

Appendices: 2 in total



NORTHAMPTON
BOROUGH COUNCIL

CABINET REPORT

Report Title	Northampton Waterside Enterprise Zone: Proposed Purchase of Land at St. Peter's Way.
---------------------	---

AGENDA STATUS **Part Public/Part Private**

Cabinet Meeting Date:	July 19th 2017.
Key Decision:	Yes
Within Policy:	Yes
Policy Document:	No
Directorate:	Regeneration, Enterprise & Planning
Accountable Cabinet Members:	Councillor Tim Hadland / Councillor Brandon Eldred
Ward(s)	Castle

1. Purpose

- 1.1 At a previous meeting of Cabinet the purchase of a site as a strategic acquisition within the Enterprise Zone was agreed (see Plan at **Appendix 1**). In March 2017 Cabinet agreed to purchase land off St Peters Way following environmental and legal due diligence. Cabinet also made the purchase conditional upon (i) Northampton Partnership Homes (NPH) formally confirming that they will relocate to the site, (ii) NPH accepting the market rent for their proposed new premises, and (iii) that Value for Money (VFM) is demonstrated for both the General Fund and Housing Revenue Account (HRA), through the business case prepared by NPH and NBC Finance.
- 1.2 This report now updates Cabinet on progress made in addressing this recommendation and proposes the way forward.

2. Recommendations

That Cabinet:

- 2.1 Acknowledge that Northampton Partnership Homes have confirmed, by an approved minute of their Board, that they will relocate to the National Grid Site B and pay a commercial rent;

- 2.2 Welcomes the forecast financial analysis that Value for Money has been demonstrated in relation to the General Fund for Option 1 NBC build office accommodation at National Grid Site B;
- 2.3 Accepts and understands that based on forecast financial analysis for Option 1 the proposed relocation would represent an additional cost to the Housing Revenue Account;
- 2.4 Approves the proposed purchase on the basis that Northampton Partnership Homes will produce operational efficiency savings to offset the forecast additional revenue cost to the HRA from its Management Fee;
- 2.5 Authorises the Director of Planning, Regeneration & Enterprise acting in consultation with the Chief Finance Officer and the Cabinet Members for Planning Regeneration & Enterprise and Finance, to complete the purchase of the site from National Grid.

3. Issues and Choices

3.1 Report Background

- 3.1.1 In October 2016 Cabinet approved a report concerning the strategic acquisition of this site and it was resolved that:
 - Progress to date in advancing the proposed purchase be noted;
 - The various studies commissioned from AMECfw as part of the Council's environmental due diligence associated with the proposed purchase and the appointment of Nabarro as external legal advisors have been previously endorsed;
- 3.1.2 In March 2017 Cabinet approved a report detailing the progress at that point including work commissioned as part of the Council's required due diligence to support the purchase of land. It was resolved that Council:
 - Notes the results of environmental due diligence undertaken for the Council by AMEC Foster Wheeler (AMECfw).
 - Accepts the draft Heads of Terms for the proposed purchase of the site and authorises the Director of Regeneration, Enterprise & Planning acting in consultation with the Borough Secretary and the Cabinet Member for Regeneration, Enterprise and Planning, to consider and agree any beneficial amendments.
 - Approves the purchase of additional environmental insurance for the site via Arthur J. Gallagher & Co., at a cost of £250k, to be funded from the Strategic Investment Reserve, and instructs the Director of Regeneration, Enterprise & Planning acting in consultation with the Borough Secretary, to take out said insurance at the time of purchase.
 - Authorises the Director of Regeneration, Enterprise & Planning acting in consultation with the Chief Finance Officer and the Cabinet Member for

Regeneration, Enterprise & Planning, to complete the purchase of the site from National Grid at an agreed price of £1.5 million, plus £72,000 stamp duty, as appropriate.

- Approves the existing Capital Scheme being increased by £72,000 to cover stamp duty and that this also be funded from the Strategic Investment Reserve.
- Notes that the site is being purchased to enable the relocation of NPH and its depot and that exchange of contracts will therefore not take place until (i) NPH formally confirm that they will relocate to the site, (ii) accept the market rent for their proposed new premises, and (iii) that VFM is demonstrated for both the General Fund and Housing Revenue Account, through the business case being prepared by NPH and NBC Finance.
- Instructs the Director of Regeneration, Enterprise & Planning, subject to the completion of the proposed purchase, to submit a further report concerning the procurement arrangements and programme for the new office accommodation and associated development that is proposed for the site.

3.2 Issues

3.2.1 A financial analysis has been prepared to assess Value for Money for both the General Fund and Housing Revenue Account based on a number of assumptions as noted below.

- NBC build the office accommodation through the General fund, funded by Public Works Loan Board borrowing as the best way to analyse the project. The final funding of the scheme will be determined as part of a capital appraisal and subject to future Cabinet approval once designs and detailed costs are known.
- NBC to retain direct ownership of the new asset within the Enterprise Zone. The offices be leased to NPH at current market rental prices which will be subject to final agreement as part of the lease negotiations.
- Future development of Westbridge site and the benefit to the general fund has been assessed at a high level and included as part of the **Options 1 and 3** analysed below. It will be subject to a more detailed work and a further Business case with a view to ensuring that VFM is demonstrated.

3.3 Choices (Options)

3.3.1 As part of the business case prepared to assess Value for Money for both the General Fund and Housing Revenue Account (HRA) there have been a number of options developed to assess the financial outcomes. The current position is that the HRA pays an annual “rent” of £320,000 to the General Fund. All of the options assessed for VFM have started from this position. A summary of the annual revenue (savings)/costs arising from the VFM assessment is shown in the table provided below.

Option	Description	General Fund £000	HRA £000	Total £000
Option 1	<ul style="list-style-type: none"> NBC build office accommodation at National Grid Site NPH rent at market value NBC redevelop Westbridge site 	(54)	486	432
Option 2	<ul style="list-style-type: none"> NBC build office accommodation at Westbridge NPH rent at market value 	383	127	510
Option 3	<ul style="list-style-type: none"> NBC do not build office accommodation NPH relocate elsewhere, paying market rent NBC redevelop Westbridge site 	65	486	551

A further breakdown of the options and their financial implications is outlined in **Appendix 2**.

3.3.2 **Option 1** indicates that a modest amount of VFM is demonstrated for the General Fund but not for the Housing Revenue Account which would incur additional costs.

Option 2 and 3 indicates that both the General Fund and the Housing Revenue Account would incur additional costs.

The “do nothing” option indicates a nil overall financial impact.

3.3.3 Unless revenue savings and efficiencies are delivered within NPH and earmarked to offset the additional costs of the proposed relocated offices then the proposed purchase of land and office build does not indicate VFM when assessed on a pure financial basis for NBC overall. It is proposed that these efficiencies/savings are to be delivered from the NPH Operational Management Fee and are not to impact on the repairs and maintenance / capital programme managed budgets and the General Fund.

The impact on the indicative NPH Management Fee as approved by Council when setting the Council’s Budget in February 2017 is illustrated in the table below:

	NPH Management Fee				
	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
	£000	£000	£000	£000	£000
Management - HRA (including Special Services)	13,251	12,914	12,981	12,834	12,998
Additional Savings and Efficiencies*	0	0	(486)	(486)	(486)
Impact to HRA of New Offices	0	0	486	486	486
Revised Fee	13,251	12,914	12,981	12,834	12,998

* Assumed to impact from 2019-20, however the timescales are subject to a further report concerning the procurement arrangements and programme.

3.3.4 It should also be noted that there will be a range of non-financial benefits arising from all options. The main ones include:

- Two important under-utilised sites in the Enterprise Zone will be brought forward for regeneration;
- The use of Westbridge will, in time, be intensified, making better use of the land and creating more local employment opportunities;
- The development of new B1/B2 premises at Westbridge would address a shortage of this type of business space in the Town;
- All new development offers the opportunity to create permanent employment opportunities, temporary construction jobs, create possible apprenticeships and provide temporary work-placements;
- New development also provides the opportunity to work with developers/contractors to maximise the use of the local supply chain, supporting local business and capturing the maximum amount of spend in the local economy.

4. Implications (including financial implications)

4.1 Policy

4.1 The site of the former Gasworks lies within the Northampton Waterside Enterprise Zone (NWEZ). The NWEZ comprises 122 hectares of land and runs adjacent to the River Nene from Sixfields in the West to the western edge of the new University of Northampton Campus. The Zone is predominantly made up of established business estates, but still includes some dormant sites that, for a variety of reasons, have not been delivered by the market. The site off St Peter's Way is an example of this. The acquisition of this site, should that be agreed by

Cabinet, and its subsequent development would therefore regenerate the site and promote the economic well-being of the area.

- 4.2 Advice from GVA suggests that there is a shortage of B1/B2 industrial space in Northampton and that Westbridge, lying on the edge of the Town Centre and being within the Enterprise Zone, would “in principle” be very likely to comprise an attractive location for this type of development.
- 4.2 Beyond that there are no specific policy implications arising from this report. Should the land be purchased and developed then any development would need to accord with the extant Development Plan for Northampton, including the Central Area Action Plan. The proposed use of the site by NPH would, ‘in-principle’, be in accordance with the Development Plan.

4.2 Resources and Risks

Financial

- 4.2.1 As previously reported the proposed purchase price agreed for this strategic acquisition is £1.5 million. An external valuation undertaken for the Council by GVA supports a purchase at this figure. Stamp Duty of £72,000 would also be payable. Were the site to be used for say retail or housing use however, even though this is not proposed, then overage provisions would apply such that the Council could be obliged to make a further payment to National Grid based upon a percentage of the uplift in site value at the point of the grant of permission. Whilst, as stated above, such uses are not being promoted by the Council, Cabinet should nonetheless be aware that overage may apply under certain circumstances. This is not an unusual obligation and is often sought by sellers to ensure that they can obtain a reasonable share of any appropriate uplift in value, should that actually materialise. Such clauses are almost always time-limited and that would be the case here where overage would apply for ten years from the date of purchase.
- 4.2.2 The proposed purchase of this site is currently included in the Council’s Capital Programme at £1.5 million. If the site is acquired it would become a General Fund Asset. The funding for the scheme is currently provided by £772k from external contributions and £778k from the Council’s Strategic Investment Reserve (CSIR). It was agreed that the cost of Stamp Duty should also be met from the CSIR.
- 4.2.3 The Council has been working with AJG, one of the World’s largest insurance brokers, who ran a competition with underwriters with a view to obtaining quotes for additional insurance to cover appropriate risks arising from the former use of this site. This established that the Council is able to secure additional environmental insurance. Although Cabinet has discretion in this matter the purchase of additional insurance is recommended. A one-off payment would provide insurance cover for ten years, which is the normal industry approach when dealing with these types of sites. The cost of this would depend upon the level of cover that the Council elects to take, but it is likely to cost approximately £250k. It was agreed that the cost of this should also be met from the Council’s Strategic Investment Reserve.

- 4.2.4 Should the Council purchase the site, it would incur revenue costs in managing the site and in keeping it secure. These costs are currently being estimated but preliminary work suggests that they should be relatively modest perhaps amounting to approximately £15,000 per year. These costs would only be incurred until the site is developed and occupied. As stated earlier the clear intention is that the site will be used by Northampton Partnership Homes, so these costs should only be incurred for a limited period.
- 4.2.5 Clearly, given that NPH are envisaged to be the end user after the proposed purchase, the Council will want to satisfy itself that the proposed purchase works in value for money terms for both the General Fund and the Housing Revenue Account. Further work completed supports that this will be the case for the General Fund but not for the Housing Revenue Account unless significant savings and efficiencies are budgeted within NPH and earmarked to offset the additional costs of the proposed relocated offices. NPH have confirmed that they wish to proceed with the relocation and they will be responsible for identifying the necessary level of revenue savings and efficiencies.

Risks

- 4.2.6 There are always possible risks associated with the purchase of any land and care has to be taken when considering land that has previously been used over a period of years for the production and storage of gas. As set out in the March Cabinet report, these risks are mitigated by: (i) the work that National Grid has previously completed to remediate the site (ii) the environmental due diligence that has been applied, supported by AMECfw (iii) seeking and taking advice from Nabarro, an external firm of lawyers that specialise in dealing with transactions where there are environmental considerations and, (iv) the proposed use of additional environmental insurance.
- 4.2.7 Whilst it is beyond the immediate scope of the proposed purchase of the land from National Grid, the Council will want to take steps to ensure that appropriate arrangements are made in relation to the procurement of any new development on the site with a view to securing best value. In the meantime officers have undertaken background work which indicates that development of the site should be affordable. A further report addressing these issues will be prepared for Cabinet when the purchase has been completed.
- 4.2.8 The financial analysis outlined in section 3.3 includes a number of assumptions around the market rent, financing and build costs. These have been kept consistent across all 3 options to enable a like for like comparison. However the final market rent agreed and financing costs incurred are subject to future market conditions and may vary to those estimated and included in the options analysis. The build costs will be subject to a procurement exercise approved as part of a future Cabinet report, and again may vary to those estimated and included. The risks noted here have been mitigated by requesting latest estimates from specialists in each respective field.
- 4.2.9 There is a risk that a bespoke building for NPH may not be attractive to the market if, for any reason, NPH relocated elsewhere. This risk will be mitigated

by designing the building in such a way that other potential occupiers would find it an attractive proposition, were it to be available

4.3 Legal

- 4.3.1 In the light of the historic use of this site, the key considerations in relation to this proposed purchase will be the environmental risks which are inevitably involved in owning such property. These include both the statutory control regimes and the risk of third party actions. It is important to bear in mind that there is no suggestion at this stage of risk of damage or loss arising from these issues. Sites with a past history or this sort of use are not inevitably either dangerous or incapable of beneficial use. But due diligence needs to be carefully applied, as it has been in this case, given the history of the site, irrespective of any intended end use or potential occupier.
- 4.3.2 Officers have addressed these issues through (i) commissioning specialist advice on the physical condition of the site, (ii) by engaging external lawyers, Nabarro, which have national experience in dealing with this type of transaction, and (iii) by obtaining a suitable offer of terms for additional environmental insurance to cover both off and on-site risks.
- 4.3.3 External legal advice concerning the transfer of environmental liabilities under the draft Heads of Terms was provided as part of the March report.
- 4.3.4 This acquisition also gives rise to more conventional legal issues relating to the conveyancing process and the terms of any 'overage' provisions which are referred to elsewhere in the report. There are also residual matters from the agreements entered into by the former West Northamptonshire Development Corporation (WNDC) with National Grid in 2014 for investment in an initial clean-up of the site, where the Council are WNDC's successors. These provide for the return to NBC at completion of any purchase of some of the money invested by WNDC in the preliminary remediation.
- 4.3.5 Finally, the Council and its consultants have been obliged, in order to access information held by National Grid, to agree a 'non-disclosure' agreement. Whilst this is standard practice from their point of view, it does mean that some information has to be treated as confidential due to its potential commercial use by third parties.

4.4 Equality and Health

- 4.4.1 A report was commissioned from AMECfw to provide information about any risks to Human Health that may arise from the commercial use of the site. Here AMECfw have stated that "soils on the site are considered to present a medium to low/low risk to future site users in new developments through vapour inhalation. The potential human health risks to off-site users in the East...are also considered likely to be medium low / low risk".
- 4.4.2 Work was also been commissioned to review any risks that there may be to controlled waters associated with the site. This also considered if there were any issues arising from the way the site was remediated. AMECfw have stated Following completion of remediation the Environment Agency have stated that

“the information provided demonstrates that the site poses a low risk to controlled waters and we do not consider additional works to necessary”. Should the site be developed at any point in the future then it would be advisable to consult the Environment Agency at an early stage in the formulation of proposals with a view to maintaining this low-risk classification.

4.5 Consultees (Internal and External)

4.5.1 As would be expected National Grid and their professional advisors have been consulted, as has a potential end user of the site, should the purchase of the site be completed. The Environment Agency and the Utilities, including Anglian Water, have also been consulted on appropriate issues. Internally, Legal, Finance, Property and Environmental Health have been involved in the development of this. The proposed end user NPH has been consulted with.

4.6 How the Proposals deliver Priority Outcomes

4.6.1 The purchase of the site and its subsequent development for commercial use would bring this dormant land in the Enterprise Zone back into productive use.

4.7 Other Implications

4.7.1 None identified.

5. Background Papers

Publicly Available Information

- 5.1 Cabinet Report, October 2016: and March 2017 Northampton Waterside Enterprise Zone: Proposed Purchase of Land at St Peter's Way.
- 5.2 Local Standards and Guidance for Surface Water Drainage in Northamptonshire, August 2016.
- 5.3 Cabinet Report, September 2015: Finance (to 31st July) and Performance Report, June 2015.
- 5.4 Planning Practice Guidance, Flood Risk and Coastal Change, April 2015.
- 5.5 West Northamptonshire, Joint Core Strategy Local Plan, December 2014.
- 5.6 Northamptonshire Local Flood Risk Management Strategy, October 2013.
- 5.7 Northampton Central Area Action Plan, January 2013.
- 5.8 Northampton Central Area Drainage Assessment, August 2012.
- 5.9 National Planning Policy Framework, March 2012.
- 5.10 Level 2 Flood Risk Assessment, June 2011.

- 5.11 Level 2 Flood Risk Assessment, February 2010.
- 5.12 Level 1 Strategic Flood Risk Assessment, February 2009.

Exempt Information: Not for publication, comprising exempt information under Section 12 A of the Local Government Act 1972, as amended, Paragraph 3 (commercial confidentiality) and Paragraph 5 (legal privilege):

- 5.13 Draft sale and purchase agreement
- 5.14 Independent Red Book Valuation for the Site produced for the Council, GVA.
- 5.15 Consultant Environmental Reports produced for the Council, AMECfw.
- 5.16 Consultant Environmental and Remediation Reports produced for National Grid, Celtic & Worley Parsons.
- 5.17 Letter from the Environment Agency to Celtic, a subsidiary of EnGlobe Corporation, May 2015.

**Report Authors: Ian Gray, Interim Director of Regeneration, Enterprise & Planning
Tel. No. 01604 837287
Glenn Hammons, Chief Finance Officer,
Tel. No. 01604 366521**