

Bath & North East Somerset Council

DECISION MAKER:	Cllr Gerrish, Cabinet Member for Finance & Efficiency Cllr Anketell-Jones, Cabinet Member for Economic Development	
DECISION DATE:	On or after 29th April 2017	EXECUTIVE FORWARD PLAN REFERENCE:
		E 2903
TITLE:	Bath Quays South Capital Approval	
WARD:	Widcombe	
AN OPEN PUBLIC ITEM		
List of attachments to this report:		
<ul style="list-style-type: none">• Appendix 1 Exempt Regeneration Business Case		

1 THE ISSUE

Bath Quays is the Council's flagship regeneration and economic development project at the heart of the Bath City Enterprise Area. Bath Quays South will deliver much needed employment space alongside the comprehensive regeneration of the Newark Works to bring derelict buildings back into beneficial use for much needed creative workspace. The project will contribute to B&NES commitment to delivering up to 3500 new homes and 9000 new jobs within the EA alongside increasing business rates income as part of the West of England City Deal. This report seeks approval to drawdown £6.245M of total funds of £23.345M against a full business case to deliver the project.

2 RECOMMENDATION

The Cabinet Members are asked to agree:

- 2.1 To fully approve £6.245m of the £9.012m provisionally approved 2017/18 capital budget for Innovation Quay - Economic Development Funding Enabling Infrastructure.
- 2.2 To enter Agreement for Lease of the Newark Works for the operation of creative workspace.
- 2.3 That the Strategic Director for Place in consultation with the Cabinet Member for finance and Efficiency, Cabinet Member Economic Development and Strategic Director of Resources, is authorised to approve and enter new external funding agreements, including:

- a. LEP EDF funding agreements with the West of England (WoE) Local Enterprise Partnership (LEP) for infrastructure provision up to £7.0m supporting Bath Quay's South.
- b. LEP LGF(or other grant) funding agreements with the West of England Local Enterprise Partnership (LEP) for additional funding supporting Bath Quay's Bridge alongside CCAF funds approved under Decision E2838.
- c. LEP RIF funding agreement with the West of England Local Enterprise Partnership (LEP) for £1m additional financing towards flood mitigation approved under Decision E2538.

3 RESOURCE IMPLICATIONS (FINANCE, PROPERTY, PEOPLE)

3.1 Funding via the West of England (WoE) brings together a number of public funds to support B&NES Council deliver Bath Quays through the WoE Local Enterprise Partnership (LEP) single front door approach. Funds comprise of;

- a. Full approval of £3.137m of Cycle City Ambition Fund 2 (CCAF2) on Bath Quays Bridge and connecting infrastructure (approved under previous Council Decision E2838).
- b. Full approval of £7.1m Revolving Infrastructure Funding (RIF) for the delivery of Bath Quays Waterside Flood Mitigation works of which the relevant part for this Decision is £1m.
- c. Outline approval for £36m Economic Development Fund (EDF) of which the relevant part for this Decision is £6.245m.

3.2 The financial objective of this phase of the Bath Quays programme is to support economic regeneration and to optimise revenue, this will initially be achieved through the implementation of site wide Infrastructure to;

- a. Generate a lease premium for grant of lease for Newark Works and enabled residential site.

3.3 This investment in infrastructure will allow further decisions to be taken in due course for the delivery of enabled development sites to achieve the following returns;

- a. Growing business rates with full development of the enabled site forecast to increase Business Rates by c£500k per annum by 2019/20, Under the City Region Deal, and the Council retains its normal share of such growth and receives additional payments for the relief of associated demographic and service pressures. The remainder is pooled in the WoE Economic Development Fund (EDF) for reinvestment in the enabling infrastructure.
- b. Providing serviced sites for office and residential development to increase income from the property estate through the development of offices to be leased on market terms. This also helps to diversify the Council's commercial estate.

3.4 Overarching financial risks within the scheme as a whole include direct delivery risks associated with the development and construction of assets and time related inflation risks associated with the development process.

- 3.5 As with all EDF funded schemes under development, there is a risk that business rates growth within the WoE fails to meet all commitments and the Council may be proportionally liable for any funding shortfall.
- 3.6 EDF is payed upon Practical completion of the scheme and there is a risk of incurring short and medium term revenue liabilities associated with delayed completion of the offices and creative workspaces.
- 3.7 The EDF funding is subject to agreement of the Practical Completion milestone, if the milestone achievement is delayed the Council will incur annual revenue liabilities of approx. £60k that would need to be met from departmental budgets or another agreed source of funding subject to the Cabinet approval.
- 3.8 VAT tax and State Aid implications are considered at each stage of the project to protect the Council's financial position.
- 3.9 Financial due diligence for the scheme has been provided by EY.
- 3.10 Further market evaluation will be undertaken for occupancy demand and delivery of the future investment in offices as the scheme proceeds

4 STATUTORY CONSIDERATIONS AND BASIS FOR PROPOSAL

- 4.1 The Council intends to invest in this development pursuant to its powers under s120 Local Government Act 1972 and sections 1 &12 Local Government Act 2003.

5 THE REPORT

- 5.1 Bath Quays South will deliver much needed employment led regeneration at the heart of the Bath Enterprise Area. The project will contribute to B&NES commitment to delivering up to 3500 new homes and 9000 new jobs within the EA alongside increasing business rates income as part of the West of England City Deal (refer Appendix 1).
- 5.2 The February 2017 budget report, approved by Council, includes provisional funding for commercial estate investment £53.6M and Bath Quays regeneration delivery £57M, both subject to business cases demonstrating investment return. Previous Decision E2838 has approved funding of £2.0m to progress the project to planning and full business case; with planning permission now granted, this report seeks approval of total funds of £6.245M against a project business case to deliver the project. The approvals sought for this phase are:
- a. Bath Quays South via direct Council delivery and lease disposals;
 - a. Grant of a long lease interest in Newark Works former machine shops buildings for creative workspace comprising 40,000 sq.ft lettable creative employment spaces – recommendation 2 in section 2 above.
 - b. A delegated mechanism to achieve infrastructure funding via Economic Development Funds supporting utility and services, river wall, infrastructure, public realm and highway – recommendation 3 in section 2 above.
- 5.3 Expenditure on enabling infrastructure will create value in the delivery of serviced sites for office and residential development increasing certainty for

occupiers and investment in the final delivery phase. Subject to confirming market interest in the office scheme, a final phase will seek approval to fund and delivery the office development as Council asset for market leases.

6 RATIONALE

- 6.1 City Deal agreement with the WoE Authorities have set out their growth ambitions. It is anticipated that the Bristol EZ and neighbouring EAs will deliver in excess of 60,000 new jobs by 2030 with the Bath City Riverside EA expected to contribute up to 9,000 jobs. Securing existing businesses in Bath maintains a healthy business community underpinning the ambition to create a vibrant critical mass of commercial employment space on Bath Quays.
- 6.2 Over the past 20-30 years, Bath has failed to develop modern office accommodation within the City. This is continuing to have a significant effect on the economy of Bath and the City now faces a tipping point in terms of maintaining a viable and attractive office sector. Neighbouring centres are increasingly proving more attractive to businesses due to the delivery of attractive, affordable and modern office schemes.
- 6.3 The private sector has failed to respond to demand, choosing instead to deliver more profitable residential accommodation in locations required for office delivery. This has resulted in the gradual decline in quality of Bath's office stock meaning that the city now has very little, if any, Grade A office stock which caters for the needs of modern office occupiers. Furthermore, the city's existing office stock is also coming under increased pressure from developers seeking to secure change of use to residential.
- 6.4 Bath is currently failing to offer suitable business accommodation and this is resulting in the loss of existing Bath-based businesses to surrounding localities where more modern, flexible office buildings can be secured and means that Bath is failing to attract new occupiers. This is having a direct impact upon the City's ability to retain and increase job provision and is affecting the City's ability to maintain its position as a location for high value added, low carbon and high-tech creative businesses.
- 6.5 Over the past 5 years Bath has seen a substantial decline in office provision due to conversion of office space to other uses through the application of Permitted Development Rights (PDR). The total loss to 2015 has reduced available office space in the city by circa 12,000sq.m
- 6.6 The Bath Enterprise Area Masterplan identified BQN and BQS as the optimum location for the delivery of a new Grade A office quarter for Bath known as 'Bath Quays'. Bath Quays will seek to overcome the decline of Bath's office market by delivering a new central business district for the city. It will create an attractive and viable office location, enabling existing occupiers to remain and expand within the City and for potential occupiers to consider Bath as a viable alternative to neighbouring localities.
- 6.7 Bath Quays will serve large and medium office occupiers, forming an important part of the wider 'office ecosystem' which, coupled to Bath's existing office stock, should provide a complete office supply chain for current and prospective occupiers, avoiding the loss of business to surrounding areas and allowing the growth of indigenous business.

- 6.8 The introduction of a critical mass of new office development will also result in opportunities for the upskilling of the population and a diversification of the economy towards higher wage jobs – previous forecasts have projected EA average salaries at £37,900 vs a B&NES average of £20,700, representing a significant enhancement and addressing issues within B&NES currently associated with a relatively low wage economy.
- 6.9 The Bath Quays scheme will also lead to wider health benefits through improvements in connectivity and public realm. The proposed Bath Quays bridge is forecast to result in 300% uplift in cycle commuting and has a forecast health Benefit Cost Ratio of 4.52.
- 6.10 As part of the Councils medium term financial plan, investment in strategic property assets supports the long term financial objective to generate secure revenue income for the Council.
- 6.11 This project facilitates delivery of the above targets.

7 OTHER OPTIONS CONSIDERED

- 7.1 Options for the delivery of the Quays' programme have been considered and have focused on potential routes for delivering development on Bath Quays South. Options considered have included;
- a. Do nothing – this would involve leaving the site in its current state, continuing to incur significant security costs. This is not a viable option as it would not realise the Council's wider strategic policy ambitions for the site and would not represent an appropriate use of such a strategic property asset. Significant revenue reversion risk on resources deployed to date.
 - b. Disposal – the option for the council to dispose of the freehold or long leasehold interest of the Newark Works on the open market was considered and discounted early in the options evaluation. A Bath based business had approached the Council to acquire this site; however the offer failed to realise best consideration. The option to market the site for general disposal was discounted on grounds that the economic outcome could be best met by the Council in its regeneration capacity to deliver office led regeneration where the private sector has failed to do so. The decision not to progress this option was based on an understanding that the Council would be unable to guarantee the timing and form of development on the Quays and could not ensure the delivery of business rates and jobs creation. Freehold disposal would not guarantee office delivery to meet occupier requirements and risk losing further significant employers to locations outside B&NES, negatively impacting the economic vitality of B&NES.

8 CONSULTATION

- 8.1 This report has been prepared in consultation with the Leader of the Council, the Cabinet Member for Economic Development, Cabinet Member for Finance and Efficiency, Section 151 and Monitoring Officers, the Strategic Directors for Place and Resources and Divisional Director for Community Regeneration.

8.2 Consultation with ward councillors, statutory and non-statutory consultees has been undertaken as part of the development of the scheme proposals leading to the submission of the planning application

9 RISK MANAGEMENT

A risk assessment related to the issue and recommendations has been undertaken in compliance with the Council's decision making risk management guidance.

Contact person	Simon Martin 01225 477407
Background papers	<ul style="list-style-type: none">• Cabinet decision E2680 & E2838• Budget report February 2017
Please contact the report author if you need to access this report in an alternative format	