

<b>CABINET</b>	AGENDA ITEM No. 10
	<b>PUBLIC REPORT</b>

Report of:	Adrian Chapman, Executive Director for Place and Economy	
Cabinet Member(s) responsible:	Deputy Leader and Cabinet Member for Finance and Corporate Governance - Councillor Mohammed Jamil  Cabinet Member for Growth and Regeneration - Councillor Nick Thulbourn	
Contact Officer(s):	Chris Pike, Principal Development Surveyor	Tel. 07973 929285

**DISPOSAL OF GOODS SHED ON FLETTON QUAYS**

**RECOMMENDATIONS**

<b>FROM:</b> Adrian Chapman - Executive Director of Place and Economy	<b>Deadline date:</b> December 2024
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It is recommended that Cabinet:

1. Authorises the disposal of the Goods Shed building for £250,000 plus VAT;
2. Authorises the award of grant funding to Farholt Goods Shed Limited for £1,895,000 relating to the development of the Goods Shed, Fletton Quays;
3. Delegates authority to the Executive Director for Corporate Services in consultation with the Director of Legal and Governance to take all necessary steps to give effect to the recommendations, including entering into any necessary legal agreements.

**1. ORIGIN OF REPORT**

1.1 This report is submitted to Cabinet following Corporate Leadership Team (CLT) on 26<sup>th</sup> November 2024 and Cabinet Policy Forum (CPF) on 3<sup>rd</sup> December 2024.

**2. PURPOSE AND REASON FOR REPORT**

2.1 The purpose of this report is to seek approval to proceed with the disposal of the Goods Shed building on Fletton Quays, to support the delivery of the Towns Fund indicators and to enable the regeneration of an old railway shed. This report sets out the key background information and approach.

2.2 This report is for Cabinet to consider under its Terms of Reference No. 3.2.4

*To be responsible for budget planning, monitoring and expenditure/savings over £500,000, including Discretionary Rate Relief, with the exception of any time critical, operational, or routine decision, which may be determined by the relevant portfolio holder.*

### 3. **TIMESCALES**

Is this a Major Policy Item/Statutory Plan?	<b>NO</b>	If yes, date for Cabinet meeting	N/A
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### 4. **BACKGROUND AND KEY ISSUES**

4.1 Peterborough City Council submitted its Town Investment Plan in July 2019 and was allocated up to £22.9 million towards nine projects including purchasing and redeveloping 62-68 Bridge Street into a new flagship library and cultural hub. The project was intended to deliver a new library, education and workspace facility and food hall incubator to support start-ups and smaller food related businesses to grow. This project is known as the Vine.

The project has gone through several iterations and in 2023 it was decided it was unviable to deliver The Vine at 62-68 Bridge Street.

The Vine was agreed to be delivered across two sites including Central Library and the Goods Shed on Fletton Quays. A separate report will be presented to Cabinet on the wider Vine project in 2025 and this report deals with the Vine project at the Goods Shed on Fletton Quays only.

The council acquired the freehold of the Goods Shed in February 2024 for £250,000. The purpose of the acquisition was to deliver the food hall element of the Vine, and to see one of the remaining buildings on Fletton Quays come forward for redevelopment.

The objectives set for the Goods Shed project are:

- To create a driver of visitor footfall that will be of wider benefit to other businesses and helps this part of the city become economically vibrant.
- To develop a facility that will be well used by all sectors of the community including local businesses and the city's new University.
- To deliver incubator spaces for food and beverage businesses
- The Goods Shed will be highly visible along the riverbank for car and bus users creating a natural marketing opportunity for the building itself and the city centre beyond and enabling those greater footfall levels, social value opportunities, and low carbon narrative in this emerging area of the city.

The Goods Shed project will be delivered through the refurbishment of the current railway goods shed and the surrounding open area. The Goods Shed is a Grade II listed Victorian building.

The Property is vacant and has had no use since the site was used by the railway. It extends to approx. 1,158 m<sup>2</sup> (12,464 ft<sup>2</sup>) gross internal area of which 992m<sup>2</sup> (10,682 ft<sup>2</sup>) comprises the main shed, being a single open plan former industrial area, and 166m<sup>2</sup> (1,782 ft<sup>2</sup>) comprises ancillary

structures. The property occupies a riverside site of approx. 0.411 hectares (1.01 acres) adjacent to Sand Martin House, the council's principal office building.

The council commissioned a quantity surveyor assessment of the required building works which confirmed an estimated development cost in the region of £7.1M.

In March 2024, the council sought expressions of interests for an operator to lease the building from the council. This ran for 6 weeks and the council reached out to several local property agents to push the opportunity wider. The expressions of interest considered two approaches to bring the building forward.

- The operator enters a lease with the council and delivers the design, build and operates or;
- The council designs and completes the necessary building works to the structure and the operator fits out before operating.

It was considered at this time that both approaches would require some form of Towns Fund grant funding.

The outcome of the expressions of interest was that there were 12 interested parties, of which only two were operators and the remainder were construction firms and property consultants. Out of those operators, there was a desire for a long lease with a lengthy rent-free period or freehold purchase given the investment needed. The decision was taken to dispose of the building and to enter negotiations with an operator with business, investment, development and food & beverage operational experience.

The grant funding remedies a market failure by gap funding part of the redevelopment cost to make the development viable. A market failure is the gap between the market value and the cost of the development. It would enable the council to deliver its Towns Fund objectives including seeing a building regenerated with a long-term use to support the local economy and people living within. The project has abnormal costs associated with its history as a railway shed and the building's listed building status, making it difficult for the private sector to fully fund the investment needed.

4.2 The vision for the Goods Shed aligns with the Fletton Quays Design and Access Statement around:

- Attracting new and innovative ways of encouraging investment and growth
- Dramatically improving the public realm and river frontage
- The protection, enhancement and reuse of the existing listed railway shed
- Become an extension of the city centre, acting as a stepping stone and a destination

The Goods Shed will be used as a food hall which will allow users to sample a range of different dishes from a host of unique and independent street food vendors in one location set in a large communal space. The vision is to create a destination venue that is inclusive for everyone. The project will offer an incubator for small local hospitality businesses, and the council is permitting other ancillary complimentary uses to support viability providing the primary use is as a food hall.

4.3 The heads of terms relate to the disposal of land and building as shown on the plan in Appendix 1. This is a compliant off market transaction following expressions of interest.

The principle terms of the disposal include:

- Purchaser: A subsidiary of Farholt Limited known as Farholt Goods Shed Limited.
- Freehold disposal sold as seen with vacant possession.
- Purchase price of £250,000. The value offers best consideration under Section 123 of the Local Government Act, and recoups the price paid for the building by the council in February 2024.
- The building will be subject to a restriction on title to use principally as a food hall with ancillary offices and workspaces being permitted in part, subject to planning.

The principle terms for the grant agreement include:

- Grant payment of £1.895m with payments being released by the council at key milestones as part of a grant claim review process. The value offers best consideration under Section 123 of the Local Government Act.
- The grant term will expire on 31<sup>st</sup> March 2027.
- The council will set a long stop date for the developer to submit planning and to commence the construction works on site.

The purchaser has presented a detailed financial model for the food hall operation which has been reviewed by the council's finance team. The model is ambitious and applies a percentage for peak and non-peak days. The council has commissioned an updated independent Red Book valuation to satisfy Section 123 of the Local Government Act requirements for the disposal, and this clarifies the grant funding being offered is within the allowance threshold. Subsidy control advice confirmed the grant funding awarded to the purchaser must not exceed the viability gap in relation to the delivery of the Goods Shed.

The purchaser has provided their funding profile which will accompany the grant agreement which sees the grant spending spread across the lifetime of the project. The purchaser will be funding the remaining construction and fit out cost using institutional investors and other sources.

Given Farholt Limited is a dormant company and Farholt Goods Shed Limited is a newly active subsidiary, we haven't been able to complete the necessary checks on the company. We have completed checks on the purchasers individually and other companies, and no concerns were raised from the information available. The purchaser has the knowledge, skills and contacts to meet the planning, building and grant funding requirements of the development. The council has explored other forms of security against the grant agreement, and it was concluded that the grant agreement would be registered as a restriction on title. Other securities either could not be offered, impacted private sector borrowing or carried little weight.

The council has applied further mitigation measures to protect the grant including a draw down process at completion of key milestones, an overage should the purchaser sell post construction and profit, and the deployment of a council monitoring role with the need for regular progress meetings. The purchaser will lead this project, and the Council will monitor performance throughout. The purchaser's budget cost for the project is currently higher than the council's costings. This will be reviewed by the purchasers during design, but the purchaser will need to make up the additional cost. The purchaser will be expected to provide proof of funds for the construction phase before drawing down grant funding towards the construction.

#### 4.4 Programme and project

The parties are targeting exchange in January 2025, with completion of the transfer being subject to planning approval. The contract will be drafted so it falls away if planning permission is refused. The purchaser target milestone dates for project delivery includes:

- Design commencement - January 2025
- Planning submission – June 2025
- Planning award – October 2025
- Completion of sale transfer – November 2025
- Construction – February 2026
- Construction practical completion - February 2027

These dates above are only target dates and are subject to change. The contract documents and grant agreement will need documenting by a lawyer and agreed between the parties before contracts can be exchanged. This may delay the commencement of design.

The grant agreement will be entered on exchange of contract to enable the purchaser to draw down funding at agreed milestones.

From completion of the transfer, the council will play a monitoring role to ensure the purchaser delivers the project within the parameters of the grant funding.

The £1.895m grant is approximately 20% of the purchaser's total development value. The costing is likely to be reviewed and reduced throughout the design stage, to reduce the viability gap further. The council will monitor the grant expenditure throughout the project. There is no onward procurement of suppliers to consider. The grant flexibility is a risk but mitigated by monitoring and a payments process.

The grant funding will be used towards design and construction.

## 5. **CORPORATE PRIORITIES**

5.1 The recommendation links to achieving the following Corporate Strategy outcomes:

- Economic & Inclusion Growth, Places and Communities.

### **Environment & Climate Change**

Disposal of the Goods Shed will have limited impact to city wide emissions, as the delivery of an incubator space for food and beverage spaces will continue through an alternative provider.

Given the property is being sold to a private sector developer, the Council do not have the ability to implement conditions on the transfer to minimise the city's carbon emissions, however it is anticipated that the developer will seek to make the building energy efficient. The developer will be encouraged to recycle materials on site where feasible, and to buy local goods to maximise carbon capture.

Retention of the Good Shed would see Council emissions rise; this will be avoided should the disposal be agreed.

## **CONSULTATION**

6.1 Councillors to be consulted with:

Deputy Leader and Cabinet Member for Finance and Corporate Governance - Councillor Mohammed Jamil

Cabinet Member for Growth and Regeneration - Councillor Nick Thulbourn

Ward Members (Fletton & Stanground Ward)

- Councillor Polly Geraghty
- Councillor Christian Hogg
- Councillor Jade Seager

6.2 This recommendation has been considered by the Corporate Leadership Team (CLT) on 26<sup>th</sup> November 2024 and Cabinet Policy Forum (CPF) on 3<sup>rd</sup> December 2024.

**7. ANTICIPATED OUTCOMES OR IMPACT**

7.1 The outcomes we are seeking to deliver align with the objectives of the project including regenerating a site, offering incubators spaces for new and small businesses which will support the high street as these businesses grow and move on, and driving visitor footfall which will have a wider benefit on other businesses and help this part of the city become economic vibrant.

The outcomes will deliver the indicators set out for the grant including:

- Heritage building renovated/restored
- New public facility created
- Birth of new enterprises
- Greater consumer spending
- Increase in day visitors / footfall

Although the project comes with some risk given the nature of the works, and the need for grant funding, the Council has identified a purchaser with sufficient experience to give this project the best chance of success.

If the project is not delivered, or is delayed, there is a risk that this could impact the wider Vine project. The Council has structured the deal to best protect the grant funding during the grant term.

**8. REASON FOR THE RECOMMENDATION**

8.1 The recommendation to dispose of the Goods Shed to a purchaser with investment, property development and hospitality experience gives this project the best chance of success. Although there is a viability gap, the purchaser has taken a pragmatic view and is comfortable they can make the scheme work.

If this disposal is not supported, the council will not deliver the Vine outcomes, principally the Food Hall elements and there could be a wider impact on funding. If this project does not proceed, the council would need to reconsider its options for the Goods Shed which may include a disposal or to identify funding and develop out for another purpose.

This transaction is part of the essential investment in wider city centre regeneration, supporting the economy and increasing much needed footfall. Without the disposal further regeneration of the Fletton Quays area will be stalled indefinitely.

**9. ALTERNATIVE OPTIONS CONSIDERED**

9.1 The Vine project has gone through several iterations and the following options for the food hall have been considered:

- 1) 62-68 Bridge Street – this was disregarded due to viability challenges
- 2) Central Library – this was disregarded due to space restrictions
- 3) Status quo – ‘do nothing’ – this was disregarded given this does not support the council’s ambitions. A do-nothing solution sees the Goods Shed building with no use and impacts the outcomes of the wider Vine project.

The council has considered alternative options for the Goods Shed building should this project not proceed, and we feel that viability will continue to be a challenge. This project does come with some risk, and the council will have measures in place to best protect the funding.

## 10. IMPLICATIONS

### Financial Implications

10.1 The proposal is consistent with the project budget for the Goods Shed element of the Vine project, within the Towns Fund element of the council's capital programme. The costs of acquiring the site will be recovered from the proceeds of sale, and £1.895m of external Towns Fund grant is set aside in the project for grant funding to deliver the outputs associated with the food and beverage provision of the Vine project.

At this stage there is insufficient assurance that the revenues generated from the operation are sufficient to fund the level of developer investment required. Initial financial modelling suggests a viability gap beyond the grant being made available. However the purchaser will be amending their financial model throughout the design stage looking at ways to reduce capital, increase turnover and increase efficiencies to reduce the viability to a position they are comfortable with delivering.

The council's funding will be limited to the Towns Fund grant allocation of £1.895m. The purchaser will fund the remaining capital cost and will need to address the remaining viability gap through a combination of value engineering of the capital works, and optimising the revenue operation to achieve a sustainable enterprise.

The risk to the council of achieving the required outputs associated with the grant funding will be managed through a staged payment and monitoring process.

The grant will need to be committed by 31<sup>st</sup> March 2026 and the longstop date for spend is 31<sup>st</sup> March 2027 to ensure the council comply with the conditions of the grant.

The purchaser will provide the council with proof of funds for the total construction value minus the grant funding before drawing down grant funding towards construction.

### Legal Implications

10.2 The disposal of the land will be subject to the usual legal due diligence exercises, title analysis and compliance with any restrictions on title. However, being a disposal of land, caveat emptor will apply: generally, it is for the purchaser to satisfy itself that it is taking this land with good title, free from third party interests and that any restrictions on title will not prevent the developer from carrying out its contractual obligations.

Section 123 of the Local Government Act 1972 requires the Council to achieve the best consideration possible on any disposal of land. This obligation has been met by the commissioning of an independent Red Book valuation, which demonstrates the value being achieved for the building disposal is compliant and the viability gap is justified.

The grant will be made in compliance with the provisions of the Subsidy Control Act 2022.

**11. BACKGROUND DOCUMENTS**

11.1 None

**12. APPENDICES**

12.1 Appendix 1: Site Plan