

STROUD DISTRICT COUNCIL
STRATEGY AND RESOURCES COMMITTEE

**AGENDA
ITEM NO**

TO COUNCIL ON 26 APRIL 2018

6b

This is a copy of the Agenda Item 11 report to Committee on 12 April 2018

Report Title	Redevelopment of Brimscombe Port, Thrupp
Purpose of Report	To seek approval to additional funding to support the redevelopment of the site.
Decision(s)	The Committee resolves to RECOMMEND to Council that £1.6 m of capital funding be allocated to delivering infrastructure at, and the redevelopment of, Brimscombe Port, Thrupp.
Consultation and Feedback	Public consultation will be undertaken as part of the planning process. Liaison meetings continue with tenants on the site and local residents and the Parish Council.
Financial Implications	<p>The report seeks member approval to make an additional £1.6m of funding available to in part mitigate the funding gap on the Brimscombe Port project. A decision in principle is needed to enable the procurement of a development partner. Without the agreement in principle, it is highly unlikely that a development agreement could be reached.</p> <p>There are a number of financial issues members should consider as part of their decision.</p> <p>The Council could choose not to allocate any further funding to the project.</p> <p>Members need to consider the total level of support that is being provided to the Brimscombe Port project. The Council has already spent £1m, with a £2m loan from the Homes and Communities Agency (HCA) also provided. This loan is subject to a funding agreement that does have financial implications to the Council. The funding agreement includes a number of milestone dates and outcomes that trigger a payment to the HCA (or a reduction in the loan amount repayable). In the event that the outcomes cannot be delivered, the Council can hand back the site to the HCA (subject to final transfer from SVCC).</p>

<p>Financial Implications Continued/...</p>	<p>Therefore, members may want to consider the total amount of Council funding being committed at each stage of the project and the likelihood of the project delivering the required outcomes.</p> <p>Should members decide that the additional £1.6m be allocated to the, it is assumed that this will be funded by external borrowing. At the time of writing, the finance team are working through the Capital Programme outturn for 2017/18 and the impact this has on the available capital resources. In addition, the decision by Council to provide a £2m commercial loan to support the Merrywalks shopping centre will also be taken into account in determining the optimum use of resources to finance the capital programme.</p> <p>External borrowing will give rise to a revenue cost of financing and will need to be budgeted for within the Council's medium term financial plan. At this stage, it is not possible to assess the revenue costs with certainty, as the level of Minimum Revenue Provision (MRP) required will need to be considered alongside the wider funding position of the project including the HCA loan. Should the funding agreement be renegotiated in light of the current delivery timetable, this will impact on the level of MRP charged.</p> <p>It is also worth noting that the request for additional funding is being considered outside of the annual budget setting process.</p> <p>David Stanley – Accountancy Manager (Section 151 Officer) Tel: 01453 754100 Email: david.stanley@stroud.gov.uk</p>
<p>Legal Implications</p>	<p>Essential legal steps to achieving the recommended outcome will involve a significant re-negotiation of the current funding agreement with the HCA and the acquisition of the site from SVCC on appropriate terms. Securing a Development Partner will involve quite complex legal documentation and resource input. Procurement and State Aid issues will need to be considered.</p> <p>Alan Carr - Solicitor Tel 01453 754357 Email alan.carr@stroud.gov.uk</p>

Report Author	Alison Fisk – Head of Property Services Tel: 01453 754430 Email: alison.fisk@stroud.gov.uk
Options	The Council could choose not to allocate further funding to the project and effectively wind it up, having secured planning permission for the infrastructure works and then seek other sources of funding if/as it becomes available.
Performance Management Follow Up	Update reports are to be brought to Investment and Development Panel and Committee on a regular basis as part of the capital project monitoring report.
Background Papers/ Appendices	Appendix A Site Plan Appendix B Brimscombe Port – Key Milestones

1. Background

- 1.1 Initially Brimscombe Port was part of the Cotswold Canal Regeneration project, the original aim of which was to reinstate the canals from Stonehouse 'Ocean' to Brimscombe Port. This project is now in its final stages, with a bid recently submitted in November to the Heritage Lottery Fund for further funding to reinstate from Stonehouse to Saul.
- 1.2 The Port was acquired in 2009 (see Appendix A) as part of the original project, from British Waterways by the South West Regional Development Agency (SWRDA), the expectation at that time was that it would deliver both a redeveloped Port and provide funding for other sections of canal. Stroud Valleys Canal Company (SVCC) was set up by 4 key partners, including the council, to hold the property.
- 1.3 After the property crash in 2009, subsequent marketing proved the site to be unviable (£3.5m to £5m funding gap in Galliford Try's bid), the Canal project was scaled back to finish at Bowbridge and prospects of the Port being redeveloped without considerable public funding were negligible.
- 1.4 In December 2014, the council took on the management of the site on behalf of SVCC.
- 1.5 In 2015 the Council appointed Savills to revalue the site (this showed a similar funding requirement), at the same time the HCA (who were SWRDA's successors in respect of the agreements relating to the Port) approached the council, offering to help bridge the funding gap. The bid was successful and secured a £2m loan from the HCA, plus the use of any surplus income from rental income from the property. In December 2015 the Council, amongst other related decisions, agreed to contribute £1m of capital towards the redevelopment of the Port including the delivery of infrastructure.

- 1.6 The council is the accountable body for the loan agreement and liable for repayment of the total investment of £9.6m in the site. Whilst it currently manages the site on behalf of SVCC the intention and a condition of the HCA funding is that the freehold will transfer to SDC.
- 1.7 There has been a necessary shift from seeing Brimscombe Port as delivering the canal infrastructure to a standalone project. There is a growing need to deliver housing here (min 150 dwellings local plan and HCA required output), but the canal cut and basin are required as an integral part of flood alleviation on the site.
- 1.8 Since 2015, the council has progressed the redevelopment of the site and some key achievements have been;
- the appointment of Atkins who are delivering the design for the infrastructure on the site
 - The purchase of the Ship Inn pub which stands at an important location on the site, and which will be impacted when a new bridge is constructed.
 - Ground investigations have now been completed, an ecological survey of the whole site carried out and an archaeological report provided, which all aid with the de-risking of the site.
 - Discussions have been undertaken with all affected landowner's
 - Improved management of and lettings on the site to maximise surplus income for use in the redevelopment.

2 Appraisals/Funding Gap

2.1 Recent valuations of the site have updated Savills' appraisal and are based on current building costs, property values and Atkins estimates for infrastructure costs. They also have to make a number of key assumptions on a number of variables;

- Level of affordable housing
- Water content
- Community Centre site land value and building cost
- Method/ process of delivery (i.e. amount of control SDC requires over outcomes and straight market disposal/ joint venture)
- Inflation on build costs
- Property values

2.2 The project team has produced a number of scenarios changing these variables, which all impact on the value of the scheme and show different levels of funding requirement. Ultimately, the test of whether the site is viable is to market it and seek a development partner.

2.3 Atkins' cost estimates also correlate with those used in the recent appraisals and the infrastructure costs for the site are as follows:

Table 1

Infrastructure Costs	
Whole Site	£
Comprising 3 elements :	
Port only - canal cut, basin and access road	3.9m
Brimscombe Hill works – road and new bridge, canal and river crossing	2.45m
Brimscombe Mill works: Canal cut from the Ship Inn to Gough's Orchard	0.75m
Total	7.1m

2.4 Current funding secured by SDC towards this project is as follows:

Table 2

Current Funding	
	£
SDC Capital programme	(£1m spent or committed to project incl. purchase of the Ship Inn)
HCA loan	2m
HCA assigned income from site	0.5m
Total unspent	2.5m

2.5 The Project has now reached a significant point at which the anticipated funding gap needs to be reduced and/or met before the procurement of a developer can progress. Recent bids to the LEP's Growth Deal funding and Homes England's Housing Infrastructure fund have unfortunately been unsuccessful, albeit with some positive feedback.

3 Re-scoping the project

3.1 An important outcome of Atkins' work is that their initial flood modelling demonstrates that, if the Port elements of the infrastructure (canal cut and basin, new access road) are constructed, this (along with raising the level of the site) is sufficient to deliver the main outcomes of the redevelopment i.e.:

- 178 new homes – apartments and houses
- Canal basin and cut
- Community enterprise centre

- 424 sq. m employment, 429 sq. m retail and A3 uses, enterprise centre with 100sq m of business space, homeworking, 121 sq. m workshop/gym
- Translates into 50 jobs and 10 business starts
- Scale of development lends itself to apprenticeships at different levels – requirement included in the development agreement
- 26 boat moorings

3.2 It is possible, therefore, subject to the Environment Agency approving the final flood modelling, to continue with the redevelopment of the Port and deliver these outputs, by obtaining planning permission for all of the infrastructure, including the road and bridge works, but at this stage to fund the infrastructure for the Port only. This will substantially de-risk the site for developers – the principle behind all the work done to date, but there is currently insufficient funding to meet these costs.

Table 3

Port only infrastructure funding	£	£
Infrastructure costs	3.9m	
Inflation and contingency	0.2m	
Total		4.1m
Less HCA funding		2.5m
Funding requirement		1.6m

3.3 As there is little prospect of securing more funding from the main public funding bodies (the LEP, Homes England and HLF), the project is, therefore, at a critical point and the council needs to decide whether it wishes to commit more funding to the project or effectively wind it up.

3.4 If no more funding is available the project team would aim to secure full planning permission for the infrastructure works and outline permission for the site, but could not go any further (i.e. to procure a developer) and so no further work would be undertaken and the site would remain undeveloped. There is a risk that Homes England would withdraw its £2m loan towards the project.

3.5 However, Homes England has confirmed that it is willing to amend the current funding agreement to reflect a re-scoped project and this along with additional council funding could still deliver the redevelopment of the Port to include homes, jobs canal and basin, recreating a dramatic waterside setting. The project would stop short of constructing a new bridge and canal river crossing, which would require a minimum of a further £2.2m of public funding.

4 Programme

4.1 The Highways Authority is in receipt of the proposed infrastructure plans for their approval and the Environment Agency has commenced its modelling to validate the work that Atkins has done. The current programme (see Appendix B) is for these approvals to be received and the detailed drawings prepared by the end of May 2018. This will then enable the planning application to be prepared for the infrastructure for the whole site with the submission of the application due to be made in June 2018. This remains subject to third parties providing their approvals within the agreed timescales.

4.2 The procedure for the procurement of a development partner is now being considered by the Project Board and advice being sought, but if funding is secured an OJEU process could start in the summer. The intention is to procure a development partner with the Council paying for the infrastructure.

4.3 The transfer of the freehold interest in the site from SVCC is a condition of the current loan agreement with Homes England and will remain so in any amended agreement. It provides both security to the Council for the loan and, in having control of the site, a simplified, more efficient and less costly process in delivering the redevelopment. SVCC has yet to agree final terms but it is not recommended that the council commits any of the £2m loan or further significant expenditure until this has been secured.

5 Recommendation

5.1 This site simply cannot be regenerated without public funding because of the significantly high abnormal infrastructure costs it bears. Inflation on building costs will continue to increase the funding gap unless property values increase dramatically and the chances of redeveloping the site will diminish with time.

5.2 In the short term, redevelopment will bring back water to the Port with a canal basin as its centre piece, improving the setting of the historic Port Mill and other listed buildings on the site, which sits in the Industrial Heritage Conservation Area. The cultural and heritage benefits of regenerating the site are significant.

5.3 It is believed that redeveloping the Port will help trigger the regeneration of other sites along the valley, the 'string of pearls' which is a priority for the District and is reflected in the LEP's Strategic Economic Plan. Officers have already been approached by the owners of sites near the Port, with it acting as a catalyst for further waterfront development along the canal, delivering more houses and jobs

- 5.4 Redeveloping the Port will also deliver much needed homes, employment and retail space and associated economic benefits on the site. It is, therefore, recommended that the Council commits a further £1.6m towards the infrastructure costs to enable a development partner to be sought, subject to the redrafting of the funding agreement with Homes England and the transfer of the freehold interest in the site from SVCC to the council.
- 5.5 Allocating the capital funds does not commit the council to commencing the development, but enables it to progress the project and procure bids for the site which it can then consider.