

# STROUD DISTRICT COUNCIL

## STRATEGY AND RESOURCES COMMITTEE

THURSDAY, 21 NOVEMBER 2024

<b>Report Title</b>	<b>Brimscombe Port: Development Agreement</b>			
<b>Purpose of Report</b>	To seek approval to the purchase of commercial units to be developed at Brimscombe Port and the final Heads of Terms for the Development Agreement with St Modwen Homes and make the necessary recommendations to Council.			
<b>Decision(s)</b>	<p><b>The Committee:</b></p> <p>1) <b>RESOLVES</b> to approve the final Heads of Terms for the Development Agreement between Stroud District Council and St Modwen Homes set out in Appendix B to this report (and reflecting the decision to be made by COUNCIL at 2 and 3 below); and</p> <p>2) <b>RECOMMENDS TO COUNCIL</b> that the Council commits to the purchase of the commercial units at Brimscombe Port from St Modwen Homes and delegates authority to the Head of Property Services to agree final terms, take all necessary steps and undertake necessary procedures, including entering into any legal documents for, and associated with, entering into the Development Agreement for Brimscombe Port and as may be required to complete the purchase of these units.</p> <p>3) <b>RECOMMENDS TO COUNCIL</b> that a budget of £630,000 is added to the Council’s Capital Programme for the acquisition of these commercial units.</p>			
<b>Consultation and Feedback</b>	<p>Consultation has taken place with the Senior Leadership Team, the Chair and Vice Chair of Committee and ALT. These have all been supportive of proceeding with the proposed purchase subject to Committee and Council approval.</p> <p>Ward Councillor and Brimscombe and Thrupp Parish council - to be confirmed</p>			
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<b>Options</b>	The Council could decide not to acquire these units and St Modwen Homes would retain the commercial units and control over future occupiers/buyers.			
<b>Background Papers</b>	None			
<b>Appendices</b>	<p>Appendix A – Site plan</p> <p>Appendix B – Development Agreement Heads of Terms</p>			
<b>Implications (further details at the end of report)</b>	Financial	Legal	Equality	Environmental
	Yes	Yes	No	No

## **1. BACKGROUND**

- 1.1 As members will be aware one of the council's key priorities in the Council Plan is the redevelopment of Brimscombe Port (see site plan at Appendix A), the destination at the eastern end of the canal; with a vision to deliver a sustainable new residential-led mixed use community that meets the needs of both existing and future residents.
- 1.2 The redevelopment of the Port has been the subject of various reports to this Committee over the last few years, as the council has proceeded to de-risk the site to deliver a viable opportunity to the market and maximise the interest from potential developers.
- 1.3 In July 2022, after following a competitive dialogue process, the Committee selected St Modwen Homes (SMH) as its preferred bidder (developer). SMH was subsequently appointed and work to progress the Development Agreement between the parties began along with public consultation and stakeholder engagement on the development proposals for the site, both of which received positive feedback in general.
- 1.4 The construction and housebuilding sectors have been negatively impacted over the past two years with costs increasing significantly following the COVID-19 Pandemic and the subsequent war between Russia and Ukraine. This created instability in the construction market with labour and material supply issues. Though it is recognised that building costs remain high, some stability has returned to the market and costs appear less volatile with inflation rates decreasing. House sales and values have also been impacted but with higher borrowing costs reducing the purchasing power of new home buyers with a correspondingly sharp decline in the number of house sales, slowing house-building delivery. These widely reported challenging market conditions nationally, alongside inflationary pressures are a risk for all re/development projects and Brimscombe Port is no exception. This has resulted in SMH re-evaluating the scheme during this period.
- 1.5 In December 2023, the Housing Committee approved the forward purchase of the affordable units on this site. The commitment at this stage, subject to contract and subject to grant funding from Homes England as required, enabled the council to agree a budget for inclusion within the New Homes Programme to allow for the Forward Funding Agreement to be signed with SMH. This provided SMH with certainty over the funding of these units, thereby assisting the project's viability and cashflow.
- 1.6 SMH has been reviewing the masterplan for the site both in light of the feedback from the public consultation and of the changed economic situation. It is anticipated that it will be in a position to undertake further public consultation on these plans as set out in section 5 below. As the legal documentation has progressed and is expected to be finalised before the end of the year, officers have been considering whether it would be beneficial for the council to also commit to acquiring the commercial units to be developed on the site.
- 1.7 This does not include the standalone community facilities which will also include space for commercial uses and will be designed as an important part of the redevelopment and included in the planning application. The council has agreed to give the site for this facility free of charge, but funding to build, own and manage it will still need to be raised.

## **2. PUBLIC INVESTMENT**

- 2.1 The infrastructure works, i.e. the canal and basin are necessary but expensive works which make a significant contribution to taking the site out of the flood plain, and it is this,

with other abnormal costs (e.g. ground contamination), which has meant that the site has not been brought forward before now and has required the injection of public subsidy.

- 2.2 The council has so far contributed capital investment of £2.6 million to the project and has also been successful in securing a further £2.776 million of public subsidy from Homes England (as a loan) and the Brownfield Land Release Fund (grant) to enable a viable scheme to be brought to the market. The revenue income from lettings on the Port (with Homes England's consent) are also being used to help fund the viability gap.

### **3. COMMERCIAL SPACE (INCLUDING RETAIL AND LEISURE)**

#### **Current Position**

- 3.1 The council owns Brimscombe Port Mill as part of the wider Port site and has refurbished it to a high specification to attract tenants to lease the offices, including installing Water Source Heat Pumps. The Mill is now fully let and the surplus income from this is fed back into a reserve towards the redevelopment of the site.
- 3.2 The Ship Inn pub adjacent to the site, is also now owned by the council, purchased as part of the wider canal reinstatement due to land requirements for the canal and has been leased and successfully reopened since it was acquired in 2017.
- 3.3 These are commercial lettings bringing in revenue to the council and give some control over tenants/occupiers, subject to market conditions, which will continue to be important during the redevelopment of the Port and reinstatement of the adjacent section of the canal. The council's ownership of these properties can also help to ensure that there is consideration of the existing surrounding organisations and businesses when marketing property.
- 3.4 As referred to in paragraph 1.7 above, another key element to the redevelopment of the Port also includes the provision of new community facilities, the form and scale of which are to be determined but which are to include a community meeting space and other spaces which are capable of being let, adding to the 'commercial' space and activity on the site.
- 3.5 The Brimscombe Port site is allocated in the Local Plan for 150 dwellings, canal related tourism development and employment uses. At the time of agreeing the Output Specification for the site, the Canal Strategy had not been developed. This has now been adopted as a design focussed Supplementary Planning Document (SPD) to supplement the canal policy ES11 contained within the adopted District Local Plan. Brimscombe is identified as one of ten Canal Strategy Areas along the Stroudwater Navigation and the Thames & Severn Canal and is described as a walkable, vibrant neighbourhood of mixed employment and living spaces, with the canal being central to the numerous community activities taking place at this distinctive destination. The community and commercial spaces are therefore a crucial part of the redevelopment to retain and enhance this character for this area.
- 3.6 SMH tendered for the redevelopment competitively, based on it delivering the commercial units and the initial proposal, in line with the output specification, was for the developer to sell or let the commercial elements (excluding any in the community facilities).

## Proposal

- 3.7 Having considered the importance of this space to the development and its place-making role to the wider area, as well as to the canal project, it is proposed that the council acquires the commercial unit/s that will be located separately from the community facilities. This is to have more control over the end occupiers of these units into the future, ensuring the overall offering for the development is in line with the council's and key stakeholder's vision for the site and considers the wider commercial and community facilities in the area, to create a destination for local residents and visitors alike.
- 3.8 The unit/s would be owned, managed and maintained into the future by the council and let on a commercial basis. In acquiring this space on a long leasehold interest, the council would be taking on the risk of void periods and the consequent outgoings including NNDR, utility bills and service charges for those periods. These outgoings would be passed on to tenants when the unit/s are let.
- 3.9 Officers have commissioned market commentary from experienced retail agents, Hartnell Taylor Cook, who have commented that whilst the retail market is weak and the sector faces many challenges, it does react positively to unique opportunities such as this one. Despite the challenging market conditions, this unit could become the central commercial point for the parish and be an appealing part of the wider community. In an unpredictable market they estimate a rental value based on c.£10 per sq ft, equating to £28,000 per annum exclusive. This will be impacted by the final configuration of the unit or units, which is to be agreed with SMH.
- 3.10 A commitment to purchase at this stage, subject to contract, enables the council to enter into a contractual agreement as part of the suite of documents that make up the Development Agreement to be signed with SMH.
- 3.11 This commitment is limited to the developer's current scheme proposal which is subject to planning approval and is for circa. 263 sq m/2832 sq ft of space. Any changes that may come about as a result of the planning process would have to be considered at that time. A budget figure of £630,000 will be required to acquire this commercial space.

## 4. DEVELOPMENT AGREEMENT HEADS OF TERMS : AMENDMENTS

- 4.1 At its meeting on the 12<sup>th</sup> July 2022 the Committee approved the draft Heads of Terms for the Development Agreement. These remain largely the same but with some notable changes:
- The council has since agreed to forward purchase the 30% affordable housing on the site
  - The milestones and long stop dates have shifted to reflect the longer timescales that have resulted from the impact of the economic downturn and are being finalised with SMH
  - The canal specification and moorings have been refined with SVCC and are also currently being finalised
  - The developer is insisting on pre and post-planning application viability tests before the Agreement becomes unconditional.
- 4.2 The updated Heads of Terms are shown at Appendix B.
- 4.3 If this Committee and subsequently Council, approve the recommendations in this report regarding the purchase of the commercial units, this will also be added to these terms

with an agreed specification and contractually committed to as part of the Development Agreement.

## **5. NEXT STEPS**

### **Development Agreement**

- 5.1 The Development Agreement is drafted and most points have been concluded between the parties. The Forward Purchase Agreement for the affordable units has also been drafted and, should the acquisition of the commercial unit/s be confirmed, the Agreements will be altered to allow for the purchase of these units as well. A specification for the commercial units will also need to be agreed in addition to that for the affordable homes.
- 5.2 Once the acquisition of the commercial space has been decided, this will enable the signing of the Development Agreement. The target is to have all documents ready to sign as soon as is practicable, after Council on the 19<sup>th</sup> December. Should members not approve the recommendations in this report, the documents will have to be amended accordingly.

### **Public Consultation and Engagement**

- 5.3 SMH has submitted its scheme design for a second time to the Southwest Design Review Panel (an independent and impartial body providing constructive feedback on development proposals see [www.designreviewpanel.co.uk](http://www.designreviewpanel.co.uk)) on both occasions receiving very favourable responses and feedback, and has also had a planning-pre-app consultation. It is now proposing to hold a public consultation event in December 2024, prior to submitting its planning application which is anticipated to be in Spring next year.
- 5.4 SMH's submission and the Development Agreement also provides for SMH leading on public engagement and the developer undertook a considerable number of stakeholder events in late 2022, as well as a drop-in public consultation event to inform the progression of the scheme design. Ongoing provision of information, consultation and engagement will be led by SMH which will include working with local schools and key stakeholders such as Stroud Valleys Canal Company and Brimscombe & Thrupp Parish Council.

### **Community Facility**

- 5.5 The council has committed to providing a site within the Port development for community facilities, to serve existing and local residents, new residents on the site and visitors to the Port. The design of this will be included within the planning application for the report as a building with flexible spaces that can be used for a variety of purposes.
- 5.6 It has always been clear that to create a vibrant community on site, as well as building high quality, energy efficient homes; community facilities and commercial premises are required for this scheme to be successful. They are also needed to create a sense of place and to provide a visitor destination at the eastern end of the canal
- 5.7 Officers have been working with the Parish Council, with support from a consultant to research provision within the area and wider District and to effectively soft market test what interest there may be in new or expanded premises for local organisations.
- 5.8 As a result of this work, the council will be seeking Expressions of Interest from community organisations to own, run and manage the community facilities that will form a key part of the Brimscombe Port development.

- 5.9 The launch of this will be expected to take place once the Development Agreement has been signed alongside the submission of the planning application by SMH for the scheme, so that interested parties can see the proposed design and if an end user/s are found at this stage discussions can begin over detailed design, timescales and delivery.
- 5.10 Officers will continue to keep the Parish Council updated as a key stakeholder in the process and also as ideas develop, in relation to the community facilities, but acknowledging that they do not have the resources, expertise and experience to take this forward themselves.

### Key milestones

- 5.11 Once the programme for the redevelopment has been finalised, this will be shared with the public and the date for the next public consultation will be publicised. SMH is still aiming for this to be before the end of the year as recently confirmed in a joint press release.
- 5.12 The key milestones and long stop dates, once finalised, will be set out in the Development Agreement and Loan Agreement with Homes England, these will be refined by SMH's development programme once finalised. The programme is not within the council's control but may be affected by the Committee and Council dates for making a decision on acquiring the commercial units.
- 5.13 Current anticipated timescales for next steps are as follows:

Activity	Target Date
Pre-app consultation	December 2024
Development Agreement completed	December 2024
Prep. of detailed planning application for development	December 2024 to Spring 2025
Submission of detailed planning application	Spring 2025

## 6. CONCLUSION

- 6.1. The Output Specification for the project, was approved by Committee in July 2019, and sets out the council's and key stakeholder's vision for Brimscombe Port that is : *'to create a vibrant and inclusive community that provides for a range of ages and creates a destination for canal tourism, not only for the local canal network but also for the whole canal system, a nationally important landmark destination, once connected.'*
- 6.2. In order to have more control over the commercial space on the development and to consider this holistically with the wider area and the standalone community/ mixed use space that is to be built, it is proposed that the council purchases this important element of the scheme. The commercial space and canal and basin are fundamental to the place making and vision for the Port's future. The occupancy of this space needs to address the destination status of the site by delivering uses for canal related tourism and reflect the needs and wishes of the existing and new community that will develop on the site
- 6.3. A commitment to purchase these unit/s also continues the council's approach for this redevelopment, that is; to de-risk it where necessary and where possible within financial and other resource limits, in order to maximise the chances of the redevelopment happening.

- 6.4. It is recommended, therefore, that the council commits to acquiring this commercial space from St Modwen Homes, ensuring the control of the occupiers is retained, whilst being an income generator for the council.
- 6.5. It is also recommended that the Committee approves the amendments to the Heads of Terms as set out in Appendix B to this report and described in section 4 above.

## 7. IMPLICATIONS

### 7.1. Financial Implications

- 7.1.2 The cost of acquiring the 263 sqm of commercial space is estimated at approximately £630,000 as set out in paragraph 3.11 of the report.
- 7.1.3 This cost is made up of two elements. The first is an approximate doubling of the overall commercial space on the development from the Developer's base viability assessment which is costed at approximately £170k, and then the approximate cost of acquiring the long leasehold is £460k.
- 7.1.4 The £160k can be found from the capital reserve, creating no ongoing revenue implications. The balance on this reserve was £2.594 million at March 2024 but this is primarily allocated, largely to the canal project. The last report to Council set out that £64k was unallocated but officers have reviewed the overall position on capital grants on other schemes, meaning that £160k is available for Brimscombe Port. This allocation would however represent the last of the unallocated capital reserve meaning that no additional schemes could be funded from that pot until it is replenished.
- 7.1.5 The £460k would have to be borrowed, either internally from SDC cash resources or from the Public Works Loan Board. The exact revenue cost of this would depend on the circumstances at the time of purchase but for modelling purposes this has been prepared based on an estimate of PWLB rate of 5.27%. This is based upon the current available rate of 5.52% at the time of writing and one further central bank reduction of 0.25%.
- 7.1.6 Council borrowing creates both an interest cost and a requirement to make a minimum revenue provision (effectively the repayment of principal). For certainty of budgeting this has been calculated in this instance on the basis of a fixed payment each year with interest costs higher in the earlier years and MRP payments higher in later years (like a household mortgage).
- 7.1.7 Using an assumption of a price of £460,000, an interest rate of 5.27%, and an asset life of 40 years there is an estimated annual cost of £27,807. This is marginally less than the estimated annual income of £28,000 in the retail agent's report. The split between MRP and interest for the first year is shown in the table below. The cost of £27,807 would remain fixed with the split changing over the remaining years.

Calculation of Year 1 Revenue		£
Interest		24,242
Minimum Revenue Provision		3,565
<b>Total Year 1 Revenue</b>		<b>27,807</b>

- 7.1.8 This means that it is anticipated that rental payments will cover the likely cost of borrowing, albeit with some likely shortfalls in the early years of the development due to voids and other unexpected costs. It is important to recognise however that the cost of



£27,807 would be fixed throughout the 40 year borrowing arrangement whereas rents would likely rise with the wider economy.

- 7.1.9 A “net present value” (NPV) analysis carried out using an assumption of an average annual 1.5% interest rate and an assumption of a 3% discount rate gives a marginally positive NPV of £7,075. Broadly speaking this means that all estimated future cash flows from the £460k purchase, the interest payments and anticipated rental income are positive when considered at today's values. This is an important measure of investment value but the key affordability indicator remains whether the Council can afford the annual costs from the rental income, as considered in 7.1.7 and 7.1.8.
- 7.1.10 The income in the first year may be significantly reduced by the possibility of rent free periods of 6-12 months forming part of commercial leases, and the need for refit costs. This would likely be partly mitigated by the deferral of MRP until after the asset is fully operational. The income generated through the commercial units will be monitored and considered by members through the budget monitoring process.
- 7.1.11 Figures on borrowing methodologies and costs are provided for members for illustrative purposes. The exact nature of borrowing will be determined by the Section 151 Officer at the time that it is required, in accordance with the Treasury Management Strategy as approved by Council.

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## 7.2      **Legal Implications**

- 7.2.1 Under section 20 of the Local Government Act 1972 the Council may acquire land by agreement for the purpose of any of its statutory functions or for the benefit, improvement or development of its area. This would include commercial premises where they are being acquired for the improvement or development of its area.
- 7.2.2 Under section 123 of the Local Government Act 1972 the Council may dispose of its land in any way it wishes. Any disposal other than a short tenancy (a lease of less than 7 years) must be for the best consideration that can reasonably be obtained. The Council therefore has the necessary powers to be able to grant leases of the commercial units
- 7.2.3 External legal advice has been procured to in relation to the Development Agreement and the Council will ensure continued support is provided with respect to this and associated documentation.

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## 7.3      **Equality Implications**

An EIA is not required because there are not any specific changes to service delivery proposed within this decision.

## 7.4      **Environmental Implications**

There are none.