

**Not for Publication**

Appendix 5 of this report contains exempt information contained in Paragraphs 3 and 5 of 12A of the Local Government Act 1972 (information relating to the financial and business affairs of the Council and also information to which legal professional privilege could be applied)

Report to: **Executive**

Date: **19 October 2017**

Title: **Kingsbridge Quayside Master Plan Update**

Portfolio Area: **Assets**

Wards Affected: **Kingsbridge**

Relevant Scrutiny Committee: Internal

Urgent Decision: **N** Approval and clearance obtained: **Y**

Date next steps can be taken: After approval at full Council

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**Recommendations:**

**That Executive RESOLVES:**

1. To note the outcome of the Master planning exercise;
2. To proceed to Stage 2 which will seek to improve financial viability through more detailed design work, determine the best project delivery and funding options and secure planning approvals;
3. To deliver Stage 2 in two phases, referred to herein as Stages 2A and 2B;
4. To prioritise the delivery of community housing as identified for Area 4;
5. To fund the full Stage 2 process, at a cost of £30k for Stage 2A and

**To RECOMMEND to Council:**

6. To fund approximately £170k for Stage 2B, from the Capital Programme Earmarked Reserves.

## **1. Executive summary**

1.1 This report;

- provides a summary of the work that has been undertaken as part of the Kingsbridge Master Plan project, referred to herein as **Stage 1**
- recommends how the master plan should be taken forward, referred to herein as **Stage 2**.

1.2 Stage 1 was commissioned to assist South Hams District Council (SHDC) understand the potential for developing Kingsbridge Quayside, and surrounding parcels of land within its ownership, in terms of what would be practical and viable.

1.3 Stage 1 has identified the baseline constraints and opportunities for development within the already allocated TTV13 site boundary.

1.4 The current site allocation (TTV13), as presented within the Joint Local Plan (JLP), comprises the potential delivery of 100 homes and 200m<sup>2</sup> of employment land.

1.5 The master plan (Stage 1) has focused upon development options within the following four areas:

Area 1: Market Square

Area 2: Quayside Car Park

Area 3: Ropewalk (Cattle market) Car Park

Area 4: Area above Rope Walk, adjacent to Kingsbridge College

**Refer to Appendix 1 for figure illustrating the locations of these four areas.**

1.6 Following workshops with Kingsbridge Town Council, local members and stakeholders Stage 1 ended with a public consultation event which was held between the 16<sup>th</sup> June and the 23<sup>rd</sup> July 2017. This period included a two week extension to provide more time for the public to respond to the questionnaire.

1.7 The public consultation process has identified the following primary concerns;

- any development on the quay.
- any net loss of car parking spaces.
- the development of any houses that could become second homes.

1.8 There was broad support for genuinely affordable homes and a desire from the Town Council to deliver these as a priority (Areas 3 & 4).

1.9 An appraisal of a reduced scheme with less development on the Quay was undertaken in response to the public feedback, which will help inform what is possible at Stage 2.

1.10 The viability appraisal shows that Areas 3 & 4 return a loss and will therefore require cross subsidy either from the Area 2 development or alternative funding sources.

- 1.11 The appraisal indicates that the scheme is most viable with the Council acting as the developer and therefore carrying the associated project risks, whilst retaining control. Lower risk options such as disposal or Joint Venture (JV) do not, at this time, generate a net financial surplus.
- 1.12 The appraisal shows an overall return on capital of 6.5% for the scheme as per the public consultation, or 5.7% for the reduced scheme. Whilst the financial position of both options is currently deemed too low this is not uncommon for a scheme of this complexity, at this stage. It is felt that a more viable financial position can be achieved through further option development, Stage 2, which will reduce financial risk without sacrificing social benefits.
- 1.13 A planning application which would be the output from Stage 2 would need to include Areas 1, 2, 3 & 4 to ensure that the 40% affordable homes criteria is met site wide. However, it is proposed to submit a hybrid application including detailed design for Area 4 and possibly Area 3, so as to move forward the community housing and affordable elements as a priority.
- 1.14 Stage 1 has currently cost SHDC £106k. This has consisted of the original project commission (76k) plus an additional reserve request (30K) to enable officers to address additional elements raised by both Kingsbridge Town Council and local members.
- 1.15 It is recommended to proceed to Stage 2, funded from Capital Programme Reserve, which would involve market testing, design and submission of a hybrid planning application.
- 1.16 Stage 2 is estimated to cost approximately £190k and would take approximately 12 months from completion of the associated procurement. It is possible to roughly apportion half of this cost to project works associated with Area 3 & 4. The work would comprise of the following cost areas:
- Market testing and refinement of business model.
  - Lead consultant design work across all four master plan areas (Areas 1 to 4).
  - Additional consultant input; Cost Consultant, Landscape and Visual, ecology, transport and highways across all four master plan areas (Areas 1 to 4).
  - Planning fees, including outline planning and resolution of any reserved matters.
- 1.17 The total spend for Stage 1 and Stage 2 would be in the region of £307k. The Council previously spent £483k, (including 23k stamp duty), to purchase the Rope Walk site. It is envisaged that this expenditure would be recouped in total if a development proceeds. There is however a risk is that if no development took place that a percentage of the Stage 1 and Stage 2 fees would be lost.

## **2. Background**

2.1 Kingsbridge Quayside (formally known as K2) was originally allocated as part of the Kingsbridge Site Allocations Development Plan Document (DPD), which was adopted in February 2011. The site allocation is described as being:

- About 1 hectare of employment land, offices and workshops;
- About 100 dwellings;
- Enhanced public realm including access to and focus on the Estuary;
- Retention of existing levels of car parking; and
- Cycle and footpath provision including enhanced access to the town centre.

### **Refer to Appendix 2 for figure illustrating the K2 allocation**

2.2 This allocation has been retained in the emerging Joint Local Plan (JLP). Policy TTV13 identifies potential for housing, shops, employment, leisure and public realm improvement. A key difference from the DPD is a reduction in the employment floor space (Use Class B1) from 1 hectare to just 200m<sup>2</sup> to avoid creating competition with Fore Street.

### **Refer to Appendix 3 for figure illustrating the JLP recommended allocation**

2.3 A large section of the allocated site falls within the ownership of South Hams District Council (SHDC) including:

- Town Square and Bus Station
- Quay Side Car Park and leisure centre
- Cattle Market Car Park
- Rope Walk Resource Centre (purchased by SHDC in 2016 for £483k, including £23k stamp duty charge)
- Area of land adjacent to Kingsbridge School

2.4 In June 2016, the Executive approved the appointment of a lead consultant to undertake a master plan (Stage 1) for the site. The consultants brief included the following outputs:

- Baseline constraints and opportunities
- Stakeholder engagement and workshops
- Concept design and financial constraints
- Public consultation
- Final appraisal and summary report reflecting all of the above.

- 2.5 The commission was awarded to Montagu Evans following the completion of a public procurement exercise. The original approved budget was £76,000 however this was increased to £106,000 in March 2017 following the approval of a £30,000 reserve request. This reserve request was to enable the project team to address additional pieces of work which had been raised by both Kingsbridge Town Council as well as local members.
- 2.6 The aim of the study was to develop a comprehensive masterplan for the regeneration of the quayside area in order to create a vibrant and mixed use quarter which will become a location of choice for the business, living, leisure and commercial sectors.
- 2.7 The master plan process has comprised the following elements:
- Desktop Study & Preliminary Key Stakeholder Workshop
  - Concept Design and Financial Strategy
  - Stakeholder and Community Consultation
  - Master Plan Document & Business Case

### **3. Master Plan – Key sections and outputs**

- 3.1 The final masterplan document, as produced by the consultants Montagu Evans (and LHC), is included within **Appendix 4** of this Executive Report. An overview of the key sections and their respective findings are presented within the rest of this Section 3.
- 3.2 Section 1 of Appendix 4 provides further details of the wider project objectives.
- 3.3 Section 3 of Appendix 4 identifies a number of key site constraints for consideration if moving forward, including:
- A public footpath runs down the back of the Quay Car Park which may need diverting depending upon any final proposals on the Quay.
  - The visual impact of the any scheme will need to be carefully considered to ensure it is in keeping with the surrounding environment and designation of the Area of Outstanding Natural Beauty. Initial work has been undertaken to gather the baseline data which would ultimately inform a Landscape and Visual Impact Assessment.
  - The Quay wall is known to be in poor condition and a separate feasibility study is underway to investigate remedial options. This is likely to be expensive and disruptive and will be subject to a separate tendering exercise to ascertain exact costs.
  - Ground conditions. A full ground investigation has been undertaken, as part of the separate quay wall project, which shows that any quayside building would need to be built on piled foundations. The cost appraisal for the scheme includes for this item, but should the pile depth vary, it could have an impact on cost.

- 3.4 Section 4 of Appendix 4 provides an overview of the initial concept design which balanced the key project objectives against that defined in the site allocation. It represented the possible, not necessarily the desirable. This concept went to public consultation and comprised of:
- Highways and public realm improvements around Market Square (referred to as Area 1)
  - Approximately 50 new residential apartments with allocated parking at the Southern end of the Quay (referred to as Area 2)
  - Approximately 40 new affordable homes, including community housing scheme built in partnership with the local community (referred to as Area 3/4)
- 3.5 It was presented that this scale of development could result in a net loss of 57 car parking spaces (worst case), out of the 374 spaces provided across both the Quayside and Cattle Market car parks. Following the completion of a car park assessment, which is presented within Section 3.2 of Appendix 4, this level of parking loss can be shown to still meet demand, albeit public perception is that any loss of parking is undesirable and the project team recognise that. In addition the scheme proposed to provide SMART car park signage to alleviate any parking pressures.
- 3.6 Section 5 of Appendix 4 provides the results of the public consultation, held between the 16<sup>th</sup> June and 23<sup>rd</sup> July 2017, which invited members of the public to comment and provide feedback on the concept development options.
- 3.7 Following consultation with the portfolio holder and Executive, it was decided to extend the deadline for the consultation by a further two weeks. A final public engagement session was run at the Leisure Centre in the final week.
- 3.8 The public consultation gained in excess of 700 respondents which represents just over 10% of the local population, based upon 2011 census.
- 3.9 Whilst imperative that the results are not generalised, some clear trends have emerged:
- The highway and infrastructure improvement opportunities identified in Area 1, in conjunction with Town Council, were not well supported.
  - Improvements and repairs to the quayside walls were seen as a priority in terms of infrastructure improvements.
  - Resistance to any development on the quay. Were there to be any development, it should be at a scale that is not out of place with Kingsbridge.
  - Disagreement that the consulted concept achieved the right balance between development and retention of car parking. As previously indicated the consulted scheme indicated a potential net loss of 57 car parking spaces.

- Strong agreement that the scheme should prioritise provision of affordable housing for the local community.
- That the scheme should not include significant retail element, as it should not compete with Fore Street.
- Some recognition that development of Kingsbridge quayside is needed to support costs of improvements to public realm and provision of affordable housing.
- There was little support for a walkway or bridge across the end of the Quay. Anecdotally, there was support for an increase in mooring provision for boat owners and anything that improved water access and utilisation.

3.10 Younger age groups were not as well represented within the questionnaire feedback and there was more support towards the scheme from those aged below 45. Further detail is provided within Section 5.5 of Appendix 4.

3.11 Section 6 of Appendix 4 provides an alternative concept layout which was developed in consultation with the wider project team following a preliminary analysis of the consultation results. This alternative option begins to respond to the community request to bring forward a smaller scale of development on the Quayside, retained affordable housing and reduced parking impact.

3.12 This concept comprises of:

- Approximately 28 new residential apartments with allocated parking at the Southern end of the Quay (Area 2)
- A mix of 13 private and 5 affordable homes on the ropewalk site (Area 3)
- A community housing scheme built in partnership with the local community (Area 4) comprising of 22 dwellings.

3.13 Section 7 of Appendix 4 provides an overview of the financial and viability assessment of the concept options presented within Section 4 (89 unit) and Section 6 (68 units) of the masterplan document.

#### **4. Financial Viability**

*Note: Additional financial information is presented within Appendix 5 which forms an exempt appendix to this report. This is because the information contained is considered commercially sensitive.*

- 4.1 In order to deliver on the wider project objectives it is important that the proposals are commercially viable and adequately consider the associated project and construction risks.
- 4.2 Typically a private developer would be looking for any scheme to generate a return in excess of 20%. SHDC is not a private developer and should therefore consider the wider benefits of a scheme, rather than just profit. However, it must also balance the risks associated with the development and ensure that a sound commercial case exists.

- 4.3 The viability assessment has included the following assumptions and inclusions:
- Existing land value associated with the Quay Car Park.
  - The acquisition of the Rope Walk in 2016 for £483k.
  - Infrastructure and public realm costs totalling £1.1m.
  - Construction and project risks of 10% and a 5% respectively.
  - No reliance upon external funding
- 4.4 It would clearly be beneficial to investigate any funding opportunities should the master plan lead into Stage 2, as is recommended. It is acknowledged that there is an opportunity to submit a business case to support the delivery of the community housing identified within Area 4, from the community housing fund.
- 4.5 Financial assessments have been undertaken on both the concept options presented within Section 4 (89 units) and Section 6 (68 units) of the masterplan document respectively.
- 4.6 The project cost are estimated to be in the region of £27m (Option 1) and £21m (Option 2) respectively.
- 4.7 The return on investment for the larger scheme is estimated at 6.5% and 5.7% for the reduced scale scheme. Neither scheme is currently viable at this threshold when considering delivery risks.
- 4.8 Any one-off capital return to the Council would be a capital receipt under section 9 of the Local Government Act 2003. Therefore the return generated by the scheme for the Council is not a revenue return, as it can only be used to fund future capital expenditure.
- 4.9 "Build for sale" will be a capital transaction for financing purposes. The proceeds will go to the Capital Receipts Reserve and are not available to fund revenue expenditure.
- 4.10 The viability assessment represents a conservative analysis, which is deemed appropriate for this project stage, however the project team firmly believe that this level of return can be improved during the Stage 2 process, where by the project risk profile is more positive.
- 4.11 Should the Council wish to move to Stage 2, as is recommended, this would allow further work to be undertaken to review the costs, with market discussions, evaluate the contingency and drive better viability through the design process.

## **5. Project risks and delivery**

### *Stage 2 risks*

- 5.1 Should the Council decide not to move forward to stage 2, the allocated site will stall, failing to deliver the allocated affordable and open market housing.
- 5.2 This in turn will have an impact on the Council's joint local plan and the 5 year land supply, and the ability of the planning authority to resist unsustainable development applications. The scale of this risk is however hard to quantify.



- 5.3 Should the Council move forward with the scheme and then decide not to implement the planning application, or fail to submit a planning application, then the costs incurred would need to be recouped via an exit strategy. Whilst there are currently options (reference section 8), the scale of the costs incurred will clearly increase as the project proceeds.

*Delivery risks*

- 5.4 In addition to the site constraints, which would need to be addressed during the design stage, the viability analysis has indicated that any potential return for the Council is likely to only be realised if the Council were to act as the developer and therefore carry the project risk.
- 5.5 For the avoidance of doubt, direct delivery of the scheme carries the most risk to the Council, but also offers it the most control and biggest potential reward in terms of delivered benefits to the people of Kingsbridge and South Hams.
- 5.6 The business case as it currently stands effectively rules out selling to a developer on viability grounds, although this report does recognise that it has taken a conservative approach to the figures, which should stand to improve through Stage 2.

*Planning and affordable housing risks*

- 5.7 It has been recognised through the masterplan that any planning application should include all areas proposed for development, not just Area 3 or 4.
- 5.8 If Area 3 or 4 is taken forward in isolation, then the affordable housing delivery will be dramatically reduced, as each area would need to become viable in isolation, necessitating open market homes to form part of the mix.

*Legal*

- 5.9 A preliminary review of title deeds has been undertaken by SHDC to identify any limitation and covenants. This will need to be reviewed and any necessary actions taken once a preferred scheme has been identified.

## **Conclusion**

5.10 The purpose of the masterplan has been to set out what is possible within the allocated TTV13 site boundary.

5.11 The masterplan process has demonstrated that:

- There are mechanisms by which the allocated site could be developed to deliver positive outcomes to both the local community and the Council.
- The public consultation has highlighted the key concerns, and challenges moving forward, which will need to be considered and where possible addressed during Stage 2 of the project, should it go forward.
- The viability assessment has shown that the original project objectives can be met but only if the Council undertakes direct delivery and therefore will carry the project risk, whilst retaining control.
- In addition the viability assessment shows that Areas 3 & 4 are loss making and will require cross subsidy from open market development in Area 2.

5.12 The Council must now decide if it wishes to comply with current national and local housing policy for this allocated site, by moving it forward. Failure to do so will result in a lack of affordable housing delivery in Kingsbridge, and potentially a wider housing land supply planning risk.

5.13 The total capital cost of the project is likely to be in the order of £21 - £27m, so members should consider this as part of their decision making process should they agree to go to Stage 2. Stage 3, which would be the delivery stage, would necessitate prudential borrowing as the Council does not have sufficient reserves to finance the construction.

5.14 All the work done to date indicates that it is possible to achieve the project and site allocation aims on this site, to the benefit of the many. However, the Council members should recognise that this project will deliver change, with which will come challenge. It should not embark on this journey lightly.

## **6. Recommendations**

- 6.1 It is recommended that the project is taken forward to Stage 2.
- 6.2 Stage 2 will enable the masterplan to be turned into detailed designs and allow the key public concerns to be addressed in further detail.
- 6.3 The output of Stage 2 would be the submission of a planning application.
- 6.4 Stage 2 will need to include the following elements:
  - Further key stakeholder engagement
  - Consultant support
  - Market testing
  - Review of delivery and procurement model
  - Preliminary and detailed design
  - Architectural design review panel
  - Environmental, ecological, geotechnical and drainage assessments to support planning (already underway as part of Stage 1).
  - Footpath constraint strategy
  - Design review panel submission
  - Updated detailed business case
  - Delivery programme
  - Exit Strategies (see Section 8 of this report for further detail)
  - Planning submission (likely to be hybrid application plus more detailed for Area 4)
- 6.5 It is recommended that Stage 2 is delivered in two phases, 2A and 2B.
- 6.6 Stage 2A would commence immediately upon approval and would consist of:
  - Updated internal layouts
  - Unit pricing to refine understanding of revenue
  - Updated cost plan
  - Discussions with 2 HA's to review affordable housing demand/options
  - Canvass feedback on demand/residual values from 6 developers/HA's to inform business plan
  - Report from Montagu Evans on the feedback from the above to cover (1). Revised appraisals based on SHDC developing out itself or (2). Disposing/JV with a developer/HA
- 6.7 The cost of undertaking Stage 2A is £30k.

- 6.8 It is proposed to undertake Stage 2A using the existing project consultants, thus no further procurement will be required and the work can be done quickly.
- 6.9 Stage 2B however is likely to require a differing procurement strategy as a result of spend to date and various procurement thresholds. It will also ensure the project continues to get best value.

The cost of Stage 2B is estimated as being £170k. Approximately half of this is spend relates to Areas 3&4 (affordable housing). Further breakdown of the cost estimate for Stages 2A and 2B is provided within Appendix 5.

- 6.10 It is proposed to fund this cost pressure from Capital Programme Earmarked Reserve with a view to replenishing the funds via one of two options. Option 1, the capital receipt generated from the sale of two properties at Leechwell Street, Totnes, in year 17/18 (report on the forward plan for Executive in October 2017). Option 2, should the scheme proceed past Stage 2, the funds would be set against the surplus of the scheme. This is likely to be in year 20/21 at the earliest.
- 6.11 It is imperative that Stage 2 is developed in consultation with the Executive and local members, and it is proposed to hold regular workshops to shape the outcome of the final planning submission. The project team would look to work closely with key stakeholders.

## **7. Exit Strategy**

- 7.1 The Council has currently spent :
- £483k (after purchase costs) on acquiring the Rope Walk site
  - £107k on completing Stage 1.
  - £200k *Stage 2 request (not yet spent)*
- 7.2 As of today, should the scheme not go forward as recommended, what exit strategy does the Council have given its financial exposure?
- 7.3 In that scenario it is recommended that the Council sells the Rope Walk site at best consideration. Our work to date indicates that we can achieve a disposal on par with the cost of purchase and some of the Stage 1 work.
- 7.4 To recover any shortfall it would be recommended to revisit the land deal with the Tumbly Hill development that is currently on hold. This was previously agreed at £80k which would recoup a further proportion of the costs of Stage 1.
- 7.5 Undertaking Stage 2 in two distinct stages will also provide an additional exit point, with reduced additional spend (30K) should the financial viability fail to be improved.

## 8. Implications

<b>Implications</b>	<b>Relevant to proposals Y/N</b>	<b>Details and proposed measures to address</b>
Legal/Governance	Y	Appendix 5 of this report is exempt under paragraphs 3 of schedule 12A of the Local Government Act 1972 in that it concerns the financial or business affairs of the Council. The public interest has been assessed and it is considered that, at this stage, the public interest is better served by non-disclosure to the press and public
Financial	Y	It is recommended that the full Stage 2 process, at a cost of £30k for Stage 2A and £170k for Stage 2B, is funded from the Capital Programme Earmarked Reserves.  Reference Section 8 and Appendix 5 (exempt) of this report
Risk	Y	Reference Section 5 of this report.
Comprehensive Impact Assessment Implications		
Equality and Diversity	N	Not applicable.
Safeguarding	N	Not applicable.
Community Safety, Crime and Disorder	N	Not applicable.
Health, Safety and Wellbeing	Y	Not applicable
Other implications	N	Not applicable.

### **Supporting Information**

#### **Appendices:**

Appendix 1: Location of key Master Plan areas

Appendix 2: Figure illustrating the K2 allocation

Appendix 3: Figure illustrating the JLP recommended allocation

Appendix 4: Consultants Masterplan Document

Appendix 5: Financial Information (EXEMPT)

<b>Process checklist</b>	<b>Completed</b>
Portfolio Holder briefed	Yes
SLT Rep briefed	Yes
Relevant Exec Director sign off (draft)	Yes
Data protection issues considered	Yes
If exempt information, public (part 1) report also drafted. (Executive/Hub/Scrutiny)	-

