

COUNCIL

Canal Quarter Progress Update 18 July 2018

Report of Portfolio Holder for Regeneration and Planning

PURPOSE OF REPORT

To update Council on progress since the last meeting in April and seek approval for various actions to enable the Canal Quarter development proposal to proceed.

This report and appendix A and B are public. Appendix C is exempt as it relates to the contemplated financial and business affairs relating to the development and the linked commercial negotiations.

RECOMMENDATIONS:

That Council

Development Proposals

- (1) Notes progress on the emerging draft Development Framework and the draft Consultation / Engagement Plan including the work undertaken to date by Planit;**
- (2) Authorises the necessary changes to the Local Development Scheme to produce a Supplementary Planning Document (SPD) with responsibility delegated to Planning Policy Cabinet Liaison Group;**

Legal

- (3) Notes the proposal that Cabinet agrees the creation of any legal entity as appropriate to facilitate the effective delivery of the overall project.**
- (4) Notes the deed of termination of development agreement with British Land dated 19 June 2018.**

Financial

- (5) Authorises the Chief Executive on behalf of the Council to conduct negotiations and further due diligence work in relation to the potential acquisition of land and buildings in the Canal Quarter area.**
- (6) Authorises the Chief Executive on behalf of the Council to enter into negotiations with potential development partner(s) which may include any other property owner.**

- (7) Approves the budgetary framework as set out in the exempt Appendix C and authorises its use for progressing the scheme, providing for:**
- the renaming of the Canal Corridor Reserve to the Canal Quarter Reserve;**
 - a £186K transfer from the Capital Support Reserve to the Canal Quarter Reserve;**
 - an increase in the Council’s underlying need to borrow (known as the Capital Financing Requirement) (as set out in the table at paragraph 1 of Appendix C);**
 - Cabinet being granted delegated authority to acquire any land which is part of the Canal Quarter development, and to authorise any associated works;**
 - the Chief Executive, in consultation with the s151 and Monitoring Officers, being granted delegated authority to pursue relevant external funding bids, subject to any such opportunities being in line with the overall budget and development framework for the scheme; and**
 - the Chief Executive being granted delegated authority for commissioning professional consultancy in support of progressing the scheme.**

Future Reporting

- (8) Requires Cabinet to report progress on the progress of the scheme to full Council on 14 November 2018.**

1 INTRODUCTION

- 1.1 At its meeting held on 11th April 2018, Council made a number of resolutions in relation to the Lancaster Canal Corridor North regeneration scheme (including its renaming). This report updates Council on progress made since then.
- 1.2 This report will be supplemented by a presentation and discussion session involving officers and representatives from consultants GVA and Planit who have been engaged to look at high level options for a new Development and Financial Framework for the site.
- 1.3 It should be noted that the first meeting of the Canal Quarter Cabinet Liaison Group took place on 11th July. It has not been possible to take into account anything arising out of this meeting because of report writing timescales. Any significant issues will be reported at the meeting.
- 1.4 This report also addresses the key financial and legal issues that need to be resolved and agreed to enable a project to proceed. This includes the key question of what role the Council might play in assembling land for development and how this will influence future master planning and project delivery.

2 PROGRESS SINCE LAST MEETING

- 2.1 The following section addresses each of the resolutions approved by Council in April by providing a short progress update on each.

Resolution (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.

Progress

None required.

Resolution (2)

Notes that, as a consequence of 1 above, the current Development Agreement with British Land will be terminated.

Progress

The Development Agreement was terminated via a Deed of Release executed on 19th June 2018. (Appendix A)

Resolution (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.

Public consultation should be at the earliest possible stage of the scheme. Council asks that the Winchester model of community consultation – always with due and

explicit regard for project viability – is examined with a view to learning from it when undertaking consultation in Lancaster. The aim is to create a development such that the character and scale of the buildings and streets is reflective of what makes Lancaster distinctive.

Full Council calls on officers to invite the lead officer on the regeneration of Winchester's Silver Hill to speak to members at the earliest opportunity so that members can learn from the reasoning and approach of Winchester city council to its own phased, edge-of-centre brownfield regeneration project.

Full council seeks, as a matter of principle, that any development masterplan takes account of the Preston model, and other models, so that the local economy benefits as fully as possible from the project expenditure and outcomes.

Progress

Several key pieces of work are underway to inform a possible future development and financial framework for Canal Quarter.

The first relates to public and stakeholder involvement in this work. The intention being that any development framework and future master plan are fully informed at all stages by those people most affected by the regeneration of this area. More detail is contained in terms of resolution (7) below but, as a starting point, views have been sought on the nine key principles approved at the April Council meeting.

These initial views are now informing evolving ideas focusing on what type and mix of uses could be incorporated within a future regeneration scheme and in what quantity. In turn, these ideas are being informed by detailed market analysis of the various possible uses. The intention being to put forward for discussion several high level options which are both consistent with the principles previously agreed and which comply with the Council's stated aim of securing a viable project.

To assist in this work, leading design consultants Planit (www.planit-ie.com) are working with GVA to work up ideas for the area. These ideas will be presented at the meeting for discussion. In turn, if agreed, these emerging ideas will be taken forward to public and stakeholder engagement (see below).

Discussions have also continued with key stakeholders including at a national level Historic England and Arts Council England and locally with Lancaster University, the Dukes Theatre, the Grand Theatre and the Musician's Co-operative.

Possible sources of external funding continue to be explored including the recently announced "Cultural Development Fund".

In terms of the financial framework, the market analysis is being supplemented with work to understand the possible financial implications associated with potential courses of action. This involves, amongst other things, looking at ways in which the Council could assist any future scheme financially and how this would affect the Council's ability to intervene elsewhere in the local economy.

In terms of the "Preston" model, officers are aware of various models which aim to maximise the opportunities a project such as this offers to retain as much expenditure as possible within the local economy and boost local businesses. Moving forward, this will be a key part of the project although it is too early to say

precisely how this will be achieved.

Resolution (4)

If required by (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.

Progress

Prior to the Council meeting, British Land indicated that they were willing to give the City Council a reasonable period of time to investigate whether it was in a position to purchase their land and property holdings. In effect, an informal “exclusivity” period. To inform this decision, detailed valuations of BL’s holdings were commissioned which were informed by building condition surveys, planning assumptions, comparables, development appraisals, holding costs etc.

The resultant valuations fall short of BL’s stated expectations. In response, BL have now placed their land and buildings on the open market although there is no indication yet of a “guide price”. As there are many advantages to the Council acquiring the BL land holdings (on the right terms) it would be sensible for the Council to register as an interested party to maintain this option.

As a result of the Council’s decision in April, and subsequently by BL placing its land on the market, the Council has been approached by a number of potential developers interested both in BL’s property and also working with the Council in the future on the regeneration of the area. Although these discussions have taken place on an informal “without prejudice” basis, what has become clear is that there remains strong market interest in the Canal Quarter from a mix of large national developers and more locally based ones.

Resolution (5)

Authorises the use of the Canal Corridor North Reserve to fund any reasonable costs arising from this phase of project development work.

Progress

An updated summary of spend since the April Council report is contained in the financial implications section of the report.

Resolution (6)

Notes that Cabinet, in consultation with the Canal Corridor Cabinet Liaison Group (to be re-named the Canal Quarter Cabinet Liaison Group) is responsible for overseeing production of the new draft development and financial framework which shall be reported to councillors when it is complete.

Progress

This first meeting took place on 11th July 2018.

Resolution (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.

Progress

Work is well underway in terms of developing an effective communications and engagement strategy. This is being informed by best practice including an in depth look at what has been happening in Winchester and elsewhere. Dialogue has taken place with relevant officers at Winchester and lessons learned from their experience will feature in the Consultation and Engagement Plan.

Nine principles referred to at resolution 3 arose from earlier engagement and other work. These were approved by full council and initial consultation has been undertaken. A high level overview of the proposed consultation was prepared for the liaison group.

Resolution (8)

Full council calls on officers and the Canal Quarter Cabinet Liaison Group to appraise the need for a new supplementary planning document to guide development to minimise the risk of developers submitting individual and uncoordinated planning applications for sites within the area.

Progress

The need for more detailed planning guidance is, in part, influenced by the comments set out in response to resolution (4) above i.e. if BL's land and property holdings are sold to a third party there will be an increased risk that a developer could submit a planning application that was out of kilter with the overall ambitions for the site.

If, ultimately, the Council is not be in a position to purchase BL's holdings, then the need for supplementary planning guidance increases. In this scenario, it is strongly recommended that this course of action is adopted and the necessary work undertaken. Although this work will be informed by the Canal Quarter Liaison Group, the SPD will ultimately be reported to the Planning Policy Cabinet Liaison Group in the normal way.

3 DEVELOPMENT FRAMEWORK

- 3.1 As mentioned above, officers have been working with GVA and Planit on an embryonic development framework for the site. Although it is very early days, there are a number of interesting themes emerging from work carried out to date. These include stressing the importance of working with site's many existing assets (such as the many heritage and cultural buildings), exploiting opportunities more fully (e.g. proximity to the Lancaster Canal and City Centre) whilst looking and ways of improving viability (different mix of uses, phasing etc.).
- 3.2 Planit and GVA will attend the meeting to present current thinking and answer questions / queries.

4 ENGAGEMENT / CONSULTATION PLAN

- 4.1 The Cabinet Liaison Group considered a report on progress to date on the Consultation / Engagement Plan. This also included looking at an emerging draft plan and the results on an initial round of engagement aimed at getting broad reaction to the nine principles approved at the April Council meeting.
- 4.2 The Liaison Group report, appendices and analysis of emerging themes are reproduced at Appendix B.

5 FINANCIAL FRAMEWORK

- 5.1 As noted above, it has not been possible to reach agreement with British Land in terms of acquiring their land and property interests. These have now been placed on the open market and the Council will need to consider whether to continue to seek to maintain an interest in acquisition if a price could be agreed, subject to other due diligence also. In addition, there are other land interests in the area that it might be advantageous to acquire (again at the right price/ subject to due diligence).
- 5.2 The Council's financial strategy highlights the need for capital investment to contribute clearly to the Authority's objectives and to represent value for money. Whilst recognising that the Council has a very challenging and uncertain financial outlook, it also recognises the strategic importance of the Canal Quarter (then Canal Corridor North) development.
- 5.3 To enable progress to be made on the Canal Quarter scheme in the coming months, Council would need to update the budgetary framework. Proposals for this have been developed and are attached at Appendix C. These reflect the wider development proposals outlined in this report, based on providing sufficient flexibility to facilitate decision-making in the period to March 2019, whilst also ensuring that sound due diligence is completed. An update on financial aspects would be included in the progress report proposed for November Council.
- 5.4 In terms of governance, the draft budgetary framework is based on Council delegating decision-making regarding any acquisitions and associated works to Cabinet, subject to appropriate due diligence being undertaken to ensure value for money and manage risk. Members will appreciate that there are revenue implications associated with acquiring / holding assets, and the framework makes provision for assessing and managing these, to avoid any undue pressure and risk regarding the Council's revenue budget and its financial outlook.
- 5.5 The impact of the requirements of Appendix C is to effectively impose a five stage test.
 - 1) Is the proposed acquisition consistent with the emerging development and financial framework so far as it has been developed?
 - 2) Does the acquisition add value to the framework and contribute to its delivery?
 - 3) Is the investment, including forecasted net holding/financing costs and any essential works, affordable, prudent and sustainable, and does it represent value for money?
 - 4) Are there clear benefits resulting from the City Council owning the asset rather than a third party?

- 5) All remaining aspects of due diligence are satisfied and there is a clear reason for acquisition in relation to risk?
- 5.6 Cabinet, on the advice of the three statutory officers (Head of Paid Service, S.151 Officer and the Monitoring Officer) would need to be satisfied that all the criteria are met before any acquisition is agreed. The totality of the risk would also be mitigated by the financial limits that would be imposed by full Council, as included in Appendix C.
- 6 LEGAL ISSUES**
- 6.1 The delivery of any scheme may require the City Council to create a number of legal entities for the purposes of holding assets, entering into partnerships, or other entities that will allow for a traded outcome.
- 6.2 The creation of a legal entity falls within the remit of Cabinet. Council is asked to note that Cabinet may be asked to agree to the creation of other legal entities before the full Council review in November. The creation of any legal structure must be approved by Cabinet and meet the overall objective for the Canal Quarter development.
- 7 CONCLUSION**
- 7.1 Since the April Council meeting, much work has been done in terms of capitalising on the opportunity presented by the Council's decision to leads the process of developing a new framework for the Canal Quarter.
- 7.2 Council is now asked to note progress and to authorise various actions to enable progress to be maintained on this key project.

RELATIONSHIP TO POLICY FRAMEWORK

The Canal Quarter 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 was 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 provides for the possibility of acquiring assets on behalf of the council. Significant due diligence will be required to ensure the high degree of probity is met in any acquisition. The potential legal options for delivery of the project will also require significant legal expertise.

Legal services will be assisted in ensuring probity, legal certainty and good governance by external partners. The recommendations will amend the current framework budget and policy to allow delegation from full council to Cabinet. When the matter is reconsidered by full council in November 2018, and at each reporting stage thereafter, it should satisfy itself the proposals reflect the budgetary and policy framework the council wishes to adopt.

FINANCIAL IMPLICATIONS

To enable progress on the scheme, the budgetary framework would need to be updated in both revenue and capital terms; proposals for this are set out in Appendix C, which also includes various due diligence and governance matters to give Council assurance regarding future arrangements.

Regarding the funding of the increase in the Canal Quarter Reserve, it is proposed to finance this through a transfer from the Capital Support Reserve. This latter reserve exists to cover any outstanding liabilities on West End properties, and to provide general cover regarding any shortfalls in capital financing (e.g. through shortfalls in capital receipts). Known liabilities against this reserve currently amount to around £20K at maximum and as, at this point, capital financing risk exposure is currently low (in that the capital programme is not heavily reliant on general capital receipts), the s151 Officer advises that it would be reasonable to transfer £186K of that reserve for the Canal Quarter project, on the basis that the scheme remains as the top priority for the Council and that future capital financing and other risks will continue to be monitored to feed into future reviews of reserves, balances and provisions – there is always the risk that circumstances change and in due course, reserves such as the Capital Support could need to be increased back up. Should the transfer be approved, the current balance on the Canal Quarter Reserve would increase to £400K, and the balance on the Capital Support Reserve would reduce to c£300K, of which £99K is budgeted to be used in 2018/19.

In terms of consultancy spend to date, in total since 2016/17 £297K has been incurred, and of this £11K has been incurred in the current year. A further £75K of work has already been undertaken or commissioned. To March 2019, another £154K is anticipated if the project progresses. This gives a total likely call of £240K for the current year. In addition, it is possible that further revenue costs may arise in connection with the site or project management, hence it is advised to increase the reserve to £400K, to provide some flexibility.

It is reiterated that the Council's resources, including its net revenue budget, its reserves, and its capacity to increase its borrowing, are ultimately all finite – allocating resources for one project will, ultimately, mean that less resources are available for other purposes and the Council, quite simply, cannot afford to do everything that it might want – especially in view of £2M + annual budget shortfall currently forecast for 2020/21 onwards. That forecast indicates that the Council cannot afford to do everything it currently does, in the way that it is currently provided – hence the Council's view regarding the relative priority of the Canal Quarter scheme is highly significant.

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. Normally, her advice regarding the consideration of any significant investment proposals would be for all competing demands and options to be considered alongside each other to ensure sound prioritisation, in context of affordability, sustainability, prudence, risk appetite and proportionality, etc. She now advises Council to consider carefully the relative priority of the Canal Quarter development, to ensure that it remains high enough to justify the proposed budgetary framework being considered outside of the usual planning and budget process.

MONITORING OFFICER'S COMMENTS

The Monitoring Officer has been consulted in the drafting of this report and notes the proposed alterations to the budgetary and policy framework. Full council should consider the specific delegations in the report, which will then be subject to the scrutiny process.

BACKGROUND PAPERS

Previous Council reports

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