

# **CABINET**

07 April 2014

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## **DISPOSAL OF COUNCIL ASSETS AT HANOVER STREET CAR PARK AND GEORGE HOUSE**

Relevant Portfolio Holder	Cllr Del Booth
Portfolio Holder Consulted	Yes
Relevant Head of Service	
Wards Affected	<b>St Johns</b>
Ward Councillor Consulted	Yes
Key Decision	

### **1. SUMMARY OF PROPOSALS**

- 1.1 The Council has been actively marketing the site it owns at Hanover Street Car Park and George House for the purposes of a mixed retail and leisure development since April 2012. Members previously gave approval to the granting of a long term lease to the developer Opus in October 2012.
- 1.2 As the project has progressed changes have been made to the proposed scheme which impact on the size of the area of land to be disposed of and the financial implications. This report sets out the details of the final version of the scheme and members are asked to re-affirm their agreement to the leasing of the land to Opus.
- 1.3 The recommendations below were considered at a Special Cabinet meeting on 27<sup>th</sup> March. The Cabinet decided to defer a final decision on the recommendations in order to allow officers to carry out further validation of the data on which the projected car parking income had been based.

### **2. RECOMMENDATIONS**

- 2.1 That Members approve the granting of a 250 year lease of the land at Hanover Street marked in red for identification purposes on the plan at Appendix 1 to Opus on the basis of the revised proposals for a food retailer, cinema, and restaurant units for the sum of £700k.
- 2.2 That Members note and approve the proposed car parking arrangements and specifically agree to the following:-
  - (i) That the Council will retain the area of car park marked in blue for identification purposes on the plan at Appendix 2 and operate it as a shoppers car park retaining the income; and

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- (ii) That the Council enter into a Car Park Management Agreement with Opus for the provision of up to 135 car parking spaces for an initial term of 25 years.

- 2.3 That delegated authority be granted to the Executive Director of Finance and Resources in consultation with the Portfolio Holder for Planning and Regeneration to agree the final terms for disposal of the land to the developer.
- 2.4 That delegated authority be granted to the Head of Legal, Equalities and Democratic Services to enter into the necessary legal documents for the purpose of implementing 2.1 and 2.2.

## **3. KEY ISSUES**

### **Financial Implications**

- 3.1 An offer of £700k has been made by Opus to acquire the site as identified in the plan at Appendix 1 under a 250 year lease. A more detailed plan showing the proposed lay out of the site once developed is attached at Appendix 3.
- 3.2 As part of any development, whereby the Council is selling its land and assets, it is necessary to demonstrate that the Council is achieving value for money (under section 123 of the Local Government Act 1972). The District Valuer (DV) has provided the Council with a detailed report on the site valuation to include a number of options for development. This report is attached at Appendix 4.

### **Car Parking income**

- 3.3 The current gross income generated from the Hanover Street Car Park is approximately £120k pa. An external analysis has been provided to the Council of the estimated income that could be provided from the new development. This reflects potential income purely from the new development of £195k. It is anticipated that 50% (£60k) of the current income would continue to be generated. Therefore a gross income of £255k pa could be achievable on the site. Officers have requested an internal audit validation of the financial modelling for the income generated and the outcome will be reported to members prior to the Cabinet meeting.
- 3.4 For clarification, the number car parking spaces in the car park will increase from 133 to 135 under the detailed proposals drawn up by Opus

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- 3.5 To arrive at a valuation for the site the District Valuer (Appendix D of the DV report) has used the estimated income to calculate the value for the retained car park. The gross income of £255k results in a net position of £189k, after deducting VAT and management costs. This has been used to calculate a new value for the car park with the new development of £1.4m. This reflects an increase of £620k additional capital asset value for the car park as it is currently valued at £780k.
- 3.6 The car park would need to be closed for a period of around 12 months from mid-2014 during construction works. This would result in a shortfall in car park income. It is anticipated that with adequate signposting the resulting shortfall will be mitigated as shoppers will be directed to other town centre car parks.

### **Valuation of the site**

- 3.7 The proportion of the site to be disposed of by the Council to the developer but without any development is valued at £630k.
- 3.8 The valuation of the proportion of the site to be disposed of by the Council to the developer once developed in accordance with the current plans is £1.4m. As detailed in the DV report (Appendix C of their report) this value is predicated on the developers securing 'grant' funding of £1.4m to fund the significant 'fit out' costs associated with the cinema. These costs are also in the order of £1.4million and therefore would create a viability gap by negating the valuation of the development without 'grant' support. The developers, OPUS, have been successful in securing an offer of a grant from Greater Birmingham and Solihull LEP (GBSLEP) to fund £700k, subject to planning permission being obtained, of the costs associated with the cinema. (The GBSLEP 'gap fund' exists to support developments which would carry major economic benefits subject to a viability gap being bridged.) Therefore the offer for the site is £700k which is £70k higher than the District Valuer's valuation of the site valuation outlined in 3.7.
- 3.9 In addition to the capital receipt and revenue income generated from the site the District Valuer has reported that there would be an increase in asset value of the car park of £620k as a result of the prime retail offer that will be available on the site. The value of the car park at present is placed at £780k by the District Valuer; on completion it is estimated that this will increase to £1.4 million. This increase in asset value needs to be taken into account in considering the total value of the site to the Council to ensure that we are achieving value for money for our residents. Therefore the value of £1.4m for the proposed

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development is achieved by £700k capital receipt together with £620k capital asset value increase in the car park as a result of the new development. There will also be the additional net revenue income of £155k pa from the car park.

### **Legal Implications**

- 3.10 It is proposed that the Council will enter into an agreement for lease with the developer which will be subject to a number of conditions as described below. Upon satisfaction of the conditions the Council will grant to Opus a 250 year lease in return for the sum of £700k. The proposed lease will attract a ground rent of £100 per annum to be reviewed at intervals during the lease term by a link to the retail price index.
- 3.11 The commercial arrangement will be subject to planning permission being granted. The Heads of Term provide that planning permission must be obtained by the developer by the later of 12 months of Opus entering into agreements for lease with the anchor tenant and cinema, or within 18 months from the date of the agreement to lease referred to in 3.6 above. In the event of a planning appeal or challenge there is ability for the time limit to be extended. Under the Heads of Term the arrangement will also be subject to the following conditions:-
- Satisfactory ground investigation reports and the availability and cost of installing services not being prohibitive
  - Receipt by Opus of an offer of grant funding of £700k (subject to planning permission being granted only) from Greater Birmingham and Solihull LEP
  - Opus entering into agreements for lease with the anchor tenant and cinema, and the letting of the A3 restaurant units in accordance with a letting strategy agreed by the Council
  - Diversion of the footpath which crosses the site
- 3.12 The Car Park will remain an asset of the Council and the Council will enter into a Car Park Management Agreement with Opus for an initial term of 25 years. There will be provision for that term to be extended by a further 25 years on condition that there is on-going retail/ leisure activity at the site which requires parking to support it. The initial 25 year period is considered to be reasonable for a development of this nature as the proposed tenants of the development will expect the developer to give them assurance that parking will be available for a term at least equivalent the duration of their original lease. At the time of writing this report officers are still working on the details of the agreement with the solicitors for the developer. However, in general

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terms it will cover the practical operational details such as hours of operation, provision of trolley bays and maintenance. A change to the District Car Parking Order will be required to accommodate the change in footprint of the car park.

- 3.13 A strip of land owned by BDC adjacent to the Highway along Hanover Street from the existing exit from the Car Park to the junction with Worcester Road may be needed to be dedicated as Highway land to facilitate improvements and increase the capacity of the road network that will service the new development.
- 3.14 Whilst it is not possible in this report to identify the individual proposed tenants for the previous scheme or the current scheme, members are advised that this does not prevent them from being able to discuss the principles and make a decision.

### **Service / Operational Implications**

- 3.15 In January 2011 Full Council approved the Draft Area Action Plan for Bromsgrove District which included the site of George House and Hanover Street Car Park as a potential redevelopment area for a number of uses including retail, leisure and cinema. Members agreed in April 2012 to the marketing of this site for disposal.
- 3.16 The outcome of the marketing exercise was reported to Cabinet in October 2012. At this time it was anticipated that there would be a 27,000 square feet anchor store together with a cinema and other retail/ restaurant use. The total area for development on offer was 52,000 square feet. Members agreed to the granting of a long term lease to the developer and delegated authority was given to officers to finalise the negotiations and enter into the necessary legal documents.
- 3.17 The present position is that there have been some changes to the proposed scheme since October 2012. It was not possible for the developer to conclude negotiations with the original proposed anchor tenant. The scheme currently before members therefore provides for an alternative anchor tenant.
- 3.18 This change to the anchor tenant has brought about the following changes to the scope of the development:
- a. A reduction in the size of the retail anchor from 27500 square feet down to 11000 (+5000) square feet, to be open June 2015.
  - b. Retention of the Car Park in the Council's ownership to include 135 spaces (as at present)

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- c. The inclusion of a small food retail unit in the Hanover Street Car Park.
  - d. Keeping the brook in its current position with a number of landscaped and naturalised areas
- 3.19 There has been no change to the proposal to include in the scheme a multi-screen cinema.

## **Customer / Equalities and Diversity Implications**

- 3.20 During works there will be a period where the car park will not be accessible, however, signs will direct customers to nearby pay and display car parks.
- 3.21 Once completed the scheme will provide new retail and leisure facilities for residents and will contribute to the plans of the Council to re-generate Bromsgrove Town Centre. It is estimated that once fully operational the site will provide 200 to 300 town centre jobs.

## **4. RISK MANAGEMENT**

- 4.1 The risk of the scheme not receiving planning permission has been mitigated as far as possible by involving planners in proposal selection and initial design discussions with the developers to ensure that a comprehensive development which appears to conform in principle to the planning policies / guidelines for the site contained in the AAP is proposed. However, the granting of planning permission will depend on the developer satisfying various planning obligations and detailed development control and highways conditions.
- 4.2 The risk that the required timescales will not be met because of delays in obtaining approvals from the Council has been mitigated by the recommendations contained in this report.

## **5. APPENDICES**

Appendix 1 – Plan showing footprint of land to be disposed of marked in red

Appendix 2 – Plan showing footprint of car park area to be retained marked in blue

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Appendix 3 – Detailed site plan  
Appendix 4 - District Valuers Report

**6. BACKGROUND PAPERS**

April 2012 Cabinet Paper – 'Marketing Exercise – Inclusion of Council Owned Assets (Hanover Street Car Park, George House and Stourbridge Road Car Park).

October 2012 Cabinet Paper - DISPOSAL OF COUNCIL ASSETS AT HANOVER STREET CAR PARK AND GEORGE HOUSE

**7. KEY**

N/A

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