

**Canal Corridor North
11 April 2018**

Report of Portfolio Holder for Regeneration and Planning

PURPOSE OF REPORT

To update Council on the outcome of detailed due diligence work for the Canal Corridor North scheme and discussions with British Land; and to provide outline information for an alternative approach to the site that addresses the key constraints of the current scheme.

This report is public.

RECOMMENDATIONS:

That Council

- (1) Notes that, following detailed due diligence work and discussions with British Land, there is no viable option for the current Canal Corridor North scheme that can be recommended to Council for support.**
- (2) Notes that, as a consequence of 1 above, the current Development Agreement with British Land will be terminated.**
- (3) Instructs the Chief Executive to develop a new development and financial framework for the Canal Quarter based on the key principles set out in paragraph 2.3 of this report.**
- (4) As a consequence of (3) above, instructs the Chief Executive to undertake negotiations and due diligence with British Land for their land and property holdings in the Canal Quarter.**
- (5) Authorises the use of the Canal Corridor North Reserve to fund any reasonable costs arising from this phase of project development work.**
- (6) Notes that Cabinet is responsible for overseeing production of the new draft development and financial framework which shall be reported to councillors when it is complete.**
- (7) Instructs that, in addition to ongoing key stakeholder engagement, the draft development and financial framework includes a detailed plan for public engagement in line with community consultation best standards with the aim of obtaining wide public participation in plans for the Canal Quarter moving forward.**

1 INTRODUCTION

1.1 At its meeting on 31 October 2017 Council considered and approved an update report on the Canal Corridor North (CCN) project (minute 23 refers). More specifically, Council:

- supported the scheme's overall concept as representing an appropriate development solution for the site;
- approved in principle various financial 'asks' from key partners; and
- approved in principle its willingness to invest capital in the scheme to help achieve an affordable and financially sustainable outcome from the City Council's perspective.

1.2 Amongst other matters, officers were authorised to negotiate further with British Land (BL) and other key partners, and to report back on the outcome with a view to presenting Heads of Terms for Council's consideration. This report sets out the outcome of those negotiations.

1.3 Recap: Key aspects of the scheme proposals

1.4 As reported to Council in October, the key elements of the scheme provided for:

- a retail/food and beverage development with some 250,000 sq ft of high street comparison retail floorspace and 70,000 sq ft of food and drink retail incorporating one anchor (high street comparison retail) store;
- an 82 bedroom hotel;
- a new student village of around 1,000 units of student accommodation;
- an underground car park with 786 spaces; and
- a new "arts hub" building which could house the Dukes, Ludus Dance and other arts organisations.

1.5 The indicative overall cost of the scheme (excluding the student village development, to be financed by the University directly) was estimated in the region of £180M. Of this amount, external funding of £15M was to be sought.

1.6 The net investment requirement for the scheme was estimated at £125M, of which £100M was to be covered by BL, with the Council agreeing, in principle, to invest £25M.

1.7 Alongside the opportunities, the report outlined various strategic, operational and financial risks associated with the scheme and its funding strategy. To help mitigate those risks, various measures were identified as reflected in the resolutions from the Council meeting. These included:

- identifying the optimum solution regarding the development boundary for the scheme, and the extent to which the Council's assets should be included;

- identifying the most cost-effective car-parking design solution to meet expected capacity needs and to improve financial viability for the Council in the context of wider car parking and transport strategy;
- identifying the most appropriate arts hub offer, design solution and operating model with the aim of the facility as a whole being financially viable (i.e. to negate the need for ongoing revenue support in the medium to longer term), in context of the wider cultural offer in the district;
- developing any further capital financing options (based on PWLB borrowing) to enable the Council to take a longer term stake in the car park and/or the arts hub, if appropriate in support of the above; and
- developing the most appropriate governance structures for delivering the project, whilst protecting the Council's interests.

1.8 Summary of actions and negotiations since October

- 1.9 Various work streams were established and progressed with the aim of establishing a financially viable scheme that would be acceptable to the key parties. This was in light of the funding/viability gap that would arise, should external grant funding not be forthcoming.
- 1.10 The work streams included exploring many options regarding scheme layout and content, in keeping with the overall approved concept. Despite the work undertaken, it has not proved possible to identify any design solutions that would address (or help substantially with) the external grant funding risks attached to the scheme.
- 1.11 A draft funding strategy was also being developed, through which the three key parties would seek to work collaboratively, with the aim of addressing the external grant funding challenges. Whilst various potential sources of funding were identified, it has not proved possible to establish any firm openings through which funds might be secured, in the period since October 2017.
- 1.12 Through that work stream, it became apparent that should there be an overall funding/viability gap, BL's expectation was that the Council would be required to underwrite it. Through further discussions, it was ascertained from BL that the Council would be required to take on this ask, if the project was to progress.
- 1.13 In terms of the potential size of the gap, the external funding exposure already amounted to £15M, and through refinement of the scheme development appraisal, most recent indications were that the gap could well be around £20M.
- 1.14 With this in mind, officers' advice is that the Council should not take on this level of risk – it would expose the Council to unacceptable financial risk and potentially undermine the Council's financial stability and sustainability.
- 1.15 In addition, members will be aware that state aid issues regarding external contributions remained outstanding back in October and these have not yet been resolved; adding a further £15-£20M public funding into the scheme would inevitably increase that risk.

- 1.16 Discussions with British Land have been open and constructive. However, whilst the council has been seeking to reduce risks, there are key elements of the existing scheme upon which British Land, operating as a private sector developer, could not compromise.
- 1.17 In summary terms, the financial and legal risk when combined make it inevitable that the BL proposal cannot be recommended to Council.
- 1.18 Council is therefore recommended to note the outcome of the due diligence work and discussions with British Land and the requirement to terminate the current development agreement. Whilst in regeneration terms, this may appear disappointing, it presents an opportunity to move into a new stage of the scheme's evolution and this is developed further in the following section.

2 A NEW CANAL QUARTER – A WAY FORWARD

- 2.1 Irrespective of the position with British Land, the Canal Corridor North area remains in need of comprehensive regeneration and presents a continued opportunity to transform this tired area into an attractive, economically vibrant quarter of Lancaster.
- 2.2 The work undertaken in the last few years has provided invaluable information and an excellent foundation for promoting a new development that will be more viable and better meet the changing needs of residents and potential customers.
- 2.3 It is recommended that the following key principles are adopted to guide a new scheme for what might better be known as the "Lancaster Canal Quarter". The new scheme should:
- Provide significant and wide-ranging economic benefits without exposing the city council to unacceptable levels of financial risk;
 - Have less reliance on additional retail floor space, thereby instilling confidence in the future of the existing city centre shopping area;
 - Find new uses for historic buildings and capitalise on the site's proximity to the Lancaster Canal;
 - Include more residential accommodation and cater for a variety of different occupiers;
 - Facilitate an increase in Lancaster University's presence in the city centre;
 - Provide more business space especially for Lancaster's thriving digital sector;
 - Deliver an arts hub that achieves the goal of making Lancaster the North West's primary cultural centre outside of the main conurbations;
 - Take advantage of the latest in green technology to make the site as self-sustainable as possible: and
 - Rationalise car parking and encourage sustainable travel to and through the area especially to the existing city centre.

- 2.4 These principles are consistent with current and emerging planning policy set out in the Local Plan and could provide a much more viable and sustainable scheme capable of being delivered within a reasonable timescale.
- 2.5 It is worth noting that a new development framework for Lancaster Canal Quarter, which is led by the Council, offers some important advantages. These include having more flexibility to introduce different and more viable uses, having the ability to phase development to allow more profitable uses to be built early and reduce ongoing costs and the ability to mitigate revenue implications in terms of things like rental and car parking income.
- 2.6 A key early question which the Council needs to consider is the amount of control and influence it wants to have in terms of the future development of the Canal Quarter. This is important because if the Council wishes to maximise this opportunity, it will need to give early consideration to acquiring the remaining land and property interests in the area. Ending the current BL agreement provides an opportunity to significantly increase the Council's landholding and British Land have indicated that they are willing to give the Council first call on their interests.
- 2.7 If the Council wishes to explore this opportunity, officers will need authority to discuss terms with British Land with a view to reporting any potential deal back to the Council for future consideration / approval.
- 2.8 It is recommended that officers undertake further work to ascertain values and deal with British Land in relation to their land and property holdings to develop proposed alternatives to Council in the near future based on the principles included in this report. Any reasonable costs associated with this can be met by the continued use of the existing Canal Corridor North reserve. Cabinet will oversee the creation of the development and financial framework which full council will then consider.

3 CONSULTATION

- 3.1 Developing a new approach for a new Canal Quarter provides an ideal opportunity for the Council to involve all stakeholders from an early stage. A consultation plan will be an important element in the new delivery framework setting out how best to do this both within and outside the Council.
- 3.2 This will involve maintaining dialogue with existing key stakeholders in the immediate short term. In addition, the new draft development and financial framework should include as a key element a detailed plan / proposal for public engagement in line with community consultation best standards with the aim of obtaining the widest possible participation in plans for the Canal Quarter moving forward

4 OPTIONS AND OPTIONS ANALYSIS (INCLUDING RISK ANALYSIS)

- 4.1 In terms of the approach from this point forward, the options are simply:
- **Do nothing, which would leave a significant city centre site without any development proposal, or**
 - **Support the broad principles included in this report for the Canal Quarter and begin development of new masterplan for the site, with further more**

detailed decisions to be made as part of the Council's decision making processes.

5 CONCLUSION

- 5.1 Since Council on 31st October 2017, detailed due diligence work has been undertaken and discussions / negotiations with BL have progressed. It is clear at this stage that it is not possible that the British land scheme can be recommended to Council for support.
- 5.2 As a result, this report now recommends that the necessary actions are put in place to terminate the current agreement with BL and that instead the Council leads the process of developing a new framework for the Canal Quarter.

RELATIONSHIP TO POLICY FRAMEWORK

The Canal Corridor North Site is a long-standing allocation within the Lancaster Local Plan and is identified via Policies ER4 and ER5 of the Lancaster District Core Strategy (adopted in 2008) and the emerging Policy SG5 of the Strategic Policies & Land Allocations DPD, which is at an advanced stage and is expected to be Submitted to the Government in May 2018. Both adopted and emerging policy for the Canal Corridor Site recognise its potential for a sustainable extension to the current city centre to facilitate growth for a range of uses, including retail, leisure, residential, cultural and wider commercial uses which will seek to retain Lancaster City Centre's role and function both within the district but also sub-regionally serving the residents of both North Lancashire and South Cumbria.

CONCLUSION OF IMPACT ASSESSMENT

(including Diversity, Human Rights, Community Safety, Sustainability etc.)

None

LEGAL AND GOVERNANCE IMPLICATIONS

This report complies with the Council resolution for an updated report on this proposal. This report concludes the existing work stream and negotiations with British Land. The necessary arrangements will be put in place to ensure termination of the current Development Agreement.

Council is advised the policy objectives and financial controls of any future proposals will be set out in a future report to Council.

In this respect, it should be noted that a new approach with much greater Council leadership and control will require different and more streamlined governance and decision making arrangements. The future report to Council will consider options for this aspect of project delivery.

FINANCIAL IMPLICATIONS

Regarding the outcome of the negotiations with British Land, there are no other specific financial implications to consider. The outcome removes significant financial risks attached to that particular scheme.

Regarding future scheme development for the area, the financial implications for proposed way forward would need to be appraised and considered as part of business case development, including comprehensive options appraisal, to inform future decision-making.

In strategic terms, Council will appreciate that the current budget strategy was structured to facilitate CCN decision-making regarding the BL scheme and therefore, in light of any new way forward, the budget strategy will be reviewed for Member's consideration in due course. In any event, there is the need to undertake a mid-year review of the budget and Medium Term Financial Strategy, not least to address future regulatory requirements of the updated Treasury and Prudential Borrowing Codes of Practice as well as related statutory guidance.

Council should note that whilst other aspects of future scheme development may rest with Cabinet, decisions regarding updating the budget framework (including borrowing, treasury management and capital strategy) to facilitate any major scheme proposals would still rest with Council.

In terms of due diligence costs, from 2016/17 a total of £288K has been incurred; of this £188K relates to 2017/18 (this later figures compares with the £72K reported back in October). The bulk of these costs are in connection with commercial advice (£194K) and legal advice (£71K). Of the total expenditure, the £188K incurred in this year will be financed from the £400K earmarked reserve, created specifically for that purpose.

Authority is now sought to use that reserve to finance further due diligence works to inform future master planning and decision-making. In the immediate term, existing consultants would continue to be commissioned, ahead of a new procurement exercise being undertaken.

Regarding the £300K Arts Council development funding awarded last year, none of this has been utilised to date. Subject to the decisions of Members, discussions will take place with the Arts Council, to ascertain whether the funds can be retained and if so, to ensure that any future use of the grant is in accordance with any new terms and conditions to be attached.

OTHER RESOURCE IMPLICATIONS

Human Resources / Information Services / Property / Open Spaces:

Referred to in the report as appropriate.

SECTION 151 OFFICER'S COMMENTS

The section 151 Officer has contributed to the drafting of this report.

MONITORING OFFICER'S COMMENTS

The closure of the negotiations by mutual consent removes the risks attached to the previous proposals. Any new proposals will be assessed for compliance and legality at the appropriate time after they have been formulated.

BACKGROUND PAPERS

Previous Council reports

Contact Officer: David Lawson

Telephone: 01524 582331

E-mail: dlawson@lancaster.gov.uk