning permission. The further Cabinet report on the disposal approach will be considered after the scheduled planning committee where the application will be determined.</p> <p>As landowner, concerns raised during the planning consultation process have been noted and amendments made to the planning application accordingly. The regional design panel has met with a short commentary of key issues highlighted in this report but their considerations will be available for consideration by the Planning Committee.</p>

7	Clarification of estimated total cost incurred at point of sale	<p>Total anticipated cost of Station Approach project to point of sale: £5,174,728 (includes cost of site, excludes previous procurement process which was £319,288).</p> <p>Budget updated: as at 19 August 2018</p> <table border="1" data-bbox="384 376 1401 1099"> <thead> <tr> <th data-bbox="384 387 603 427">Budget</th> <th data-bbox="603 387 1182 427">Report on spend for Carfax and Public Realm</th> <th data-bbox="1182 387 1401 427">Amount</th> </tr> </thead> <tbody> <tr> <td data-bbox="384 443 603 483">Site acquisition</td> <td data-bbox="603 443 1182 483">Purchase of site</td> <td data-bbox="1182 443 1401 483">£2,463,000</td> </tr> <tr> <td data-bbox="384 499 603 539">Carfax Revenue</td> <td data-bbox="603 499 1182 539">Spend to date</td> <td data-bbox="1182 499 1401 539">£1,297,867</td> </tr> <tr> <td data-bbox="384 555 603 595">Carfax Revenue</td> <td data-bbox="603 555 1182 595">Commitments and planned</td> <td data-bbox="1182 555 1401 595">£234,783</td> </tr> <tr> <td data-bbox="384 611 603 651">Carfax Capital</td> <td data-bbox="603 611 1182 651">Spend to date</td> <td data-bbox="1182 611 1401 651">£321,234</td> </tr> <tr> <td data-bbox="384 667 603 707">Carfax Revenue</td> <td data-bbox="603 667 1182 707">Planned expenditure to sale</td> <td data-bbox="1182 667 1401 707">£220,000</td> </tr> <tr> <td colspan="2" data-bbox="384 723 1182 763">Total Carfax</td> <td data-bbox="1182 723 1401 763">£4,536,884</td> </tr> <tr> <td data-bbox="384 779 603 837">Public Realm Revenue</td> <td data-bbox="603 779 1182 837">Spend to date</td> <td data-bbox="1182 779 1401 837">£208,119</td> </tr> <tr> <td data-bbox="384 846 603 904">Public Realm Revenue</td> <td data-bbox="603 846 1182 904">Commitments and planned</td> <td data-bbox="1182 846 1401 904">£42,225</td> </tr> <tr> <td data-bbox="384 913 603 972">Public Realm</td> <td data-bbox="603 913 1182 972">Planned expenditure to sale (taken as end RIBA stage 4 for PR and half of stage 5)</td> <td data-bbox="1182 913 1401 972">£387,500</td> </tr> <tr> <td colspan="2" data-bbox="384 981 1182 1039">Total Public Realm</td> <td data-bbox="1182 981 1401 1039">£637,844</td> </tr> <tr> <td colspan="2" data-bbox="603 1048 1182 1088">Total estimated spend</td> <td data-bbox="1182 1048 1401 1088">£5,174,728</td> </tr> </tbody> </table>	Budget	Report on spend for Carfax and Public Realm	Amount	Site acquisition	Purchase of site	£2,463,000	Carfax Revenue	Spend to date	£1,297,867	Carfax Revenue	Commitments and planned	£234,783	Carfax Capital	Spend to date	£321,234	Carfax Revenue	Planned expenditure to sale	£220,000	Total Carfax		£4,536,884	Public Realm Revenue	Spend to date	£208,119	Public Realm Revenue	Commitments and planned	£42,225	Public Realm	Planned expenditure to sale (taken as end RIBA stage 4 for PR and half of stage 5)	£387,500	Total Public Realm		£637,844	Total estimated spend		£5,174,728
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8	Details on risk mitigation	Full risk register is included as Appendix 9 of this cabinet report																																				

Estimated timeline of key project stages and indicative estimated LEP grant funding spend

Project Stage/ Key Milestone	Indicative Date	Estimated spend	Budget source	
Spend Aug 2016 - Aug 2019**		£4,290,220	Budget already allocated	
On-going Commitments	Autumn 2019	£277,008	Carfax and Public Realm Revenue	
Marketing , evaluation and agreeing contracts	Aug 2019 – Mar 2020	£220,000	Carfax Revenue	
Public realm Stage 4	Oct 2019 – Mar 2020	£215,000	LEP	
Public realm Stage 5 up to sale	Jan – Mar 2020	£172,500	LEP	
Post-disposal expenditure				
Commencement of Carfax enabling works	May 2020 – Oct 2020	£1,000,000	LEP	
Public realm Stage 5 – after point of sale Public Realm Main works contract preparation and tender process	Apr 2020 – Jun 2020	£172,500	LEP	
Public Realm Advanced works (site prep) and construction	Mar 2020 – Mar 2021	£3,058,826	LEP	
Public Realm post construction (defects, landscape establishment)	April 2021 onwards	£381,174	LEP	

**Spend on site acquisition, procurement, design stages to date, Outline Business Case, and outline planning application