WEST DUNBARTONSHIRE COUNCIL

Report by the Executive Director of Infrastructure and Development

Infrastructure, Regeneration and Economic Development Committee: 17 September 2014

Subject: Queens' Quay, Clydebank

1. Purpose

1.1 The purpose of this report is to update the Committee on the progress made following the Infrastructure, Regeneration and Economic Development Committee (IRED) of 18 June 2014 and to seek approval for the required funding necessary to implement the Infrastructure Development Plan for Queens' Quay, subject to negotiating detailed terms with the site owners, Clydeside Regeneration Ltd.

2. Recommendation

2.1 It is recommended that:

(i) the Head of Legal and Regulatory Services and the Executive Director of Infrastructure and Regeneration continue negotiations with Clydeside Regeneration Ltd (CRL) and be authorised to conclude a formal legal agreement for a land based transaction which will lead to the implementation of the regeneration for Queens' Quay; and

(ii) a report be submitted to a future Council to consider funding the proposed investment in Queens' Quay from Capital Plan for a total expenditure of £15.62m over a three year period which is expected to commence in in financial year 2015/16.

3. Background

3.1 The former John Brown Shipyard was acquired by a consortium known as Clydeside Regeneration (CRL) in 2001 and has been subject to a number of speculative planning proposals for its redevelopment over a number of years.

3.2 The site owners have already undertaken extensive demolition, site clearance, remediation and up-filling works to create a satisfactory development platform over a significant proportion of the site. However, due to difficult market conditions the development phase has been stalled and the site owners have been unable to bring forward any viable development proposals due to the considerable cost associated with the need for necessary site infrastructure.

3.3 An update report was presented to the IRED committee on 18 June 2014 which provided further detail on the progress made towards the economic regeneration of this key site.

3.4 In January 2014, the Council appointed a development consultant to undertake a review of the project and to consider options for the redevelopment of this key site.

4. Main issues

4.1 The principal development area is identified outlined red in the proposals plan for Queens' Quay. Since 2001, CRL have invested in land purchase, demolition and site clearance, remediation and improvement works. Prior to any agreement between CRL and WDC the net sum actually expended by CRL will be independently verified. Due to the limited availability of commercial finance for large housing led development projects since 2008 it has not been possible for CRL to advance the project. In the current market major house builders will tend to only commit resources to sites which are of specific plot sizes and prepared ready for development.

4.2 Queens' Quay is a very large strategic site both within Clydebank and West Dunbartonshire contexts with the capacity to accommodate 1,029 residential units of mixed size and tenure together with a limited amount of commercial development and public services.

4.3 Although extensive demolition and site clearance works have already been undertaken, there is a need for further site infrastructure and enabling work. The cost of these works have been estimated at around £30M in total, comprising Core Infrastructure at around £16.2M (Land engineering, Road works, utilities and drainage and areas of new public realm) with the balance being plot specific works related to individual development sites. As the core works reach completion initial land sales will generate income to offset expenditure which reaches a peak at £15.62M

4.4 In the past 6 months the Council has engaged in dialogue with the landowners, CRL, to assess which options would stimulate the regeneration of this important riverside site including the possibility of "pump priming" regeneration activity. These options are as follows:-

4.4.1 **Do nothing** - The landowners have been unable to attract the investment necessary to fund the core works required before development stages can proceed. It has become evident through discussion that without third party intervention, it was highly unlikely likely that any development activity could be expected within a foreseeable horizon. It was therefore concluded that positive intervention was desirable and necessary to promote and encourage regeneration activity.

4.4.2 **Encourage market intervention** - Until early 2013 CRL had the support of their lenders who were actively exploring options for development. However, the level of historic costs incurred, the size of the site, and high cost of required infrastructure result in a very challenging proposition for developers and funders. Feedback from national house builders has confirmed that the site as a whole is regarded as too large for any single house builder. Equally, for the same reasons the proposition has proven to be unattractive to mainstream banks and institutional investors. The landowners have been realistic in their own appraisal of the development opportunity but would be not be able to sell their interest in the open market or attract an equity partner without incurring a substantial financial loss. Even if the current landowners were willing to dispose of their interest at a loss, there is a real risk that a speculative investor would simply continue to delay additional investment until market conditions further improve. Enquiries with volume house builders have confirmed demand in this location for suitably serviced and enabled land in plots of 3-5 acres.

4.4.3 **Public sector acquisition** - An outright purchase by WDC would not only pass the full burden of risk to the council but necessitate a significant financial commitment, of around £30M which would be required to fund initial land purchase and core infrastructure costs. Early discussions with CRL revealed that using funds raised from shareholders within their consortium, they had repaid their bank debt during 2013. Accordingly, CRL are not under any external pressure to sell and therefore have ruled out an outright sale. However, they did indicate a willingness to explore options for a partnership approach which may include an element of shared ownership, subject to conditions relating to future investment and profit sharing.

4.4.4 **A Partnership between the Public and Private Sectors** - CRL do not wish to yield full control of this important asset but have been constructive in dialogue with WDC. As a result, the structure of a land based transaction has been established under which CRL and WDC would collaborate in the development of the site. Initially this would result in the implementation of the core infrastructure works to enable land sales to proceed. The mechanism would not only encourage and permit early stage development and fulfill the primary objective of securing much needed economic regeneration but allow both WDC and CRL to share in the sales proceeds. It is not currently envisaged that CRL/WDC would act as developer in the construction of any buildings for sale or let, which will limit the extent of development risk.

4.5 Based on an assessment by officers of the above options, Option 4.4.4 above has been identified as the most appropriate delivery solution for the following reasons:

a) Direct WDC interaction with existing landowner;
b) Opportunity to influence outcomes and deliver regeneration;
c) Shared responsibility risk and reward; and
d) Most likely to yield positive results within medium to long term.

4.6 As part of the ongoing dialogue with CRL it has also been possible to secure an option for acquisition of a portion of Queens’ Quay by the Council and or the NHS which is the preferred site for new care home and Medical Centre as reported to The West Dunbartonshire Community Health and Care Partnership Committee in May 2014. The proposed agreement includes a provision under which the Council will be granted rights to acquire for a nominal sum a site of 6.1 acres (2.46 Hectares), as shown on the plan attached as Appendix 1. The proposed development of this site will be undertaken in the full expectation that the delivery of core infrastructure is aligned with the timescale of the proposed Council and/or NHS investments.

4.7 The proposed agreement between WDC and CRL will largely reflect the following principles:

4.7.1 WDC will act jointly and equally with CRL as a strategic partner in making decisions relevant to the project. It is envisaged that a full planning application will be made for the whole site which will seek approval for planning permission in principle with the indicative masterplan and detailed approval for the specified core infrastructure works which will comprise:

- remediation of residual industrial contamination;
- up fill of land to raise ground levels in order to satisfy flood risk requirements;
- improved road junction at Cart Street and a new junction at Cable Depot Road;
- a spine road to provide internal circulation East/West;
- provision and distribution of public utilities to serve the proposed development;
- repair and rehabilitation of the flotation basin and quayside;
- marine works and establishment of river walkways and open space; and
- creation of areas of public realm with improved linkage to the town centre.

4.7.2 As a major application the Planning Submission will be subject to an initial 12 week public consultation period during which further third party consultation and full technical appraisal can start. It is expected that the application can be determined to allow a site start during Financial Year 2015/16.

4.7.3 To fund core infrastructure costs it is proposed that the Council will provide necessary funding as a means to “pump prime” regeneration activity. Through a legal agreement WDC would contribute funding of up to £15.62m over the period which would cover financial years 2015/16 to 2017/18. It is intended that the full amount expended will be recovered as a shared income from future land disposals to house builders and other developers.

4.7.4 WDC will be granted security over the site, which may or may not include acquisition of a property interest which will guarantee any net land sales proceeds as they arise.

4.7.5 Net revenue from sales will be shared between WDC and CRL. A formula included within the proposed agreement will be used to calculate the relative shares, based on actual and verified financial inputs by each party as a proportion of total cost. In the event of a cost increase, any additional expenditure not shared by CRL would result in an increase in the proportionate share of future revenue to WDC.

4.7.6 Subject to the grant of necessary consents, initial core infrastructure work is anticipated to start in Financial Year 2015/16 and be implemented over a period of 12-36 months with completion during Financial Year 2017/18 by which time the first phase of house building is also expected to reach completion with associated sales income being received.

4.7.7 A rolling programme of site sales and development phases would be instigated to optimise total revenue. It is expected that over a 7 to 10 year period the whole site can be fully developed although this period could be shortened by improved market conditions. Income from land sales will initially be applied to meet infrastructure costs with any surplus being distributed between WDC and CRL.

4.7.8 During the implementation stage CRL and their appointed agents will act as project/development manager through a close working partnership with representatives of WDC which will be detailed in the formal Legal Agreement proposed at 2.1 above.

4.8 The potential economic impact of this implementation and delivery of the Master plan for Queens' Quay will be significant for the area and from the Council perspective represents the major driver for this project. In summary the proposed development is expected to generate the following:

- Creation of approximately 118,127 sq.m (gross) commercial floor space;
- 716 gross FTE jobs created;
- 372 net additional FTE local jobs created (147 net additional FTE jobs at national level);
- Annual GVA of £5.5m generated locally, with £2.9m created nationally;
- Construction costs estimated at £178.4m;
- 2,138 short term construction jobs (equivalent to 214 long term FTE jobs)
- An estimated 57 apprenticeships supported;
- Current model identifies 1,029 (841 private, 188 social) housing units will be built, with the capacity to accommodate an associated population of 2,058; and
- Generation of an estimated £1.2m annually in Council Tax revenue.

5. People Implications

5.1 Officers will be involved in the development of the legal agreement and work with CRL to finalise the detailed business case and deliver the infrastructure.

6. Financial Implications

6.1 A full financial model has been developed as part of the initial study. The model assumes that the core infrastructure will be completed in a single stage prior to the first of a series of land disposals. It is expected that these plots will be developed by house builders and that this development process, once started, will continue in phases until the available development plots have been sold. Initially a period of 10 years has been adopted for forecasting purposes but the actual timing and value of receipts will be driven by market forces.

6.2 It is planned, after the conclusion of the legal agreement, which CRL/WDC will proceed with a full Planning Application and subject to Council approving funding necessary pre-construction work which will lead to a site start being during summer of 2015. Due to the Council's interest, the Planning Application would need to be referred to Scottish Ministers for approval.

6.3 Core infrastructure works and the first phases of development are programmed to reach completion within 3 years of site start.

6.4 Phased infrastructure works relate to individual plots. The timing will be driven by land sales the gross receipts being employed to fund the works prior to a distribution of net land sale revenue.

6.5 The development programme and expected financial projections in the model detailed above are summarized below in Table A below: £15.62m of the core infrastructure costs will be funded by the Council, with the remaining £680k being funded from the first land sales.

Table A

Financial Years	2015/16	2016/17	2017/18	TOTAL
	£k	£k	£k	£k
Demolitions & site clearance	628	237	0	865
Earthworks	321	1,210	14	1,545
Roads/Pavements	657	1,272	0	1,929
Offsite Roadworks	202	392	18	612
Marine Works	1,668	3,230	5	4,903
Boundary Walls	8	283	45	336
External Drainage	362	700	96	1,158
External Services	49	779	10	838
Hard/Soft Landscaping	0	142	703	845
Prelims Core	1,084	220	0	1,304
Professional Fees	438	745	211	1,394
Project Contingency	190	322	39	551
Total	**5,607**	**9,532**	**1,141**	**16,280**

6.6 As stated above it is anticipated that the investment will be recovered through land sales to developers and Table B below shows the modeled phasing and values of these. As stated above the revenue will be shared between the CRL and the Council in proportion to the investments made in order to recompense expenditure incurred by both parties (WDC and CRL) who have contributed to bringing the site to fruition.

Table B

		Expected Start (FY)	Gross Revenue (£k)
Development			
Phase	1	2016/17	3,380
	2	2017/18	2,730
	3	2018/19	5,070
	4	2019/20	1,870
	5	2020/21	3,850
	6	2021/22	3,060
	7	2022/23	1,590
	8	2023/24	4,300
	9	2024/25	1,470
	10+	2025/26	3,910
Totals			31,230

6.7 The opportunity to lead economic regeneration at Queens' Quay is significant for WDC and has the potential to generate significant financial and other benefits over time, as described below.

6.7.1 As has been reported to Council in the long term finance strategy, Scottish Government projections show that the population of WDC is expected to continue to decline, both in real terms and in relation to the rest of Scotland, over the next 25 years. If this projection is accurate then it can be anticipated that there will be an ongoing steady reduction in revenue funding from the Scottish Government, and possibly a future decline in Council Tax income. The proposed development is anticipated to generate 1,029 households with the capacity to accommodate a population of 2,058 by 2025/26. Though difficult to predict in relation to the rest of Scotland it would be anticipated that this would go some way to protecting the funding position of the Council and may increase the Council's share of the Scottish Government funding support to Councils.

6.7.2 Independent economic consultants were commissioned to undertake an economic impact assessment which is based on the indicative master plan. This concluded that by 2025/26 the proposed development and resultant net increase in households would generate an additional £1.2M of Council Tax revenue (at current Council tax rates).

6.7.3 It is also anticipated that the development will generate a net increase in the Non Domestic Rates (NDR) base within the Council. At present NDR is collected as a whole of Scotland pool, however this may change in future allowing the Council to achieve a higher NDR income. At present discussions with the Scottish Government and COSLA are likely to lead to a revised Business Rates Incentivisation Scheme (BRIS) - which could result in any significant gain on NDR as a result of regeneration activity being shared between the Council and the Scottish Government.

6.7.4 The number of additional jobs and GVA identified above as likely to be generated from the investment is likely to have a significant positive effect on the local economy, though the financial benefits of this to the Council are not easy to predict, but could be positive in relation to issues such as welfare reform, demand for Council services, and rental values for Council non-operational assets.

6.8 The current model which sees Council investment made ahead of anticipated income streams will have a revenue impact, as the investment of £15.62m will require to be funded and at the anticipated peak (when the full £15.62m has been spent) this would have a revenue impact of around £1m per year, dependent on rate and timing of sales receipts. This additional cost would require to be funded and there are two options for this at present:

6.8.1 Re-prioritise elements of the current capital plan to allow the funding of this opportunity with the recovered capital expenditure being reinvested in the capital plan to fund those projects delayed due to being re-prioritised. Similar to other projects in the capital plan, a full business case will be prepared to inform and assist a review and future re-prioritisation of the current plan; or

6.8.2 Identify revenue savings in the years impacted by the anticipated revenue costs of financing the investment. This would place further financial pressure on the Council's general fund revenue position and for this reason the first option is the preferred option and on this basis it is recommended that a report and business plan for this project be provided to a future Council which will review the capital plan to realign/reprioritise projects to allow the funding of this project as a priority with a view to minimizing the revenue impact as compared to what is currently envisaged in the capital plan.

6.9 Whilst still an option to take an ownership stake in the site, at present it is anticipated that the Council will not acquire the site for development and as such the Council would be spending capital resource (albeit for an anticipated short term as the cost is recovered) on assets not owned by the Council. This is permitted, however can only be funded from capital grant received from the Scottish Government each year. At present the anticipated levels of such funding for the three/four financial years covered by the planned investment period should be sufficient to cover the level of investment identified. Should this position change following the next spending review then it may be that the Council would need to seek approval of the Scottish Government to proceed.

6.10 The provision to obtain the site for the new Clydebank Care Home would be helpful, as the plan for the care home was that it was to be built on a Council owned site at no cost. If the proposed location on Queens' Quay proceeds at minimal purchase cost, then this would have the benefit of permitting the generation of a capital receipt from the disposal of a site in Council ownership which would otherwise have been required for the Care Home.

6.11 Due diligence will require to be undertaken and be part of the partnership agreement to confirm the value of investment made by the owners of the site, as this together with the capital spend by the Council will be the determining factor in the sharing of proceeds from the sale of development sites. In addition the agreement will require an open book accounting approach between the Council and CRL to ensure ongoing verification of expenditure and income and revenue to be shared.

6.12 The current model is based on the sale of development sites income matching the cost of the infrastructure**;** however it is anticipated that this cost along with the revenue cost of the initial Council investment could also be recovered. Any potential to generate a surplus needs to be viewed against the strength of the market and the potential wider economic gains.

6.13 Prior to any acquisition of a site or sites by the Council, even at a minimal charge for the care home, consideration of any currently unknown VAT or other tax issues associated with such sites will require to be undertaken.

7. Risk Analysis

7.1 Risk Register

Type	**Key risk**	**Impact**	**Mitigation**
Planning	**3rd party consultees** • SEPA • RSPB • Clydeport	Delayed approval resulting in delayed start. Financial - cost price inflation as a result of delay	Early consultation with WDC planners Sufficient programme allowance to achieve desired outcomes Contingency allowance.
Project Cost	Core infrastructure over-run	**Financial** additional funding required	A general project contingency allowance of 3.5% on total costs (£30M) has been allocated. In addition to CRL/WDC sharing additional costs a revenue sharing formula will fully account for actual expenditure.

Project Timing	Delayed start and extended programme of work Market conditions	**Financial** & **Regeneration** - Cash flow and Revenue stream/ Economic benefits delayed which would have additional cost implications. Slowdown of plan and of planned revenue stream/ economic benefits	Proactive management and robust project control. Monitor market conditions and amend timescales
Project Value	Shortfall in projected receipts	**Financial** - Full recovery of WDC expenditure not possible and therefore ongoing revenue impact of borrowing	Impacts offset by positive economic benefits and long term GVA and community charge revenues
Legal	Non compliance with state aid Legal challenges from third parties	Inability to conclude agreement Delay to start	Define compliant approach Define compliant approach

8. Equalities Impact Assessment (EIA)

8.1 An initial EIA screening has been carried out and suggests no adverse impacts.

9. Consultation

9.1 Internal consultation will continue between the appointed consultants and officers from Regeneration, Planning, Asset Management, Legal, Democratic and Regulatory Services, Finance Services and the Community Healthcare Partnership.

9.2 It is expected that local community consultation and engagement will form part of the formal planning process both for the master plan stage and development options.

10. Strategic Assessment

10.1 The proposal is intended to stimulate the physical and economic development of derelict land to the economic and social benefit of the Council and the community.

It will make a major contribution to the objectives:

- Improve economic growth and employability; and
- Improve local housing and environmentally sustainable infrastructure.

Richard Cairns
Executive Director of Infrastructure and Regeneration
Date: 3 September 2014

Person to Contact:	Jim McAloon - Head of Regeneration and Economic Development, Council Offices, Garshake Road, Dumbarton, G82 3PU, telephone: 01389 737401, e-mail: jim.mcaloon@west-dunbarton.gov.uk
Appendices:	Appendix 1 - Indicative Master Plan
Background Papers:	Report to IRED Committee - 18 June 2014 EIA Screening
Wards Affected:	5 and 6