

Report to: Cabinet

Date: 2nd July 2018

Title: North Street Quarter

Report of: Ian Fitzpatrick, Director of Regeneration and Planning

Cabinet member: Councillor Andy Smith (Leader of the Council, Cabinet Member for Regeneration and Business) and Councillor Bill Giles (Cabinet Member for Finance)

Ward(s): Lewes Bridge, Lewes Castle and Lewes Priory

Purpose of report: To seek approval from Cabinet on matters relating to: the acquisition of assets from the NSQ scheme; the development of, and capital allocation for, a temporary car park at the site; the disposal of Council property assets, and applications to amend the existing Traffic Regulation Orders (TROs).

Decision type: Key Decision

Officer recommendation(s):

- (1) To delegate authority to the Director of Regeneration and Planning, in consultation with the Deputy Chief Executive, Leader of the Council and Strategic Property Board, to purchase the Health Hub and Car Park from the North Street Quarter scheme, subject to a satisfactory business case and agreeing a purchase price with joint landowner, NSQ Ltd., in respect of both assets.**
- (2) To delegate authority to the Director of Regeneration and Planning, in consultation with the Deputy Chief Executive and Cabinet Member for Finance, to authorise the development of a temporary car park at the site of North Street, and to take all and any steps necessary to facilitate implementation of such development.**
- (3) To make an allocation of £700,000 for the development of the temporary car park within the 2018/19 capital programme.**
- (4) To delegate authority to the Director of Regeneration and Planning, in consultation with East Sussex Country Council, to seek amendments to the existing off-street and on-street Traffic Regulation Orders (TROs) which are necessary to implement the permitted North Street Quarter development.**

- (5) To delegate authority to the Director of Regeneration and Planning, in consultation with the Strategic Property Board, to dispose of Council property assets in lieu of part of a cash compensation payment for third party land interests at the NSQ, subject to an independent valuation and this being the most economically advantageous scenario for the Council. Such disposal to be made without the need for auction or the invitation of tenders or expressions of interest following appropriate public advertisement.**
- (6) To note progress on the acquisition of third party land interests at the NSQ and the intention to appoint specialist advisors to prepare the case for a CPO. The decision to make the CPO, should one be needed, will be the subject of a separate report to Cabinet.**

Reasons for recommendations:

- 1. To progress delivery of the strategically significant North Street Quarter (NSQ) development in Lewes. The NSQ is a £180m mixed use brownfield site that will deliver the following regeneration benefits to the area:**
 - 416 new homes, of which 40% will be affordable,**
 - 140,000 sq. ft. of new commercial space, including subsidised creative workspace**
 - 475 full time jobs,**
 - 100 full time construction jobs,**
 - a new modern health centre serving in excess of 26,000 patients,**
 - strategically important flood defences, completing the defence of Lewes,**
 - a new riverside promenade, new footbridge, extensive new cycle paths and footpaths, and**
 - a public square hosting contemporary eateries and riverside dining.**
- 2. To ensure that the Council maximises return on its investment into the NSQ scheme, while at the same time minimising any risks involved in delivery and potential financing.**

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1.0 Introduction

- 1.1 The North Street Quarter (NSQ) landowners continue to negotiate the final outstanding legal points in the draft Land Collaboration Agreement (LCA). The LCA will set out the framework within which the two parties will work together to deliver the three phases of the NSQ development. It includes governance arrangements, the duties and mutual obligations of the landowners and a**

framework for agreeing such matters as disposals, sales proceeds and equalisation.

- 1.2 At its meeting on 27th September 2017, Cabinet approved an option to appoint Artisan as development partner for Phase 1 of the NSQ scheme, subject to due diligence. If Artisan were not appointed, then the landowners would go to the market to secure a developer for all three phases. It has been confirmed that Artisan no longer wishes to be considered for the role of Phase 1 developer. Artisan has recently secured a large mixed use scheme in another UK city and this, coupled with pressing commitments on their other active development projects, has meant that they no longer feel that they have sufficient resources to be able to fully pursue their interest in Phase 1 of the NSQ. Once the LCA has been agreed therefore, the NSQ landowners will go to the market to secure a developer for the scheme this year.
- 1.3 This report seeks delegated authority for the Council to acquire the Health Hub and Car Park from the North Street Quarter scheme, subject to a satisfactory business case and agreed purchase price in each case. It requests approval, and budget, for the design and development of a temporary car park at the NSQ, and authority to progress applications for the amendments to Traffic Regulation Orders needed to deliver the scheme. Authority is also sought for the disposal of Council assets in lieu of a proportion of any cash compensation payment to secure third party land interests at the NSQ site.
- 1.4 The report also provides Cabinet with an update on the Land Collaboration Agreement being negotiated by the two landowners, and other work relating to the NSQ scheme.
- 1.5 The recommendations contained in this report have been tabled at a meeting of the North Street Quarter Members' Oversight Board.

2.0 Proposal

Purchase of assets from the NSQ scheme – Health Hub and Car Park

- 2.1 At its meeting of 26th June 2017, Cabinet delegated authority to the Director of Regeneration and Planning, in consultation with the Deputy Chief Executive, Leader of the Council and Cabinet Member for Finance, to identify the income generating assets that the Council would wish to secure from the NSQ scheme. The Council subsequently identified that, pending approval from Cabinet, it wished to consider taking ownership of the Health Hub and Car Park.
- 2.2 The Council is currently working with its financial and commercial advisors, GVA consultants, to develop the business case for the purchase of the Health Hub and Car Park and to negotiate purchase prices with NSQ Ltd. An independent valuation of the Health Hub was commissioned by the Council to inform this work. Key parameters, including values, anticipated rents and yields in respect of each asset, are contained in the purchase briefing by GVA consultants (attached as Appendix 1). Subject to a satisfactory business case in respect of each asset and agreeing purchase prices, Cabinet is requested to delegate authority for the Council to secure one or both of these assets from the NSQ scheme. The acquisition of the Health Hub and car park is to be on terms commensurate with those identified in Appendix 1 and that meet the

expectations set out in the Council's Property Acquisition and Investment Strategy. In respect of the Health Hub, the Council will not agree the purchase until it has entered into an Agreement for Lease with each of the prospective occupiers identified in Appendix 1.

- 2.3 The purchase of the Health Hub and Car Park would be separate valued transactions outside of the equalisation and final distribution of proceeds from the scheme. Their acquisition would meet the Council's objective of securing an ongoing revenue stream from the NSQ scheme, and delivering medium to long term investment returns to support the financial resilience and independence of the authority. In the case of the Health Hub, it will also ensure that an integrated model of health and social care services is delivered within the new facility. There will be a cost to the Council associated with the contract to manage the Health Hub and this will need to be recovered as part of an ongoing service charge.
- 2.4 The Council has worked with the High Weald Lewes Havens Clinical Commissioning Group and prospective tenants of the Health Hub to understand requirements in terms of the new premises. In January 2018, the Council appointed specialist health sector architects to work with the prospective tenants on the detailed design of spaces inside the Hub in order to ensure that its construction meets their stringent requirements. The Council's Regeneration Team was successful in securing £150,000 from the One Public Estate programme for the costs of this work. The designs have now been prepared and the Council is in the process of securing pre-lets for the new facility.

Temporary public car parking during Phase 1 construction

- 2.5 The public car parks on the NSQ site: Spring Gardens and Brook Street, along with the temporary public car park at Corporation Wharf, will close as part of the Phase 1 construction of the NSQ scheme. There is a need to provide alternative public car parking until the new NSQ car park is completed at the end of this phase.
- 2.6 The Council has recently been granted prior approval by the South Downs Park Planning Authority (SDNPA) to demolish buildings that it owns on North Street. The Council will carry out the early demolition of vacant buildings on North Street because of concerns that, due to the presence of asbestos and the poor condition of some of the buildings, they pose a health and safety risk to anyone entering the site. Demolition of these buildings will not constitute implementation of the planning permission granted for the NSQ scheme. Permission has been granted for the demolition of 20 to 25 North Street. Demolition of 20 to 24 North Street will begin as soon as a contractor has been procured. 25 North Street is currently tenanted and will be demolished at a later date.
- 2.7 The Council is currently preparing a planning application to create a temporary public car park on the site of 20 to 25 North Street. It is intended that this car park will be operational by the time the existing public car parks at North Street Quarter site are closed. A total of 220 existing off-street and on-street public parking spaces will be lost during construction of the NSQ scheme. The temporary car park would create 260 public car parking spaces. In 2017/2018, net income from the 130 spaces at the Council's Brook Street and Spring

Gardens public car parks (which will close during Phase 1 construction) was £66,840.

- 2.8 Prior to preparing the planning application, the Council carried out feasibility on a temporary car park at North Street including operating costs and projected annual income. Based on the operating hours of other Council car parks which operate six days a week, excluding bank holidays, and applying a flat fee of £2.50 for up to 8 hours parking, the 260 space temporary car park would provide an estimated net annual income of £123,906 (assuming 75% occupancy). Costs will be incurred in operating the temporary car park including business rates, a management fee payable to East Sussex County Council for parking enforcement, maintenance, cleaning and electrical supplies. It is assumed that the operational cost for the temporary car park will be the same as that for those that it will replace, but that will be kept under review as the project proceeds.
- 2.9 The Council has also secured an independent cost estimate for the construction of the temporary car park which includes a temporary surface treatment, lighting and signage. Cabinet is asked to approve its development, and a budget allocation of £700,000 from the Capital programme for its construction. It should be noted that the Council do not expect to recover the full costs of developing the temporary car park during the life of its operation. The car park will be progressed as soon as a development partner for the NSQ scheme has been appointed and the construction programme, including timings of the closure of existing public car parks at the NSQ site, is available.

Amendments to Traffic Regulation Orders

- 2.10 The NSQ development, which has been granted planning permission by the planning authority (SDNPA), requires amendments to the Traffic Regulations Orders (TROs) in order to implement the permitted scheme. This includes the closure of existing public car parks at the NSQ site and creation of the new NSQ car park in phase 1. Cabinet approval is sought for the Council to prepare and submit applications to amend the existing off-street and on-street TROs, on behalf of the NSQ landowners, as necessary to deliver the NSQ scheme. The cost of preparing and submitting these applications will be a cost to the scheme.

Acquisition of third party land

- 2.11 The Council is in the process of securing outstanding land interests at the NSQ. It has appointed an independent agent to progress acquisition of third party interests. Cabinet is asked to approve the purchase of a key land interest based on the valuation (Red Book) prepared by its independent advisors and contained in Appendix 2. Cabinet is also asked to approve the disposal of Council freehold interests (identified in Appendix 2) in lieu of a proportion of any cash compensation payment.
- 2.12 Work on the design of the new blue light facility at Springman House is progressing well, led by the Council's appointed architects. The architects continue to engage with the end users of the facility (East Sussex Fire and Rescue Service (ESFRS), Sussex Police and South East Coast Ambulance Service) to ensure that it meets their operational requirements. Alongside the design work, work has started on the legal agreements that will see the transfer

ESFRC's existing land at the NSQ site to the Council to enable the delivery of the NSQ scheme.

- 2.13 LDC is continuing discussion with Lewes Town Council in respect of the Town Council land that is included for Phase 3 of the scheme. If the Town Council land cannot be secured, the landowners will seek to amend the outline permission to exclude this area from Phase 3 of the development.
- 2.14 NSQ Ltd. has advised that the new premises for John Gosnell and Company, who currently occupy a site at the NSQ, will be ready for occupation by September 2018.

Compulsory Purchase

- 2.15 Compulsory purchase is a measure of last resort and may only be exercised where there is a compelling case in the public interest. Before making a compulsory purchase order (CPO), the Council must demonstrate that it has taken reasonable steps to acquire all of the land and rights included in the Order by agreement. At its meeting of 30th September 2013, Cabinet agreed to consider the use of the Council's CPO powers in the event that this is necessary to achieve land assembly at the NSQ. This may take the form of buying out leases on sites where LDC owns the freehold, buying sites within the development area that do not belong to one of the partners, or clearing title on land. The Council will appoint specialist advisors to prepare its case for CPO. The decision to make the CPO would be the subject of a separate report to Cabinet.

Marketing the scheme

- 2.16 Alongside work on the LCA, the substantial 'package' of information needed for the marketing exercise is currently being prepared by the NSQ landowners. The agreed Heads of Terms of the LCA state that: *The appointment of a development partner shall be agreed between the parties by way of a procurement scoring system.* The Council and NSQ Ltd have agreed an evaluation framework upon which to assess proposals.

Planning conditions

- 2.17 The consultant team appointed by NSQ Ltd. has prepared and submitted applications to the planning authority (SDNPA) for the discharge of the Phase 1 pre-commencement planning conditions. It is anticipated that the applications will be discharged by September 2018. During the course of preparing the applications for discharge, the views of local residents and community groups have been represented through the North Street Quarter Sounding Board, Landscape & Play Working Group and Design Working Group.

3.0 Outcome expected and performance management

- 3.1 The NSQ landowners continue to work towards delivery of the scheme. The scheme will realise the outcomes set out in the 'Reasons for Recommendations' above. Performance of the NSQ project is monitored via the Council's corporate project monitoring programme, with additional oversight carried out by a dedicated NSQ Members Board.

4.0 Consultation

- 4.1 Public consultation has taken place during the planning application stages of the North Street Quarter scheme, and at subsequent points during its detailed development, for example the public events that took place in 2017 to gather views on the proposed improvements to the Pells and Mallings Recreation areas. The views of local residents and community groups have been also represented through the North Street Quarter Sounding Board, Landscape & Play Working Group and Design Working Group.

5.0 Corporate plan and council policies

- 5.1 Policy SP3 of the Lewes District Local Plan: Part 1 Joint Core Strategy 2010-2030 calls for the comprehensive regeneration of the North Street site (an important gateway to the town). The NSQ site is a strategic allocation in the Council's Joint Core Strategy and constitutes a significant proportion of its housing target.

6.0 Business case and alternative option(s) considered

- 6.1 At its meeting of 7th January 2016, Cabinet approved Heads of Terms of the Land Collaboration (joint venture) Agreement with the NSQ majority landowner (NSQ Ltd.). Cabinet also authorised officers to negotiate and execute the agreement. A full business case for the NSQ scheme has been drafted and will form part of the Land Collaboration Agreement between the two landowners.

7 Financial appraisal

- 7.1 The financial implications of the purchase of the Heath Hub and Car Park are explained in Appendix 1. The purchase will be subject to a satisfactory business case which demonstrates that a long-term, sustainable net income stream will be generated to support the Council's overall General Fund budget position, after allowing for the annual costs which will be associated directly with these facilities as well as the cost of servicing and repaying the borrowing which will be required to fund the acquisition.

The recurring financial implications of the temporary car park are explained in paragraph 2.8. It is proposed to finance the cost of constructing the car park and bringing it into use from capital receipts which will use the balance of monies remaining following completion of the sale of land at the rear of Lewes House in May 2015.

8 Legal implications

- 8.1 Advice has been given in earlier reports relating to the North Street Quarter. The recommendations in this report cover new legal issues:
- a) Purchase of Health Hub and Car Park from the North Street Quarter scheme (recommendation (1))
- Officers will carry out appropriate due diligence to ensure that the Council secures a marketable legal title to the land.

b) Disposal of Council property assets (recommendation (5))

- The Council cannot dispose of land held in the general fund for a consideration less than the best that can be reasonably obtained in the market, except with the consent of the Secretary of State. Disposal includes freehold and leasehold sales. An independent valuation will be sought to ensure that best consideration is being secured.
- When disposing of any land or interest in land the Council must ensure that it does so in accordance with State aid rules. The European Commission's Communication on the Sale of Land sets out an automatic assumption that no State aid is present in a sale of land and buildings provided its terms are followed. This includes the sale of land for "market value" through an expert valuation. An independent valuation will be sought to ensure that market value is being secured.
- The Council's CPRs say that no sale of land where the value exceeds £50,000 or £25,000 if amenity land shall be made except after auction or the invitation of tenders or expressions of interest following appropriate public advertisement, unless authorised by Cabinet. Recommendation (5) provides for disposal without the need for auction or the invitation of tenders or expressions of interest following appropriate public advertisement.

8.2 The September 2013 resolution of Cabinet authorised preparatory work for the use of the Council's CPO powers. This report asks Cabinet to note progress to date and confirms that the decision to make the CPO, should one be needed, will be subject to a separate report to Cabinet.

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9 Risk management implications

9.1 Acquisition of the Health Hub and Car Park would serve to diversify the Council's investment property portfolio and will help to mitigate the risk of occupational void periods, and default on rent payment, by securing long-term leases from tenants with a strong covenant.

Purchase of these assets from the scheme will be subject to ongoing advice from the Council's financial and commercial advisors. It will be dependent on a clear business case, which is in line with the Council's corporate investment strategy, and securing Agreements to Lease with prospective tenants. There is a risk that the Health Hub, under third party ownership, would fail to deliver the model of community health and social care anticipated. Council ownership, and the Council's ongoing work with local providers, will reduce this risk.

The closure of public car parks and loss of 220 public car parking spaces during Phase 1 construction poses a risk to the local economy. The development of temporary public car parking during this phase will mitigate this risk.

The Council is working with partners to deliver this complex development. Officers continue to engage with the Council's legal, commercial and financial advisors to minimise the risks to the Council at this stage of the project. The LCA will establish the terms on which the Council will proceed.

10 Equality analysis

- 10.1 An Equality and Fairness Analysis for the scheme was undertaken in April 2014. This was updated in September 2017. Since this time, there have been no changes to the scheme and so no further analysis is required. A copy of the analysis is available on request from report author.

11 Appendices

- **Exempt** Appendix 1 – Purchase briefing by GVA consultants
- **Exempt** Appendix 2 – Proposed purchase of third party land interest and disposal of Council assets

The appendices to this report contain exempt information as defined in Schedule 12A of the Local Government Act 1972.

Appendices 1 and 2 – contain commercially sensitive Information relating to the business affairs of the Council.

The public interest in maintaining the exemption outweighs the public interest in disclosing the information.