

Title of meeting: Cabinet Meeting

Date of meeting: 5th February 2019

Subject: City Centre Regeneration

Report by: Director of Regeneration

Wards affected: Charles Dickens

Key decision: Yes/~~No~~

Full Council decision: ~~Yes~~/No

1. Purpose of report

- 1.1. This report is asking Cabinet to support the regeneration of Portsmouth's City Centre.
- 1.2. This proposal is the first step on a journey to revitalise the City Centre and focuses on the long under used Tricorn site (currently under a long lease to the Delancey Group) together with other adjoining Council and Delancey Group owned land assets. An indicative red line plan can be found in confidential appendix A.
- 1.3. The report proposes that the Council and DV4 Limited (a Delancey Group owned vehicle) enter into a limited liability partnership ("LLP") on an equal 50/50 basis. The LLP will assemble land, design and co-develop the sites in line with the Council's aspirations for the regeneration of this area and to revitalise Commercial Road.
- 1.4. The recommendations in this report should be considered as the first step in the Council plans to facilitate the Cultural Regeneration of the City Centre. This report is aligned with other key work streams such as the refreshing of the City Centre masterplan and Supplementary Planning Document (SPD), the delivery of key infrastructure to support growth in the City and the revitalisation of Commercial Road. All need to come together to deliver regeneration and growth for the city centre and Portsmouth as a whole.
- 1.5. Officers are conscious that this site and others in the City Centre have not progressed for some time due to market factors. Officers are confident that once developed, the increased activity will bring people back to Commercial Road and this will be the catalyst required to bring forward development to the surrounding areas however this does need a development of scale to go first.

- 1.6. Officers are clear that any proposal must deliver outcomes in line with the Council Plan and the council's Cultural Regeneration aspirations, whilst being a viable commercial prospect.
- 1.7. On this basis officers are looking to progress the project and are requesting delegated responsibility to work up a scheme to feasibility level with the development partner, this approach limits the Council's commercial risk before a decision to invest in the project can be made.

2. Recommendations

The report is looking for Cabinet to:

- 2.1. Agree the Heads of Terms for the joint venture LLP with the DDV4 as proposed.
- 2.2. Delegate authority to the Director of Finance and Information Services, the Head of Legal and the Director of Regeneration to negotiate and enter into the joint venture LLP in line with the agreed Heads of Terms.
- 2.3. Delegate to the Director of Regeneration the management of spend on project related works against the capital budgets for the City Centre Regeneration. Spend will include negotiations and agreement of contracts, co-development of a feasibility study to ensure that the joint venture is fundable and delivers economic and commercial benefits for the Council and co-developing a meanwhile use for the site.
- 2.4. Delegate authority to the Leader and S151 Officer for the use of unsupported borrowing to fund the joint venture, subject to agreeing that the proposals are feasible and viable.

3. Background

Context

- 3.1. Portsmouth is a bustling island city on the south coast, with a population of approximately 215,000 living within an area of 15.5 square miles (40.15 sq. km). The city boomed in the 19th and 20th centuries although its importance as a port and strong associations with the Royal Navy predate this. Indeed, the presence of the Royal Navy and the dockyard has long shaped the city's economy and image, acting as a catalyst to create a network of defence and related industries, as well as a naval heritage based tourist industry. Portsmouth is one of the world's great port cities.
- 3.2. Today, Portsmouth is multi-faceted, with huge strengths, assets and opportunities, and big ambitions.

Portsmouth City Council's Priorities

- 3.3. Recently the council has set out new priorities so stakeholders can see our aims and aspirations for the city and understand the areas we will be focusing on in the coming months (see a copy in appendix D).
- 3.4. This is significant because, as we continue to work in extremely challenging times, it is more important than ever that we all understand what we are working together to achieve, and what we all – every single person who works here or volunteers for the council – contributes to making our aspirations a reality for the people of this city.

Vision

- 3.5. The Council's vision is that Portsmouth will become a great waterfront city with a globally competitive knowledge economy and in order to do this the Council is developing a strategy which is based around two key themes:
- To support economic growth, innovation and enterprise
 - To enhance the competitiveness of our city
- 3.6. Our vision for Portsmouth draws on its renowned naval and industrial heritage to create an exciting future, and one that is no longer founded upon large public sector employers or low-skilled jobs. Instead, we believe that Portsmouth should focus on realising the opportunities presented by the knowledge economy to build a globally competitive environment for business and enterprise, within the context of a prosperous south Hampshire, and to attract investment and visitors.
- 3.7. To do this, we must continue to regenerate priority areas, improve skills, increase aspirations and support the development of sustainable communities. The City Centre is one such priority area.
- 3.8. The key components to supporting this vision are supporting economic growth, innovation and enterprise, and enhancing the competitiveness of our city.

Vision for the City Centre

- 3.9. The regeneration of Portsmouth's City Centre is essential for the city's success and to this end the Council has a number of comprehensive work streams ongoing, the list includes (but is not limited to) the following:-
- The redevelopment of the City Centre North.
 - The provision of much needed road infrastructure.
 - The detailed master planning of the area.
 - Working with partners to bring renewed retail and leisure offers to Commercial Road and the Cascades shopping centre.
 - Investing in high quality public realm around Portsmouth & Southsea train station.
 - Expanding the range and quality of stalls at the City Centre Market.
 - Introducing new street food options to the area.
- 3.10. The vision for all of these work streams is for a vibrant and economically success business led high street is aligned with the wider Vision and Portsmouth's Corporate Plan.
- 3.11. For these work streams to be successful they need to be aligned to the council's vision and in the regeneration of the City Centre success would need to:
- Improve the image of the city and promote the opportunities and potential it offers.
 - Support business and long-term economic growth in the city centre by encouraging key sector growth that supports the resurgence of the existing City Centre & Commercial Road.
 - Support the develop of the visitor economy
 - Strengthen the retail opportunities available for residents and visitors by embracing changes to the traditional high streets model to create an environment that is fit for future purposes.
 - Build more high quality private and affordable homes, bringing forward much needed homes for the city, including a range of affordable housing products to support growth in the City.
 - To create new jobs both during the construction period but also dedicating some space in the designs to employment zones. The Council is looking to improve educational attainment and skills whilst raising aspirations.
 - A new City Centre Road to improve accessibility to the area. The Council will encourage a range of sustainable travel infrastructure such as bus stops, cycle parking and cycle share schemes.
 - Address the concerns around air quality and ensure that any changes to the highway network and wider development are geared towards improving air quality.
 - To provide a city centre that is focussed on sustainable transport and active travel to promote improved health and reduce the reliance on cars.

- 3.12. There is a unique opportunity now to initiate a culturally led regeneration of Portsmouth to make it a major contributor to a vibrant, expanding city region. If successfully implemented, this strategy will help deliver a thriving city of sub-regional significance.

4 Reasons for Recommendations

- 4.1 City Centres and High Streets across the UK are struggling. Traditional retail models built around property ownership are under threat and Portsmouth is no different. The Council is aware of these trends and is prepared to take action to shape the future of the City, through interventions if necessary.
- 4.2 Portsmouth City Council has a long held strategic ambition (dating back to the late 1990s) to deliver a comprehensive mixed-use, retail-led regeneration of the Northern end of the City Centre.
- 4.3 In 2004 Centros Portsmouth Limited Partnership (a Delancey owned SPV) purchased the remaining 50% leasehold interest in the former Tricorn site and simultaneously entered into a Development Agreement with the City Council to deliver a retail led mixed use redevelopment of the Northern Quarter area.
- 4.4 To enable the comprehensive redevelopment the City Council promoted and secured compulsory purchase powers by the Portsmouth City Council (Northern Quarter Redevelopment, Portsmouth) Compulsory Purchase Order 2006. The order expired in December 2010.
- 4.5 The property recession in 2009, led to significant financial difficulty in the viability of re-development proposals. This coupled with the amount of money already invested, meant that the Delancey group took the decision to hold their Portsmouth assets until such time as they believed delivery of a new scheme was achievable.
- 4.6 The opportunity to take control and deliver this long vacant asset is here and officers are promoting that through partnership working, the Council can deliver its new vision for the City Centre.
- 4.7 Successful regeneration of this area of the City needs to be a collaboration of a number of separate but linked work streams. This programme of work streams will act as a catalyst to ensure that the activities are undertaken in a timely manner and at the right cost to ensure the benefits of the work streams are maximised for all.
- 4.8 The Council's ambitious plans for culturally led regeneration aim to address myriad issues facing the city centre. This is a major programme of individual development projects that meets the city's needs, at the right time and for the right cost.

- 4.9 The Council have approached the Delancey to revive their interest. They have indicated that they are in a position to work in partnership with the City Council to develop plans for the northern end of the City Centre.
- 4.10 By engaging with Delancey on their proposal for a JV, PCC will have significant leverage in bringing forward solutions to the key issues that are affecting the City, namely:
- Economic growth and ensuring that any development is looking to the future to embrace the changes to the 'traditional' high street and deliver an environment that is fit for purpose.
 - To bring forward much needed homes for the city, including a range of affordable housing products to support growth in the City.
 - To create new jobs both during the construction period but also dedicating some space in the designs to employment zones.
- 4.11 The land to the north of the city centre consists of island sites isolated from commercial road and the surrounding residential community by the public highway. These busy roads are effectively barriers to any large scale regeneration activities in the area. By realigning the highway and diverting the majority of traffic away from the developable areas, links between these sites to the fabric of the City will start to create a vastly improved footprint for development. The benefits of this new alignment will include:-
- Restoring access to the area with increased footfall and new active travel routes. The Council will also be encouraging a range of sustainable travel interventions such as bus stops, cycle parking and cycle share schemes.
 - Address the concerns around air quality and ensure that any changes to the highway network and wider development are geared towards improving air quality.
 - To provide a city centre that is focussed on sustainable transport and active travel to promote improved health and reduce the reliance on cars.
- 4.12 The realigned road scheme will link into Commercial Road, both physically and in terms of the strategic direction of the development but will also deliver long term improvement to the area.
- 4.13 The Councils legal advisors have proposed that both parties engage by way of a LLP on a 50/50 basis to develop sites to the north of the Cascades centre.
- 4.14 Officers were asked to explore these discussions further and present back to Cabinet on what a partnership that benefits both parties could look like.
- 4.15 Having instructed Pinsent Masons to advise on the proposed LLP (see confidential appendix B for the legal advice note) and the ability for the Council to proceed with the transaction to ensure the Council has the powers to invest and participate in the LLP and is compliant with the Public Contract Regulations, officers have entered into a period of negotiation

with the Delancey Group to establish if some common ground exists and the result of this is the proposed joint venture heads of terms, agreed subject to Cabinet approval (see confidential appendix C for a copy of the agreed heads of terms).

- 4.16 Officers are now paused while the Cabinet considers whether the heads of terms and the legal advice received from Pinsent Masons are in line with the Council corporate plan to regenerate this under-used asset and that interventionist approach proposed is as per the original steer given by Cabinet Members.
- 4.17 Should the Cabinet be content with the progress, officers will be looking to advance the following three work streams:-
- negotiate and enter into the joint venture LLP;
 - progress the design and feasibility works to confirm to S151 officer and Cabinet that the development is fit for purpose and viable;
 - Work with Delancey to bring forward a phased approach to regenerating the area. This will include some "meanwhile uses".

5 Equality Impact Assessment

- 5.1 Not required at this stage of works.

6 Legal implications

- 6.1 Section 1 of the Localism Act 2011 provides local authorities a general power of competence, *i.e.* "power to do anything that individuals generally may do". This is providing (s.4 (2), 2011 Act) the authority must do so through a company.
- 6.2 LLPs are formed under and governed by the Limited Liability Partnerships Act 2000 and so do not fall within the legal definition of a company. The point has been tested via the High Court with external legal advice concluding the Council are entitled to rely on it and form an LLP provided the dominant purpose in forming the LLP is not commercial [whilst there may be commercial elements].
- 6.3 External legal advice has been sought as to the mechanism to include within the proposed LLP heads of terms to ensure the above tests are met.
- 6.4 In terms of the proposed procurement process external legal advice concludes the exemption - a "negotiated procedure without prior publication" may be able to be relied upon. Noting the potential risks attached to said route, procurement should be engaged from the outset to ensure the relevant criteria points as noted within the legal advice are met.

7 Director of Finance's Comments

- 7.1 The obligations of the parties are set out within the Heads of Terms in the appendices but a full financial appraisal and business case for entering into this agreement cannot be completed at this time.
- 7.2 Under the Heads of Terms the Council will transfer land holdings that it currently holds into the JV and the DV4 will also transfer their land holdings. The exact value of the land holdings are not currently known and will be subject to a proper land valuation prior to transfer.
- 7.3 Under these arrangements the JV will then undertake a feasibility of the site, seek planning permission, possibly acquire additional properties and undertake development works. None of these amounts are currently known.
- 7.4 The LLP will also be responsible for identifying third party funding for the agreement and will seek "meanwhile uses" for the land. The Heads of Terms state that any income earned by the JV will be reinvested into the development, but Members will have the opportunity to determine otherwise.
- 7.5 Any required compulsory purchase orders will be paid for by the JV and the DV4 will underwrite 50% of the total cost. A historic CPO Indemnity Agreement between the parties under which DV4 owe a sum of money to the Council exists. That sum has been agreed but not the mechanism for the payment.
- 7.6 The payment of this outstanding amount needs to be dealt with as part of this transaction although it may not be relevant to the joint venture finance arrangements. This will need considering as part of the overall deal.
- 7.7 The City Centre Road project part of which will serve the Site, has been developed at the expense of the Council. There will be costs for the joint venture to pay as proposed in this agreement but this is specifically in relation to the delivery of infrastructure where it relates to any redline of the planning application. It is proposed that this will be captured as part of a s.278 agreement.
- 7.8 Only once the JV documents, which will include operational and procurement policies have been formulated will a Business Plan and Budget be prepared.
- 7.9 The Council and its partner DV4 will provide 50% each of the funding required to acquire the Initial properties which may be a mixture of both land and Cash; this is to ensure that both parties have contributed 50% each. There is a potential risk that an inequality will arise overtime given the fluctuating nature of the value of land. Consideration will need to be given to this.
- 7.10 Both parties will jointly fund the working capital required for the formulation of a business plan on 50/50 basis, the cost of this business plan is currently unknown.

- 7.11 The Heads of Terms also set out that where there is an equity investment by one partner that is greater than the other then a greater share of any profits will be made to that party, although the underlying principle of the agreement is that this should not occur.
- 7.12 Profits will be distributed based on the share of interest within the partnership. No distribution of profits will be made without the repayment of third party debt. The repayment of which will be decided upon after taking account of the agreed waterfall. The details of which are not included within the Heads of Terms and will need to be agreed between the parties.
- 7.13 The investment by the Council will be in the form of land holdings; equity and debt funding, the amounts and proportions are not currently known and will need to be subject to a full financial appraisal which will need to be carried out when the business plan is formulated.

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Signed by:

Appendices:

- Appendix A - **Confidential** - Red line Plan for the Proposed JV
- Appendix B - **Confidential** - Pinsent Masons Legal advice
- Appendix C - **Confidential** - Agreed Heads of Terms
- Appendix D - Councils Plan

Background list of documents: Section 100D of the Local Government Act 1972

The following documents disclose facts or matters, which have been relied upon to a material extent by the author in preparing this report:

Title of document	Location

The recommendation(s) set out above were approved/ approved as amended/ deferred/ rejected by on

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Signed by: