

Report to: Cabinet
Date of Meeting: 5 November 2014
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Agenda item: 23

Subject: Queen's Drive, Exmouth

Purpose of report: The purpose of this report is to provide an update to members on the progress with Queens drive site following the marketing exercise that has been carried out earlier this year. We are explaining what the likely process is going forward in terms of delivering a scheme on the site bearing in mind that we have had expressions of interest from different parties for different uses on the site.

Among the proposals is a high quality, national Watersports Centre which would occupy an area of around 2 acres on the frontage of the site. This type of facility has been at the heart of the Queens Drive site redevelopment plan and, as such, would be an excellent outcome and benefit to Exmouth's vitality and reputation. This proposal aims to deliver a high quality, architecturally attractive and environmentally sustainable building, along with external public open space, covering all costs involved.

Other interest received for the remainder of the site offers promising opportunities for the seafront. We are pursuing these opportunities with a view to securing both an attractive mix of development and also a continued revenue stream equivalent to that which we are currently receiving for the site (from car park fees, beach huts and existing businesses).

Delivery on the Queen's Drive site will still require the relocation of the road and car park. The Watersports Centre itself, is not going to be the source of a receipt that will provide for the costs of this infrastructure. We are not yet at the point where we can state whether another developer partner will be able to offer the relocation of the road and car park or whether this is something that the Council will have to consider delivering itself, and at risk.

If it is the case that the Council rather than a developer partner has to consider delivering the infrastructure, then on the one hand, this would significantly help to secure the Watersports Centre and other development, but would leave the council at risk if sufficient capital receipt were not forthcoming from the development as a whole.

There are other funding opportunities including that will be explored to support this infrastructure cost. Alternatively, a mixed use development on the remainder of the site could be made to generate a capital receipt to pay for infrastructure costs. Members should be aware that the mix of uses will be leisure based, but could also consider the inclusion of an element of residential development to generate sufficient capital receipt. However, this is not currently part of the planning approval.

The Watersports Centre provider is a significant and enthusiastic proposer for part of the site and would like to move forward with negotiation with the council at the earliest opportunity. At the same time, for this development to come to fruition, the Council would need to see the road and car park relocated in order to make the Watersports Centre site available. To do this under the current circumstances would require the council to invest its own resources or to secure funding itself to progress the infrastructure works without the certainty of capital receipt to cover borrowing and interest.

Negotiation for the remainder of the site would seek to secure sufficient capital receipt to cover these infrastructure costs, but members need to be aware of the risk that this may not be forthcoming and consider their appetite for risk bearing in mind that the Watersports Centre provider is in play and that this is a regeneration priority.

We are still in the early stages of discussion with the Watersports Centre provider and a variety of matters will need to be explored further including design, best value and delivery timescales. Officers will report back to Cabinet as we make progress.

We are keen to make progress and are seeking support from Members to proceed with the Watersports Centre proposal now rather than wait until a comprehensive site proposal has been identified. The recommendation is that members agree that officers should commence negotiations with the Watersports Centre provider for that part of the site.

This requires acceptance of the risk associated with the delivery of the new road and car park for which alternative funding cannot at this stage be guaranteed.

- 1. That Cabinet agrees to pursue the specific development of a Watersports Centre at Queens Drive as detailed in this report.**
- 2. That Cabinet gives delegated authority to the Deputy Chief Executive to pursue negotiations with the Watersports Centre provider.**
- 3. That Cabinet considers the progress on the Queen's Drive development site and the opportunities and risks inherent in progressing new development on the site.**
- 4. That Cabinet approves the delivery of the Queen's Drive site in phases with phase 1 requiring the Council to explore the funding options for delivering the road realignment and the new car park in order that the Watersports Centre development can be progressed at the earliest opportunity.**

Reason for recommendation:

To enable the delivery of the first phase of the Queen's Drive redevelopment project.

Officer:

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Financial implications:

The approval to progress the Watersports Centre option does clearly meet members strategy for this area, however, it does not generate a receipt for the land and incurs a current estimate of up to £1.5m in infrastructure costs. It should be noted that there will be a loss of annual income from a car park and business rental totalling sum £213,000. The

report does discuss opportunities to apply for external funding to assist with the infrastructure costs but this is not certain. Members should also recognise that officers will have to consider the development of the remainder of the site having elements of commercial and/or residential use in order to offset capital and lost revenue costs to facilitate at least a cost neutral scheme that works on its own merits rather than relying on a possible overall receipt for Estuaryside with the associated risks and timing issues.

Legal implications:

There are a range of legal/property/valuation/finance issues which will require further consideration during the negotiation of a conditional development agreement, including the following:

1. The structure and timing of any land transfer to ensure that the project is delivered and the site does not lie fallow.
2. The proposals for a Community Interest Company; for example whether the Asset Lock operating for CICs allows the flexibility to finance the project as described.
3. The value of the Council's contributions will need to be assessed to identify whether there is a potential State Aid issue, and if so, how that can best be addressed.
4. The impact (if any) on the treatment of the Council's finances arising from possible participation in a Community Interest Company.

This is obviously a complex project with a novel structure which will require resource across a range of legal specialisms, some of which is likely to be contracted from private practice.

Equalities impact:

Medium Impact

The redevelopment of Queen's Drive to provide a new seafront leisure development will offer new facilities that will be open to all sectors of the community to use, some of which will be free to use and others will be at an affordable level.

Risk:

Medium Risk

There is a risk that the Council may have to cover the infrastructure costs and associated borrowing.

We are at the early stages of negotiation with potential multiple developers for Queens Drive. At this moment in time the council does not have certainty that the infrastructure costs of moving the road and car park will be generated from the scheme itself. The requirement to front fund the delivery of this infrastructure in order to enable the Watersports Centre to proceed, represents risk.

There is a risk that we will not receive a level of income from the site that replaces the current levels of rental income.

We currently derive revenue from existing businesses and car park fees and an objective in any development scenario is to secure at least an equivalent revenue stream.

We are at the very early stages of negotiation and are using both internal and external professional expertise to assist in negotiating any future development outcomes and will seek to achieve a future revenue income that is at least equivalent to the existing income.

There is a risk that we are not achieving the best financial deal for the Council.

Best value, planning approval, legal and financial considerations will be included and any future decisions will be subject to Cabinet and Council consideration.

There is a risk that if we do not make progress with the Watersports Centre provider now we could lose this opportunity for Exmouth.

We have a live proposal for a Watersports Centre which is a key priority and ambition for this location and it is important that we are able to maintain or to have the opportunity to negotiate to try to make this happen. There is always the possibility that delay or uncertainty will give the provider cause to reconsider. Furthermore, this high quality site usage alongside improved infrastructure will assist in securing development of the other parts of the site and general seafront uplift.

Links to background information:

- Appendix 1 – Site proposed for the Watersports Centre
- Appendix 2 – Layout plan for Watersports Centre proposals

Link to Council Plan: Working in, enjoying this outstanding place

Report in full

1. Marketing and Assessment of Proposals

- 1.1 The Queen's Drive site in Exmouth was marketed by our agents JLL during March and April this year. The marketing information was emailed extensively to other agents and developers by JLL's Exeter office and its other offices. JLL received over 40 enquiries for further information on the site and had more detailed discussions with a number of interested parties. Following the marketing exercise they received 6 submissions as well as continued interest.
- 1.2 The marketing exercise has generated a very exciting opportunity for the site and Exmouth as a whole, through the Watersports Centre proposal. A number of the other proposals are promising and merit further consideration to see if certain elements can be incorporated into the site but further work is required with the developers on this. At this stage, we therefore do not have a single comprehensive development proposal for the entire site. However, we consider that the Watersports Centre is of such importance that we would like to take it forward as a first phase and continue to work with the other interested parties in relation to the remainder of the site. Elsewhere in the report we explain to members the risks involved.

2 The Watersports Centre Proposal

- 2.1 The Watersports Centre proposal has come forward from a company based in the region. In developing the proposal for the centre, the provider aims to achieve the following key objectives:
- To be a centre of excellence in watersports
 - To be an all year round facility
 - To offer a mix of sport, learning, retail and leisure
 - To manage a high quality building and public realm
 - To provide a community benefit
 - To provide a not for profit facility (benefits for the community, not shareholders)
 - That it will enable community involvement in its operation and use

- 2.2 The building of the facility will be fully funded by the provider. The proposal is for the southern part of the site only as indicated in appendix 1 and will form the new frontage between the realigned road and the beach. It will provide a clubhouse/restaurant area, retail, cafes, showers, changing facilities, toilets, office space, area, training room and bar area across the ground and first floor. In addition to a two floor building, they have offered to include a new watchtower that could replace the existing tower on the Harbour View Cafe used by the National Coastwatch Organisation. Externally, the proposal includes provision for a new open air theatre space and other public realm both of which will have direct access to the existing pavement and beach.
- 2.3 The provider is offering to operate the centre through a Community Interest Company (CIC) structure. This will be a limited liability company that has 2 shareholders, the provider and East Devon District Council. The CIC will trade like a normal company giving it greater flexibility than a charitable trust. It will operate and manage the facility for the benefit of the community. The Council is being asked to grant a 125 year lease to the CIC for an annual peppercorn ground rent.
- 2.4 We will need to understand the implications of such an arrangement and will work with Legal Services to ensure that this meets with best value.
- 2.5 The operation of the centre will involve the reinvestment of any surplus income. The Centre will be open for all the community to use. It will not be a private membership centre. It will be available for individuals, schools, student and other groups to use as a base for watersports activities. The Centre will generate income from users through tuition, hire of equipment or for hiring out the centre for special events. .
- 2.6 The Centre will generate commercial rents from the retail/cafe units with a reduced rent being received from the water sports centre operator and other non-commercial users. Existing cafe operators on the Queen's Drive site will be able to put forward proposals to the provider for the cafe space at the relevant time. If the NCIS is accommodated within the Centre, they will not pay any rent. Other rent will be paid to the CIC. For the first 2 years, there will be no rent payable to the provider. Thereafter a rent will be paid to the provider which will pay back the loan for the development costs. All surpluses made will be reinvested in the CIC to operate the centre for the benefit of the local community.
- 2.7 There is no financial offer being made by the provider to the Council for the site required. We understand this approach and will evaluate this approach against best value principles and in the context of the overall development opportunity. The availability of a Watersports Centre will lengthen the season, helping to also generate increased parking revenues as part of the wider development taking into account the increased number of parking spaces and greater popularity of the location.

3. Value for Money

- 3.1 The opportunity to secure this unique Watersports Centre for Exmouth that will be recognised nationally, if not internationally, will bring benefits to the town through increased visitor numbers, direct and indirect jobs and generate growth in the economy. We also expect that there will be a clear synergy with the nearby Premier Inn and local watersports businesses. There will be no capital outlay required by the Council for the actual construction costs involved in delivering the Watersports Centre and the adjacent public realm area.
- 3.2 A valuation is being sought in order to establish whether the proposed disposal arrangements fall within the general disposal consent which allows a local authority to dispose of land at less than the best consideration reasonably obtainable. The terms of the consent mean that specific consent from the Secretary of State is not required for the disposal of any interest in land which the authority considers will help it to secure the

promotion or improvement of the economic, social or environmental well-being of its area, provided any undervalue is below £2,000,000 (which it is very likely to be in this case)

4. Proposals for the Remainder of the Site

We have received a proposal for a mixed use leisure scheme that incorporates indoor and outdoor facilities, public open space, some retail, cafes, restaurants (that could be available to local businesses) and holiday accommodation.

- 4.1 In addition, we have interest from a couple of other parties who would operate leisure uses on smaller areas of the remaining site.
- 4.2 Further information is required on these proposals including more detailed financial proposals.

5. Timescales

- 5.1 Having considered this report, if members give approval for officers to proceed with negotiations with the Watersports Centre provider and there is a positive outcome to these negotiations, we could anticipate that the Watersports Centre proposals could be the subject of a planning application submitted in spring 2015. Subject to planning approval being given, the road will need to be relocated which could take place over the winter months of 2015/16. This would enable the Watersports Centre to start on site in Spring 2016.

6. Existing Businesses

- 6.1 The existing tenants have been offered the opportunity to remain on the site through to September 2015 allowing them to have the benefit of operating through the summer months of next year. The tenants will be served notices in accordance with the Landlord and Tenant Act 1954 and will be offered compensation in accordance with the legislation.

7. Proposal

- 7.1 It is proposed that the Deputy Chief Executive enters into negotiation now with the Watersports Centre provider in order to bring forward the delivery of the Watersports Centre and public realm area.
- 7.2 In order to do this, it will be necessary to deliver the site on a phased basis. The Council or the developer partner for the remainder of the site would need to facilitate the relocation of the road (and possibly the car park) so that the Watersports Centre can be given vacant possession of that part of the site to undertake their development.
- 7.3 If the Council were to do this, it would require the Council to provide capital funding upfront for the cost of the road and the car park. These costs have been estimated to be in the order of up to £1.5m. Further work will be undertaken to provide a more accurate assessment of these likely costs. This cost has been included within the capital spend profile for the Exmouth regeneration projects as set out in the Part B Update on Regeneration Projects cabinet report.
- 7.4 Officers will be exploring the possibility of these infrastructure costs at least in part being provided through 3rd party funding routes. As an alternative, if some element of residential use were to be incorporated within the site, this could also contribute to the funding to cover the cost of the road and car park.