	<b>REPORT TO COUNCIL TO BE HELD ON 12 JULY 2019</b>	
<b>The Appendix to this report contains exempt or confidential information which is not for publication as this information relates to the financial and business affairs of bodies including this authority</b>	<b>Key Decision</b>	<b>N/A</b>
	<b>Forward Plan Ref No</b>	<b>N/A</b>
<b>Corporate Aims / Priorities</b> The scheme will contribute positively to all corporate aims / priorities	<b>Cabinet Portfolio Holder</b>	<b>Cllr Steve Siddons (Leader)</b>

**REPORT OF: DIRECTOR (RB) – 19/151**

**WARDS AFFECTED: ALL**

**SUBJECT: SCARBOROUGH TOWN CENTRE REGENERATION - PURCHASE OF FORMER ARGOS BUILDING AND ASPIRATIONS FOR REGENERATION OF THE WIDER SITE**

**RECOMMENDATION(S):**

To facilitate the redevelopment of the former Argos building site (50-59 Newborough and 46-49 Queen Street and 18-20 Market Street, Scarborough) through the creation of student and NHS key worker accommodation within the town centre and open up regeneration opportunities and promote economic growth for the wider area, Council is recommended to:

- A. Facilitate the redevelopment of the former Argos building site by:
- 1) Approving a budget for the purchase of the site, at the sum quoted in the private and confidential appendix (section 2.1), subject to vacant possession and planning being obtained for the creation of student and NHS key worker accommodation and associated ground floor retail space on the site; noting that if the proposed development is not ultimately financially viable alternative uses for the site will still need to be identified;
  - 2) Approving an additional capital budget for the acquisition of a new building to accommodate the above student and key worker facilities and commercial units on the site; at the indicative sum provided within the private and confidential appendix (section 7.3), subject to satisfactory Agreements for

Lease being in place with future tenants and financial viability;

- 3) Approving that the above capital sums be funded from borrowing; noting that the Council will not be obligated to proceed with the building acquisition if the completed development will not achieve rental income that delivers a minimum net return on investment of 0.5%, after allowing for the financing costs and repayments of the associated borrowing; thus making the scheme cash flow positive for the Council;
- 4) Approving that the 0.5% net return on investment be ring-fenced for funding the costs of borrowing incurred during the construction period, the costs of professional fees incurred, further regeneration of the site or as a mitigation against reduced rental income or potential changes in the future use of the building;
- 5) Approving the updated prudential indicators attached within the private and confidential appendix (Appendix C2);

Noting that if Council approves the recommendations set out in this report, a further report will be submitted to the Leader in relation to the agreements with Buccleuch Property (Scarborough) Ltd, Future Lets and any other relevant parties (including potential tenants of the commercial units) which will be required to facilitate the scheme on the terms set out within this report.

B. Open up further regeneration opportunities and promote economic growth for the wider area by:

- 6) Supporting proposals to establish a town square adjacent to the site and approve that officers commence negotiations for the potential procurement of buildings located on St Helen Square; with the purchase of any such buildings to be subject to future reports to Council, a detailed business plan, viability study and the securing of external funding;
- 7) Approving a budget of up to £50k from the Council's capital feasibility fund budget to develop proposals for the town square; to include but not limited to design development, viability and detailed costings, planning consent, and property agent fees, with the aim of securing external funding from a range of third parties to transform this part of the town centre.

## **REASONS FOR RECOMMENDATION**

To achieve regeneration and social benefits throughout the borough by facilitating the regeneration of a key strategic site within Scarborough Town Centre, supporting the growth of higher education in the town, supporting the hospital trust's urgent need for key health worker accommodation, and acting as a catalyst for further development in the town centre; and

As identified within the Scarborough Town Centre Strategy:

- To make the Town a mixed use environment

- To facilitate Scarborough becoming a Student Town
- To enable and increase residential living within Scarborough Town Centre
- To develop our night time (transitional) Economy
- Build our identity, image and brand
- Create an inviting public realm we can be proud of and meet our identified economic challenges to:
  - Retain and grow our population of young people and provide infrastructure required to accommodate key sector workers within the town.

## **HIGHLIGHTED RISKS:**

A detailed risk matrix is attached to the report. The following are highlighted as key risks:

- Do nothing and the building continues to deteriorate in a prime town centre location;
- University ceases to operate in the borough of Scarborough;
- FutureLets lease is not renewed after year 10 and Council needs to find alternative uses for the building;
- Planning is obtained and the Council owns the site, however the scheme is not viable, requiring the Council to find alternative uses for the site;
- Impact on range of external funding opportunities for wider regeneration should the scheme not proceed.
- The proposed arrangements have the potential to infringe procurement and state aid legislation. Officers are taking external legal advice to mitigate against this risk.

## **1. INTRODUCTION**

### **Reason for Urgency**

- 1.1 This report has been put before Full Council by way of an extraordinary meeting in order to meet the challenging timescales associated with the proposal. This scheme has been presented to the Council by a commercial undertaking who require timely decisions in order to meet the requirements of the current owner of the site and achieve delivery of the project in line with the requirements of the prospective tenants; particularly Coventry University, who require the student accommodation in readiness for their September 2022 student intake.
- 1.2 Furthermore a decision on this scheme will greatly influence the viability and strength of associated funding bids for the wider regeneration of the borough, as the proposed investment will act as match funding and provide a clear signal of intent and commitment of the Borough Council to its funding partners.
- 1.3 Whilst this report seeks approval to the principle of the scheme and its impact on the Council's budget, further decisions will be required from the Council's

Leader in due course to approve entry into the final agreements required to implement these proposals.

## **General Introduction**

- 1.3 It is nationally acknowledged that traditional town centres, particularly those located within coastal towns, face significant challenges in respect of their roles and sustainability and relevance in a rapidly evolving retail and service environment.
- 1.4 With changing consumer habits and reducing expenditure town centres must reinvent themselves, adapt and diversify if they are to survive.
- 1.5 Scarborough town centre faces these challenges and in March 2019 the Borough Council adopted a new Town Centre Strategy with the objectives of:
  - a) To be the best performing Coastal Town Centre in England by 2025 and the primary economic hub for retail, leisure, learning and living within the Yorkshire Coast Area;
  - b) To increase residential living within our town centre by 25% by 2025;
  - c) To work together with public and private property owners and agencies to ensure the built environment and infrastructure exceeds the expectations of our customers and community by 2025.
- 1.6 The achievement of these objectives is based around the delivery of seven core themes:
  1. Making the town a mixed use environment
  2. An inviting public realm we can be proud of
  3. Developing a University Town
  4. Night Time Economy
  5. Introduce SMART town centre infrastructure
  6. Build our identity, image and brand
  7. Establish a collaborative and Supportive Town Centre community
- 1.7 Furthermore, the Borough of Scarborough has an aging population and has suffered in recent years from the outward migration of young people from the area. This is at odds with the borough's Local Plan and economic development strategy to grow and diversify its economy and population in the period up to 2033.
- 1.8 Coventry University and the NHS have both identified shortfalls of suitable accommodation to meet their needs. The University has aspirations to grow student numbers within the borough to 5,000, and the ability to achieve this growth is negatively impacted by a shortage of quality student accommodation within the town. Similarly the NHS are struggling to attract a range of key health workers (including junior doctors, nurses and clinical staff) due to the shortage of suitable accommodation and skills within the town.

- 1.9 The site of 50-59 Newborough and 46-49 Queen Street and 18-20 Market Street, Scarborough (the former Argos building) has been marketed for sale for several years and is now underutilised and largely empty, with a steadily declining appearance. The site lies within an area of significant economic deprivation in the Borough and in its current form the building stands as a prominent example of decline and market failure within a key town centre site.
- 1.10 Private developer Wrenbridge Land Limited, who the Council recently partnered with on the Scarborough Sports Village Development, has approached the Council to offer an investment package for the above site which will deliver much needed, fit for purpose, student and key worker accommodation along with associated regeneration opportunities for the wider area.
- 1.11 By regenerating an underutilised and unattractive site and creating new mixed use accommodation within our Town Centre this project has the potential to contribute directly to delivering on the stated aims of the Council's Corporate Plan, Local Plan, economic development and Town Centre strategies.

## **2. CORPORATE AIMS/PRIORITIES AND THE COMMUNITY PLAN**

- 2.1 The scheme will contribute to all Aims of the of the Council's Corporate Plan:

### **People:**

To have a safe, happy, healthy population, with people who feel valued and included We aim be a place where:

- People feel safe and secure in their communities which have low rates of crime and the fear of crime

### **Place**

To protect and improve our environment, now and for the future We aim to be a Place where we have:

- Clean, well maintained and managed streets, parks and open spaces
- High quality planning and development

### **Prosperity**

To develop a prosperous and innovative borough, with a highly skilled and aspirational workforce We aim to:

- radically increase the skills & aspirations of the workforce and improve the educational attainment & aspirations of young people
- ensure that skills provision meets the needs of the labour market
- establish the Borough as the most highly skilled coastal community by 2030
- establish the Borough as a national hotspot of Higher and Further Education provision and as a national centre of excellence in the provision of engineering, construction and technical skills

### **Council**

To be an efficient and effective Council, which is financially sustainable for the future We aim to:

- Provide leadership to our local communities

### **3. BACKGROUND AND ISSUES**

#### **3.1 Strategic Context- Scarborough Town Centre**

3.1.1 Scarborough Town Centre is starting to exhibit the symptoms of a town centre at risk of failure. Footfall within the town has steadily fallen over recent years by an average of 7% year on year, above the national average of circa 1%. Similarly, shop vacancy rates, although stable, are currently at 13% and above the national average of 9.9% (as at Jan 2019).

3.1.2 Furthermore, with a heavy reliance on traditional retail within its main shopping precinct the town has a preponderance of national retail outlets, Scarborough town centre is at risk of severe economic shock should any of the major anchor retailers fail to continue to trade in the town.

3.1.3 This limited diversity is further demonstrated through the fact that our town centre becomes largely empty following closure of the traditional retail outlets at 5.30pm with little or no transitional activity leading into the commencement of the night time economy. This lack of animation and activity in turn leads to a perception of an unwelcoming environment and can even lead to the proliferation of antisocial behaviour during the early evening in the town centre.

3.1.4 Conversely however, the borough continues to flourish as a visitor destination retaining its position as one of the most visited destinations in the Country and attracting circa 7.9m visitors annually (Visit England 2017). This contrast between the growing popularity of the borough but reduction in town centre footfall demonstrates that Scarborough Town Centre, in its current form, is having decreasing relevance and attraction to both our indigenous and visiting population.

3.1.5 To reverse this trend a programme of intervention is required. Intervention, as laid down within the Councils Town Centre Strategy, which should seek to diversify and animate the area by creating a mixed use, high quality environment where retail, leisure, hospitality, culture, entertainment and living all combined to breath new and sustainable life into the town.

#### **3.2 Strategic Context- Wider Economic Challenges**

3.2.1 A recent study (2018) of the economic profile of Scarborough Borough, undertaken in conjunction with the York North Yorkshire and East Riding Local Enterprise partnership (YNYER LEP), showed a fall of 19% in the number of people aged 18-25 living within the borough between 2012-2017.

- 3.2.2 The reasons for this fall are varied but in general it is believed this is a result of young people leaving the borough in order to seek employment or higher education opportunities outside of the town.
- 3.2.3 The economic profile study also identified a need to improve educational attainment particularly at level 3 (A level equivalent). These trends are of particular concern given that the borough needs to grow its younger population in order to meet its stated economic and population growth requirements and a more balanced demographic makeup, to meet the requirement to fill an estimated 10,000 replacement (already existing) jobs within the next ten years.
- 3.2.4 Allied to this trend is the fact that the borough has a history of difficulty in recruiting key sector workers into essential roles within the area. For a young medical professional or student teacher the borough fails to compete in terms of its basic infrastructure and attractiveness when compared to other locations within the UK and even the wider region.
- 3.2.5 To help remedy this the borough needs not only a town centre that provides the desired mix of high quality environment, thriving culture and energy but at the most basic level the accommodation and infrastructure in which to live whilst in education, training and employment.

### **3.3 Coventry University and NHS**

- 3.3.1 CU Scarborough has been operating since 2015 and moved into its purpose built, state of the art, £14m campus in August 2016. Starting with only 17 students, student numbers have grown rapidly in the intervening years with 550 currently enrolled and a cohort of circa 800 students expected for the 2019/20 academic year. CU Scarborough have developed 12 new degree programmes since launching including Adult Nursing, which started in September 2018, and Mental Health Nursing and Acting (in partnership with the Stephen Joseph Theatre) which both started in September 2019. The University has continued to invest in purpose built spaces on the campus including a £200k Cyber Security Lab and a £40k clinical skills facility.
- 3.3.2 Offering vocational higher education such as healthcare, nursing, teaching and policing degrees, it also provides digital and technological qualifications and electrical/electronic technical support engineer degree apprenticeships. Working closely with local businesses, the University also provides courses that can be woven into the working week. Part of its corporate strategy is to 'provide relevant and much needed graduates to the Yorkshire coast region' by delivering 'career focussed courses'. CU Scarborough has recently secured £250K of funding from the Office for Students for a project to improve graduate outcomes in the health and social care sector on the North Yorkshire Coast.
- 3.3.3 Coventry University is ranked in the top 15 universities in the UK for the last 5 years by the Guardian University Guide and is considered as a forward thinking institution. It has been awarded 'Gold' standard under the prestigious

TEF (Teaching Excellence Framework) which represents outstanding. The University has significant future growth aspirations with aims to grow student numbers at CU Scarborough to over 1500 by 2023. Its growth aspirations in Scarborough will however be hampered by its capacity to provide this student population with modern purpose built accommodation.

- 3.3.4 The number of students from within the Borough of Scarborough has grown in each of the past three years, making up between 62% and 65% of new starters in 2016, 2017 and 2018. During this same period the proportion of students coming from outside of the YO postcode area has reduced from 26% to 19%. In 2018 60.2% of applicants for CU Scarborough from within the Borough ultimately accepted this offer and enrolled at the institution. For those outside of the YO postcode area the proportion of applicants who firmly accepted their offer and enrolled was just 11.2%. This disparity is largely due to the lack of a credible student accommodation in Scarborough to compete with university's major competitors the University of Hull, the University of York, York St John University and Teesside University.
- 3.3.4 In the current student accommodation market there is an expectation that such provision be of a uniformly high standard and rather than being provided through a range of private and disparate landlords, pepper-potted across a city or town, that provision to be made on one or more purpose built sites and managed by a student accommodation agency. In a recent paper by consultants PWC 'Managing Risks in Higher Education' one of the highlighted risks concerning students was wellbeing which encompassed housing and general welfare. Students were also reported to have voiced 'the importance of place', making a positive impact to the local community.
- 3.3.5 The University is urgently looking to have purpose built accommodation for its Scarborough campus and in order to maximise the attractiveness and regenerative, social and economic benefit of providing such provision recognises that it would, wherever possible, like this to be located within the town centre, close to services and at the heart of the local community. Such a location would enable the students to walk or cycle between their accommodation and the campus on a daily basis.
- 3.3.6 The York Teaching Hospital NHS Foundation Trust have stated that they are committed to providing sustainable services for the Scarborough population and have been successful in securing £40m of capital funding to be invested in Scarborough Hospital's emergency department, providing the highest standard of facilities for patients and staff. Key to this mission will be the Trusts ability to recruit, train and retain medical and nursing staff to work at the hospital. Partnerships with Hull York Medical School and Coventry University, who are now providing nursing courses on their Scarborough campus, mean that they have a growing need to offer high quality accommodation to accommodate growing staff and trainee numbers.
- 3.3.7 Currently the Trust do not have adequate facilities for this on site, and to invest in delivering these would divert their capital away from schemes where it will have a significant impact on patient care, such as the emergency



department. Therefore the trust state that this opportunity is complementary to hospital development plans and will directly contribute to their recruitment and retention strategy.

### **3.4 The Opportunity**

- 3.4.1 Wrenbridge Land Limited (Wrenbridge) are a leading UK property company based in Cambridge and London. Founded in 1993 the company has been successfully developing and investing in properties across the UK for over 25 years and have worked with a range of clients within the retail, industrial, residential and mixed use sectors; delivering projects with a cumulative end value of £850million.
- 3.4.2 Wrenbridge developed the University and Sports Village complex on the Weaponness site in Scarborough, so have strong relationships with both Coventry University and the Council, and a good understanding of the town and local economy. They also have experience in the development of student accommodation; having delivered projects in Cambridge for Kings College.
- 3.4.3 Due to their experience and previous working relationship the University approached Wrenbridge to discuss their future aspirations and accommodation needs within the town. The University cited that there is a requirement for quality student accommodation within a central town centre location and that their accommodation provider, a wholly owned subsidiary - The FutureLets Limited (FutureLets), would be willing to enter into a 10 year lease for a guaranteed annual rental sum if a suitable development opportunity could be identified. This lease will be underwritten by a parent company guarantee from the University. It was also identified that the NHS, who the University are working in close partnership with for a range of new health care courses, have accommodation needs similar to the university's to meet its key worker requirements and that this could be incorporated into the scheme to make it more financially viable if a site in the right location and of sufficient scale could be identified.
- 3.4.4 Given the scale of the development needed to accommodate the University and NHS's requirements, and the desired town centre location, this significantly restricted the potential sites available within the town. Numerous sites have been explored by Futurelets and the University, with the former Argos site being identified as the only viable option. The development of the site also offers a number of regenerative benefits.
- 3.4.5 The former Argos building site is located at the junction of Queen Street and Newborough and adjacent to Scarborough's historic, and newly refurbished, Market Hall. The site is in a prominent position within Scarborough Town centre, on the main pedestrian and vehicular thoroughfare; linking the Town Centre and Scarborough's South Bay. The current building upon the site was constructed in the mid 1960's as a mixed use facility providing office space for DHSS / Civil Service operations with retail units upon the ground floor and originally included a skating rink. The Civil Service vacated the building in

1990's and the building has since been in the ownership of a number of private sector interests.

- 3.4.6 The present landlord has owned the building for the past 3 years and in 2017 was granted consent for conversion of the building to a cinema, however, the site was not redeveloped as the scheme proved unviable. The site was subsequently placed on the open market and to date has remained unsold. During this same period the building was vacated by the previously existing retail tenants and of the 10 available units for let only two now remain occupied. As a result the building is underutilised and largely empty with a lot of visibly vacant space and a steadily declining appearance.
- 3.4.7 As the site was on the open market, in a suitable location and of a sufficient size Wrenbridge identified that it would offer the best available solution to quickly deliver the University and NHS's requirements and negotiated an exclusive sale agreement with the vendor. Wrenbridge also recognised the regeneration benefits that could be achieved by the Council if this site was redeveloped to the University's specification and requirements and identified strong synergies with the Council's Commercial Property Investment and Town Centre Strategies. Wrenbridge therefore approached the Council to determine whether the development would meet our objectives in terms of delivering an overall financial and regeneration investment package.
- 3.4.8 The overarching principle of the deal offered to the Council is that a joint venture (JV) involving Wrenbridge and its funding partner, Buccleuch, will unconditionally purchase the site and obtain planning permission and vacant possession at its own risk; with the Council purchasing the site from the JV once planning and vacant possession has been obtained.
- 3.4.9 Whilst planning is being obtained the JV will develop designs and scheme costings and procure a contractor to undertake the demolition of the existing building and construct a replacement new-build property on the site which meets FutureLets' specification. Once costings have been finalised a viability appraisal will be undertaken to assess whether the scheme can deliver the required levels of financial returns for both the Council and the JV.
- 3.4.10 Prices will be fixed in line with this appraisal and if the appraisal shows that the scheme can deliver the required levels of financial returns for both parties the Special Purpose Vehicle (SPV) will proceed with the construction works. The Council will fund the works based on milestone payments and the JV will take on the risk of cost overruns.
- 3.4.11 The building will be handed over to the Council upon practical completion, with the benefits of the FutureLets lease in place. In addition to the student and NHS accommodation the building will accommodate ground floor commercial units, which will be let by the Council. The financing costs associated with the Council's purchase will be covered by the rental income that can be generated from the site along with a return on investment.

- 3.4.12 Recent analysis undertaken by real estate consultants Knight Frank and Cushman & Wakefield details that the private sector is having to play a growing role in providing new student accommodation, with private developers set to build 82% of the total beds due to be completed by 2021.
- 3.4.13 A recent survey of 70,000 students undertaken by Knight Frank and UCAS showed conclusively that while value for money is important in the accommodation choices for students, location and the quality of accommodation are also key factors.
- 3.4.14 Both Cushman & Wakefield and Knight Frank also recognise that rising build and site costs are putting pressure on private developer margins, especially at the more affordable end of the market.
- 3.4.15 As the university offering in Scarborough is relatively new and the student market is not yet well established the market rents within the town are much lower than the national average (£105 per week compared to an average of £145 elsewhere in England excluding London). Construction costs however, for a project of this size and type, are higher in Scarborough due to the challenges of attracting suitably sized supply chain partners from other regions to work in Scarborough due to its location and the additional costs involved for employee travel and board. Therefore the combination of lower rents and higher costs means that this scheme would not be of interest to an institutional investor and without public sector intervention is highly unlikely to proceed.
- 3.4.16 It should be recognised that the Council's pursuance of this scheme is to meet its regeneration and well-being aspirations for the Borough and not for a commercial return. The inability to offer suitable student and key worker accommodation within the town is negatively impacting on Coventry University's growth plans and NHS recruitment, which could affect the future viability of the Scarborough campus and quality of local healthcare services; both of which would have a hugely detrimental impact on the Borough. Despite being a negative point in terms of the investment potential for the building the lower than market rents will represent a key unique selling point for the University and would help drive increases in student numbers going forward, which in turn will aid the Council in realising its ambition for Scarborough to become an established place for higher education.
- 3.4.17 In addition, from the Council's perspective, the former Argos building's largely empty status, deteriorating condition increasingly unattractive appearance now stand as a prominent example of town centre decline and market failure within a key site. This is at odds with the Council's aims of developing a high quality environment engendering a sense of place, raising aspiration and catalysing wider private sector confidence and investment.
- 3.4.18 Prior to the current redevelopment opportunity coming forward, both the public and private sectors have failed to identify viable options for alternative use of the proposed site. The site has already been on the market for over two years and if this scheme is not delivered there is a strong likelihood that the building

will fall into further disrepair and future public sector intervention would probably still be required to bring it back into use.

### **3.5 The proposed Development**

- 3.5.1 Wrenbridge have proposed the complete demolition of the existing building and the construction of a 6 storey building comprising of 591m<sup>2</sup> of retail space on the ground floor and 195 bed student accommodation and key worker accommodation on the floors above; although the final scheme design and room numbers may be affected by planning requirements.
- 3.5.2 It is intended that approximately 300m<sup>2</sup> of retail space on the ground floor will be let back to the existing “One Stop Shop” tenant upon completion of the scheme. New tenants will be sought for the remaining 300m<sup>2</sup> of commercial / retail space although there is already interest in this area.
- 3.5.3 Current proposals show that over the remaining four floors 151 bed spaces will be designated for Coventry university Student accommodation and 44 beds for NHS students and staff. There will be a mixture of rooms in “clusters” with a shared sitting room and kitchen and some studio accommodation types distributed throughout the building. All units will be single occupancy with en-suite toilet and shower facilities.
- 3.5.4 Of these 195 accommodation spaces 22 will be studios also incorporating private kitchen and laundry provision.
- 3.5.5 In addition to a reception there will be common sitting room, games areas, gym and cycle storage.
- 3.5.6 The development will involve traditional construction techniques, utilising a steel / concrete framed structure. This is an intentional and integral feature of the developers investment offer to provide future flexibility for the building allowing for possible adaption to alternative uses should the need arise.
- 3.5.7 There is a further 150m<sup>2</sup> of ground floor retail space available for future expansion should the adjoining site be opened up to for a town square (see section 3.6 below).

### **3.6 Further Regeneration Opportunities presented by the proposal**

- 3.6.1 The former Argos building site was identified as a potential regeneration opportunity during the Scarborough Renaissance programme when the site and adjoining properties were recognised as having the potential to be removed, either partially or as a whole, in order to create a town square; a feature which Scarborough does not currently have.
- 3.6.2 The opening up of the site, or part thereof, and providing suitable pedestrian infrastructure would create a focal point and an area to hold community activities, festivals and events and visually enhance and celebrate the

surrounding architecture and environment such as the Scarborough Market Hall.

- 3.6.3 The provision of a town square would provide a sense of place and community pride in an area of significant economic deprivation and would assist in rebalancing the flow of pedestrians between the pedestrianised town centre area and the foreshore, as well as providing a destination in its own right.
- 3.6.4 Although outside of the scope of the proposals received for the investment opportunity these ideas have recently re-emerged during consultation undertaken in the drafting of the Scarborough Town Centre Strategy (2019), and are still very much an aspiration for the community. To that end proposals for the possible creation of a town square in this vicinity have been submitted, both within the Council's stage 1 application to the future high street fund and in outline to the YNYER Local Enterprise Partnership Infrastructure Board.
- 3.6.5 A Town Square adjoining the site of the student and key worker accommodation would enhance its attractiveness, providing a place for residents of the accommodation to utilise and socialise, providing a direct visual and physical relationship with the recently regenerated Market Hall. A town square in this location would also provide the catalyst for wider regeneration of the area as increased patronage would provide the incentive for business investment and clustering. Overall this would act as a significant regenerative multiplier to the accommodation project and ultimately to achieving the vision for Scarborough Town Centre as a whole.
- 3.6.6 Delivering a town square development which is complementary to the proposed accommodation scheme would require the acquisition of some or all of the properties on St Helens Square adjacent to the Argos site and also a stopping up order in relation to the highway. Officers have investigated the opportunity to assemble the site, and subject to negotiation with existing landlords and the Highway Authority, believe it eminently achievable should external funding support become available. A number of the properties in this area are currently vacant and are on the open market.
- 3.6.8 In order to develop proposals for the establishment of a Town Square which can be supported by the Council and external funding partners it will be necessary to demonstrate deliverability of the proposed scheme to a sufficient level of detail. Officers therefore request the support of Members to commence negotiations for the procurement of buildings located on St Helen Square and to approve a project development budget of up to £50k from the Council's capital feasibility fund in order to undertake design development, viability, detailed costings, secure planning /conservation consent and to cover property agent and professional fees.
- 3.6.9 Importantly the success of securing external funding from bodies such as the Future High Street Fund, Heritage Highstreets Fund and / or the YNYER Local Enterprise Partnership (totalling over £15m) would be greatly reduced should the redevelopment of the former Argos site not proceed.

## **4. CONSULTATION**

- 4.1 Although no specific public consultation has been undertaken in relation to the detail of this proposal both the regeneration of the former Argos building and the establishment of town square, either wholly or partially within the vicinity of the site, have been the subject of much consultation over the past years.
- 4.2 During the Renaissance Programme over 1,500 members of the community were consulted about the potential repurposing of the site. In recent months, during consultation for the drafting of the Scarborough Town Centre Strategy, over 200 members of the public attended public consultation activities and again the need to repurpose the site was a strong and recurring theme.
- 4.3 In developing these specific proposals Wrenbridge have undertaken detailed consultation with both the Coventry University and NHS management, recruitment and estates teams and with existing tenants.
- 4.4 Wrenbridge have also taken pre-application planning advice from the Borough Council's planning department and has had early discussions with Historic England. (see planning section 6)

## **5.0 ASSESSMENT**

- 5.1 The project to redevelop the former Argos building site will be delivered as a joint venture between Wrenbridge (as developer) and Buccleuch (as lead funder). The contracting party will be a newly established Special Purpose Vehicle - Buccleuch Property (Scarborough) Ltd (the SPV) - further details of which are set out within section 5.4 below.

### **5.2 Heads of Terms for the Investment Opportunity**

- 5.2.1 The Council has negotiated Heads of Terms for the investment with the SPV. The proposed structure of the deal can be summarised as follows:

1. The SPV will unconditionally purchase the former Argos building site from the current owner at its own risk;
2. The SPV will enter into an Agreement for Lease (AFL) with FutureLets for the occupation of the student and keyworker accommodation, based on already agreed Heads of Terms;
3. The Council will enter into a sub-sale agreement to purchase the site from the SPV at the price quoted in the P&C appendix (Appendix C). The sale will be subject to the SPV obtaining vacant possession of the site and planning permission for the student and key worker accommodation. At the same time the Council will enter into a funding agreement for the construction of the building, subject to the scheme

being financially viable for both parties and a satisfactory AFL being in place with FutureLets;

4. The SPV will progress the scheme design in line with FutureLets' specification, obtain planning permission and agree terms with the current occupational tenants to secure vacant possession of the site. The SPV will incur these costs at risk and will not be entitled to any reimbursement for the costs should planning or vacant possession not be obtained or the scheme not be ultimately financially viable;
5. SBC will purchase the site (in line with the sub-sale agreement) once planning and vacant possession is obtained. The purchase of the site at this time will minimise Stamp Duty Land Tax (SDLT) costs, as detailed in section 5.7, and also mean that the Council retains control of the site for regeneration purposes if the scheme is not pursued by the SPV for financial viability reasons;
6. The SPV will undertake further design work and procure a contractor to further develop the design and finalise the estimated build costs, at their own risk;
7. The SPV will submit a financial viability appraisal to determine whether the scheme is viable from the SPV's and Council's perspective (as detailed within section 5.3 below);
8. If the scheme is viable for both parties the funding agreement between the Council and SPV becomes unconditional and the SPV will commence the development works. The costs shown within the final viability appraisal are fixed from the Council's perspective and the risk of cost overruns and construction delays lie with the SPV and its contractors. The SPV and Council will agree a schedule of milestone payments for the funding of the scheme;
9. The Council will provide funding for the works upon the achievement of the milestones included in the agreed payments schedule. Developer profits will form the final balancing payment in the milestone schedule and will not become payable until practical completion of the building;
10. Upon practical completion the SPV will transfer the building and associated FutureLets AFL to the Council and the SPV will become entitled to draw their developer profit.

5.2.2 A headline development programme for the scheme is attached at Appendix B. Council will note that a decision in July is essential to meet the completion date of May 2022 in readiness for the September 2022 student intake.

### 5.3 Financial Viability Appraisal

5.3.1 The final costs of the scheme will not be known until further planning and design works have been undertaken by the SPV, therefore the Heads of Terms include a financial viability assessment clause. This assessment will be undertaken prior to the construction works commencing and will allow the Council or SPV to walk away from the deal if the financial appraisal shows that minimum financial returns will not be realised. The costs within the financial viability assessment will be prepared by the SPV on an open book basis so that the Council can review and challenge the costs included within it.

5.3.2 The viability appraisal will take into account the rental income achievable from the student and key worker accommodation, based on the AFL's in place, and the market rents achievable from the commercial units and compare it against the anticipated borrowing repayments and interest costs that the Council will incur, based on the scheme costs included within the appraisal.

5.3.3 The viability appraisal calculation will be modelled over a 10 year period to reflect the initial duration of the FutureLets lease. The borrowing rates included within the appraisal will be based on a 40 year repayment term, with the interest rates fixed at the time of preparing the viability assessment and the Council taking the risk on interest rate fluctuations that arise between that date and the time that the borrowing is taken out.

5.3.4 To meet the Council's minimum financial return the appraisal will need to demonstrate that the net annual surplus over the 10 year period will deliver a minimum 0.5% per annum average return on investment for the Council after allowing for financing costs and borrowing repayments. The table below demonstrates how this calculation will be applied in practice, although it should be noted that the figures are for illustrative purposes only and are not representative of the proposed scheme due to commercial sensitivity reasons.

		£'000
Anticipated rents over 10 year period	A	5,000
Anticipated costs of borrowing repayments and financing costs over 10 year period	B	(4,200)



Net return over 10 year period	$A - B = C$	800
Average annual return	$C / 10 = D$	80
Scheme cost (fixed as per the appraisal)	E	11,000
SBC net return	$D/E \times 100$	0.72%

\* figures are for illustrative purposes only and are not representative of the scheme on offer to the Council

- 5.3.5 The viability appraisal clause will ensure that the Council is not obligated to pursue the scheme if costs increase disproportionately to rental returns and aims to ensure that the investment in the building will offer positive cash flow returns for the Council in terms of its revenue budget. The relatively low level of net financial return (0.5%) on the transaction recognises that the scheme is primarily driven by the Council's regeneration aspirations rather than for financial gain.
- 5.3.6 The scheme costs will include a developer profit to reflect the risk the SPV is taking on the purchase of the site, obtaining planning, obtaining vacant possession and cost overruns. The SPV will not be obligated to pursue the scheme if the share of developer profit within the financial viability appraisal is less than a pre-determined percentage of scheme costs (as detailed within the P&C appendix C).
- 5.3.7 The terms of the proposed deal recognise that final scheme costs could affect the rental amounts agreed with the future tenants, particularly if the final financial appraisal shows that the scheme is not financially viable for either party. To alleviate this the SPV will retain responsibility for negotiating and agreeing the terms of the AFL's with the prospective tenants as well as designing and constructing the building to meet the tenant(s) specification and within their required timescales; with the AFL's only transferring to the Council upon practical completion of the building.
- 5.3.8 If the scheme is not pursued by either party on financial viability grounds the SPV will not be reimbursed for any costs incurred; although the Council will be obligated to purchase the site from the SPV if planning and vacant possession has been obtained.
- 5.3.9 An indicative financial appraisal has been received and is summarised in P&C Appendix C.
- 5.4 The SPV – Buccleuch Property (Scarborough) Ltd**
- 5.4.1 The establishment of SPV's is standard practice within the property development sector. The SPV established by Wrenbridge and Buccleuch will be a 100% subsidiary of Tarras Park Properties Ltd; a property investment company that was incorporated in 2003. Tarras Park Properties' most recently

filed accounts show that the company had net assets of £93.6million as at 31 October 2017 and the consolidated accounts of its ultimate parent undertaking company showed net assets of £143.6million as at the same date.

5.4.2 With offices in Edinburgh and London, Buccleuch Property has a £250m UK-wide investment portfolio, a range of development sites with a pipeline in excess of 3.5 million sq ft and a strategic land portfolio with over 12,000 consented residential units. Buccleuch is also a partner in a number of strategic joint ventures including Native Land, a specialist residential and mixed use developer based in Prime Central London, and Queensberry Properties which develops high quality residential housing in the Central Belt and Borders of Scotland.

5.4.3 Buccleuch have well established relationships with a number of development partners operating across the country, including Wrenbidge, and are successfully working collaboratively in a wide range of sectors and geographical locations. Wrenbidge have partnered, or are currently partnering, with Buccleuch as funder on a further 8 development projects.

#### **5.5 FutureLets – Due Diligence and Agreement for Lease**

5.5.1 Wrenbidge has agreed Heads of Terms for the AFL with FutureLets on behalf of the SPV. The lease will provide Futurelets Ltd with the use of the building for student accommodation and an under-lease will provide rooms to the NHS. On purchasing the building the Council will become the Landlord.

5.5.2 The proposed lease is drawn on terms generally acceptable to an institutional landlord with a lease length giving 10 years term certain with no breaks and the right to extend for a further 10 years. The rent is to be reviewed at the fifth anniversary based on an annual percentage increase in RPI. The tenant has internal repairing liability but external repairing costs are recovered by way of a service charge. The lease is to be guaranteed by Coventry University.

5.5.3 The AFL is subject to vacant possession, planning and financial viability and is further detailed in Appendix F.

5.5.4 FutureLets was incorporated in July 2014 as a wholly owned subsidiary of Coventry University Enterprises Ltd and commenced trading in July 2015. The company is controlled by Coventry University and manages and places students into student accommodation, predominantly on behalf of the University.

5.5.5 A review of FutureLets Balance Sheet shows that the company had net liabilities of £357k as at the year ended 31 July 2018, however some of this liability relates to pension fund liabilities which are based on actuarial assumptions and will not be realised over the short to medium term.

- 5.5.6 A review of previous year financial statements shows that the company's net liabilities are reducing year on year, with a reduction of £200k between the period July 2016 to July 2018 and the company had cash balances of £1.31m as at July 2018. The company's annual turnover has increased by over £2m over the same period; rising from £1.618m in 2016 (its first full year of trading) to £3.709m for the year ended July 2018, and the company made its first trading profit (£92k after tax) in the year ended July 2018.
- 5.5.7 The Council would be at risk financially if for any reason FutureLets was to default on its lease with the Council. Therefore to safeguard the Council's interests the AFL with FutureLets will include a parent company guarantee from Coventry University.
- 5.5.8 A review of Coventry University Group's financial statements shows that the Group had total income of £369m for the year ending 31 July 2018, the majority of which (£326m) was generated from the University in the form of tuition fees and education contracts. With total expenditure of £351m the Group generated a surplus for the year totalling £18m, which was £2m higher than the previous year. The balance of unrestricted reserves at a group level at 31 July 2018 was £311m.

## 5.6 **Rental income from Commercial units**

- 5.6.1 The financial viability appraisal will include rental income from the ground floor commercial units as well as the income from the student and key worker accommodation. The commercial rents are currently valued at £88k per annum within the indicative financial appraisal.
- 5.6.2 The Council will be responsible for letting the commercial units and the Council's financial return on the investment will be affected if the units are not let or market rents are not achieved.

## 5.7 **Stamp Duty Land Tax**

- 5.7.1 Stamp Duty Land Tax (SDLT) is a tax payable to HM Revenue and Customs on land and property transaction exceeding a value of £125k. The Council has obtained professional advice on the SDLT implications of the transaction to ensure that the proposal is structured to be as tax efficient as possible.
- 5.7.2 In order to achieve this the Council will purchase the site from the SPV when planning and vacant possession are obtained, as opposed to transferring the site upon completion of the new building. The structuring of the deal in this way is standard practice in terms of property development and will reduce the SDLT costs of the transaction by circa £700k.
- 5.7.3 The SDLT costs that the Council will incur on the purchase of the site will be incorporated in the financial viability appraisal and if the proposed approach is

not taken, and the additional £700k is included within the financial viability appraisal, the scheme will not be financially viable.

5.7.4 By taking on the ownership of the site prior to constructions works commencing the Council is exposed to higher levels of risk if issues arise during the construction period and construction stalls. This increased risk will be partially mitigated by the Council having step in rights to the construction contract and developer profits only becoming payable upon practical completion of the building.

## **5.8 Valuation and strength of tenure**

5.8.1 In order to form a balanced view on the proposals the Council's estates team have taken independent valuation advice on the scheme from Knight Frank, Cushman & Wakefield and BNP Paribas and in each case the advice has been consistent.

5.8.2 Based on the projected rental return from the accommodation with a secure 10 year lease term in place, and utilising industry comparable yields of 5.75% on the student accommodation and 6.5%/8.5% on the retail, the completed building is valued at circa £14 million gross or £13 million net of 6.8% investment trading costs.

5.8.3 This is significantly below the purchase cost to the borough (as set out within the current indicative financial appraisal and detailed in P&C Appendix C). It is however hoped that this shortfall between cost and value will narrow as the value of the student accommodation market builds within the borough.

5.8.4 The shortfall in cost versus value of the asset is the function of a number of factors, but is primarily due to the factors previously cited in the report; namely:

1. Build costs being typically above industry average within the borough; and
2. The value of the rental market in Scarborough being suppressed and in terms of student accommodation being, as yet, unestablished.

5.8.5 The shortfall between purchase cost and asset value demonstrate why the private sector has historically failed to deliver a viable solution for this site and also demonstrate why public sector intervention is needed to deliver this scheme. The figures also provide further evidence that the Council is pursuing the scheme to realise the significant economic benefits and wider regeneration impact that it will bring to the borough rather than for commercial returns or financial gain.

5.8.6 In providing a parent company guarantee for the duration of the FutureLets lease the University are demonstrating a strong commitment to the project and are reinforcing their growth ambitions for the Scarborough Campus in

coming years. This commitment is also reinforced by advice received from independent property specialists BNP Paribas who indicated that it is no longer commonplace for universities to provide this level of security of tenure for new student accommodation developments. Instead universities increasingly refer students to “nominated” accommodation providers / agents and carry no long term risk associated with tenancy.

## **5.9 Exit Strategy**

5.9.1 If planning is obtained for the scheme but the development is not pursued by the SPV due to concerns over financial viability the Council will have the option to continue with the development itself by directly appointing a contractor to take forward the construction works. This would remove the need to pay a developer profit on the scheme, however under this option the Council would take on higher levels of financial risk as it will take on the responsibility for cost overruns and any construction delays which affect the FutureLets AFL. If this approach is taken and the Council uses any planning or design work produced by the SPV the SPV will be entitled to be reimbursed for any costs it incurred in fulfilling the work.

5.9.2 The above scenario would prove extremely challenging however given the demanding timescales of the project and it is unlikely that this route would deliver the project in line with FutureLets’ requirements.

5.9.3 If the construction works are not pursued the Council will still be obligated to purchase the site from the SPV and the Council will be responsible for identifying an alternative use for the site.

5.9.3 In this scenario the Council could either:

### **1 Demolish/clear the site and take to the market for development:**

A cleared site would be more attractive to potential developers and the total cost of such an undertaking is estimated to be in the region of £1.75m (including purchase price of the site).

At this point it is not known what capital receipt might be realised should the site be taken to market as this would be very dependent on the type of use which came forward. Similarly the regenerative impacts of this approach are also unknown, however it is unlikely that any such development would align as closely with the strategic objectives of the borough as the student / key worker accommodation proposal and may jeopardise external funding applications for wider regeneration.

### **2 Clear the site and create a new Town Square in this area:**

Alternatively the Council could consider demolishing the existing building and establishing a larger public town square on this site. It is estimated that a town square of the required quality could potentially be achieved for a total of circa £4.5m (including purchase price of the site).

As there would be little or no revenue or capital income generated from this proposal it is highly likely that such an option would require significant external funding support to be deliverable. As the Council will have already purchased the site it would also be unlikely that this element of the scheme cost would be eligible for external grant funding. As it is currently envisaged that the cost of the site purchase will be funded from the rental income from the new build accommodation this cost would need to be funded from other council resources if this option was pursued.

Again, it is unlikely that any such development would deliver either the regenerative impact or align as closely to strategic objectives of the borough as the student / key worker accommodation proposal and may jeopardise external funding applications for wider regeneration.

5.9.4 Members should note that maintaining the existing building as a going concern is not considered to be a viable option. The building is reaching the end of its serviceable life with a number of growing and significant maintenance issues, including the need for a new roof, which would need addressing in the short term. Furthermore the number of vacant units within the building means that the property does not generate enough income to cover the cost of business rates and currently makes a revenue loss. To let these vacant units in their current state of repair, given the appearance of the building, and in the current retail letting climate is not considered to be achievable.

5.9.5 Should the university opt not to renew the lease after their initial 10 year lease period Cushman & Wakefield estimate that the resulting property will have an open market value of circa £7.5m; which would be circa £9m less than the borrowing outstanding on the asset.

5.9.6 Although this scenario is considered unlikely given the commitment from Coventry University and the long term needs of the NHS within the town, officers have taken advice to ascertain possible alternative uses for the site. These include:

- a) Re-letting the entire accommodation element of the property to the NHS and or other key worker agencies.
- b) Repurposing of the building for a hotel / holiday accommodation provider
- c) Repurposing of the building for the provision for private and or social rented housing or extra care facility.

- 5.9.7 To facilitate any such change in use the proposed building will be traditionally constructed, with a traditional structural frame with blockwork and/or drylined internal partitions with an over provision of drainage providing simple conversion options to other uses. The nature of a framed building is such that the internal partitions are not load bearing and can be relocated to enable alternative internal arrangements to suit difference uses.
- 5.9.8 The building design would enable a layout which allows for habitable rooms either side of a corridor. This relatively shallow floor plan would allow ready conversion to a number of uses that benefit from natural daylight which could include other residential uses together with office, hotel or commercial uses.
- 5.9.9 The arrangement of the building is such that it has multiple cores that will house both accommodation and escape stairs together with lifts. This arrangement will give flexibility that would enable floors to be converted into other uses which require similar arrangements of rooms either side of shared central corridor such as hotel use or keyworker accommodation but would also allow for individual floors to be converted into larger residential units with internal corridors that share a common core. 4 student bedrooms could be converted to a 1 bed apartment, 5 beds to a 2 bed etc.
- 5.9.10 Floor to ceiling height is applicable to residential or hotel use, meaning there are no constraints on future services adaptation. Escape distances and core provision is applicable to other uses.
- 5.9.11 The multiple core arrangement would also allow the building to be split vertically should this be beneficial to allow differing uses within the overall building envelope.
- 5.9.12 The ground floor will have increased floor to ceiling height for use as common areas which could also accommodate other commercial uses such as retail or leisure and Educational/Community uses if so required.

## **5.10 Regeneration Benefits**

- 5.10.1 Should Council approve entering into the agreement with the SPV to deliver the scheme a number of strategic and policy outcomes would be achieved.

### **1. Facilitate the regeneration of a key strategic site within Scarborough Town Centre by regenerating and repurposing an underutilised vacant property–**

The former Argos building lies within a highly prominent site within Scarborough town and within one the most deprived wards nationally.

In its current form and utilisation the site is a very visible sign of market failure of the traditional retail sector. It has little (and steadily diminishing) aesthetic appeal and degrades the built environment in which it sits. The site engenders

a perception of urban neglect and as such erodes any sense of place and civic pride, not only in the immediate area but also within the wider economy of the town and within the resident and visiting community.

Quite simply the site is not commensurate with the aims of a thriving, ambitious and highly successful coastal town such as Scarborough.

Regenerating the site to provide high quality mixed use facilities such as those proposed will enhance the built environment and visual appeal of the area so restoring a sense of place to the area. Furthermore by demonstrating developing economic diversity and activity this may in turn act as a catalyst for wider private sector investment within the surrounding area and provide confidence to other potential investors.

Additionally delivery of the scheme could also enable the establishment of Town Square adjacent to the site. In turn significantly multiplying the regenerative impact of the scheme and stimulating yet further the sense of place and private sector investment in the vicinity whilst directly enhancing the Borough's infrastructure and providing a place for further cultural and community activity.

## **2. Contribute to making the town a mixed use environment**

By providing a mix of accommodation with associated and therefore sustainable retail space i.e. the provision of a convenience store and other facilities the development will alter the current diversity the town has to offer, moving away from the traditional and in some instances failing offer currently available within the town.

## **3. Facilitate Scarborough becoming a Student Town**

By facilitating this development the Council will be directly supporting the establishment of a student population within the heart of the borough of Scarborough.

The establishment of a student population has a number of benefits including:

**Greater cultural diversity** - many students will be from outside of the immediate area and some overseas bringing with them a wide range of cultural contributions to our community.

**Greater animation of the space and a transitional economy** – by having a constant coming and going of residents within the area additional activity will be driven into the site through the physical presence of people and in the supporting business which will in turn cluster to service that population.

**Raising aspiration and improving educational achievement**- the very visible presence of higher education students and key workers will also act to raise aspiration within the local area and the wider community and has the potential to inspire others to follow a similar academic or career path.



**Increasing and retaining the young population of the borough** – a direct outcome of the development will be an increase in young people (18-25). Young people who in turn may choose to remain within the borough and seek gainful employment here. In the case of the NHS, young people who now have the opportunity and incentive to locate here to pursue medical training or employment.

**Direct economic benefits** - a 2013 report entitled student contributions to the UK economy undertaken by NEF Consulting Limited, demonstrated that average student spend within the local economy to be in the region of £9,000pa for a UK based student and increasing to approximately £12,000 for overseas students (this is excluding University fees and accommodation costs).

In this instance Coventry University and the NHS propose the accommodation of circa 200 students and key workers within the immediate building. Based on an average annual spend of £10,000 per annum (indexed from 2013) this equates to approximately £2m per annum spent within the local economy.

If in turn this development facilitates the University in achieving their stated target of 5,000 students, this figure increases significantly to circa £50m per annum spent within the local economy.

When it began operations in 2015 CU Scarborough had under 10 staff. It now employs 60 staff with that number projected to grow to approximately 100 over the next five years.

4. **Enable and increase residential living within Scarborough Town Centre**  
The project will increase the number of people living within the town centre by circa 195 directly increasing the number of 18-25 year olds living within the borough and contributing toward our challenge of retaining young people within the borough.
5. **To develop our night Time Economy**  
The addition of circa 200 more people living within the Town Centre area and requiring services will in turn encourage the growth and sustainability of the existing night time economy.

Importantly the increasing of the residential population within this area, moving to and from accommodation during the early evening (i.e. to and from work and study) and seeking to access services, partake of leisure activity, dining etc. will animate the town and encourage the establishment of a transitional evening economy, a period when the town centre is largely devoid of activity.

This increased transitional activity will in turn act to improve the perceived safety within the area and reduce the likelihood of antisocial behaviour, making it accessible to more of the community for more of the time.

**6. Build our identity, image and brand**

The creation of the facility will visibly establish Scarborough as a student town and as such one with an aspiring and culturally diverse community. The possible adjoining town square development will provide a space for cultural and community activity to take place. Overall the scheme will demonstrate the borough is progressive and able to adapt to the changing economic and socio cultural needs of the 21st century.

**7. Create an inviting public realm we can be proud of**

The development would see the removal of an existing building which is a visible sign of physical decay of the urban environment and market failure within the heart of Scarborough Town. In its place will be the creation of a high quality building which is both complementary and beneficial to the surrounding environment. A facility which will raise the quality of the built environment.

The development will also act as a natural catalyst for the establishment of a possible town square which if implemented will further add to the quality of the environment.

**8. Retain and grow our population of young people and provide infrastructure required to accommodate key sector workers within the town.**

The provision of this accommodation facility will provide direct accommodation for 195 persons, the majority of whom will be young persons and will not already be resident within the borough. By training / educating, living and establishing relationships with and within the area there is a higher likelihood that such individuals will seek long term employment within the borough and choose to reside here permanently.

Importantly the provision of high quality infrastructure accommodating those within higher education and medical professionals in a prominent and visible location will can act to inspire and raise aspiration within the resident population and possibly assist in encouraging some to stay within the borough to seek education and employment.

**9. The investment has the potential to unlock other public and private sector funding within the town.**

The Borough Council currently has regeneration aspirations and associated funding bids for our town centre submitted with the Heritage High Street Fund, The Future high Street Fund, the YNYER LEP and is undertaking master planning for the regeneration of Scarborough Harbour, totalling over £15m. If approved this proposal has the potential to unlock some if not all of the external funding for the additional activity as it will act as a demonstrable commitment of the Council to regenerating its Town Centre and provide a tangible source of match funding.

## **6.0 IMPLICATIONS**

### **6.1 Policy**

## 6.2 Financial

- 6.2.1 The financial implications associated with the scheme are set out within the body of the report and P&C Appendix C.
- 6.2.2 The Council has obtained SDLT and VAT advice on the proposal and this advice will be considered collectively by the Council, the SPV and FutureLets to ensure that the scheme is structured to minimise irrecoverable tax prior to entering into the final legal agreements.
- 6.2.3 Financial projections currently show that the Council will need to identify ongoing, annual budget savings of £5m over the next 3 years to balance the anticipated revenue budget funding gap. The Council has significant regeneration aspirations for the Borough and it is recognised that this scheme will help to deliver substantial benefits in terms of these aspirations however consideration must also be given to the financial affordability of the scheme, particularly when considered against the backdrop of the Council's existing financial pressures and levels of approved borrowing.
- 6.2.4 To help address its revenue funding gap the Council has adopted a Commercial Property Investment Strategy (the Strategy). To meet the criteria of the Strategy schemes must deliver net returns of 2%, after making allowance for borrowing costs and repayments. The investment opportunity set out within this report will provide a minimum return of 0.5% and is unlikely to meet the 2% return required under the criteria of the Strategy.
- 6.2.5 Despite the investment not meeting the Council's criteria for a commercial investment the scheme should be looked at in terms of the regenerative and economic benefits that will be derived in terms of the delivery of the Town Centre Strategy, wider educational and employment opportunities and healthcare benefits within the borough. In addition to delivering these significant benefits the scheme will deliver a positive cash flow return for the Council whilst leases are in place for the residential accommodation.
- 6.2.6 In addition to the investment in the former Argos building site the report recommends that a £50k budget be established to take forward the Council's vision for a wider regeneration scheme for the area; incorporating the creation of a town square adjacent to the redevelopment site. This cost will be funded from a £100k feasibility budget that has already been established within the Council's capital programme. The earmarking of the budget for this purpose will enhance the Council's ability to pursue grant funding bids as opportunities arise and improve the chances of leveraging external funding into the Borough.

## 6.3 Legal

6.3.1 Due to the nature of the arrangements proposed, there is a risk that the proposals could infringe relevant procurement legislation. In order to mitigate against this, the Council has sought external legal advice and this will inform the final terms of the proposed arrangements, and will be reported to the Leader in due course.

#### **6.4 Equalities and Diversity**

The scheme will enhance the diversity of the borough by attracting students and key workers from outside the borough. Many students and key workers will be from outside of the immediate area, and some from overseas; bringing with them a wide range of cultural contributions to our community.

20% of the University's students have disabilities and it is necessary to provide them with purpose built blocks. This proposal for accommodation will assist in satisfying that need.

#### **6.5 Staffing Issues**

None

#### **6.6 Environmental, Health and Safety, Sustainability, Crime and Disorder**

6.6.1 The building currently on the site has an energy performance rating of D (where G is least efficient and A+ the most). Should the building be demolished and replaced by a new facility, constructed in accordance with modern building control standards, this performance rating will move to a minimum of a B rating. Through the design and planning process the developer will be seeking to exceed this level of energy efficiency; reducing carbon footprint and environmental impact.

6.6.2 In terms of the built environment this facility will greatly improve the appearance of the street scene within a historic site within the town, remove a very visible sign of market failure and act to engender a greater level of civic pride within the town.

6.6.3 Detailed consideration relating to the prevention of crime and disorder will be considered in detail through the planning process, however it is generally acknowledged that the constant movement and animation brought about by having increased residential living within the area is likely to have a positive effect on reducing the opportunity for antisocial behaviour and importantly; reducing the perception of an unsafe environment.

#### **6.7 Planning**

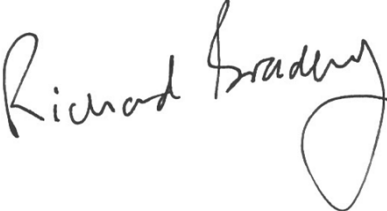
6.7.1 Wrenbridge has obtained initial pre-application advice from the local planning authority. There is recognition of the benefits that redevelopment of the site could bring to the area, both in terms of the replacement of a building that does not make a positive contribution to the character of the locality, and with

regard to the potential to stimulate wider investment alongside gains from a greater number of people living around the town centre.

6.7.2 Given the location of the site within the conservation area, in close proximity to listed buildings, discussions have also been held with Historic England. A key aspect of any redevelopment proposal will be the overall height and massing, and roof detailing, as the site forms part of an important visual corridor linking the town centre to the castle headland. Historic England supports the principle of the scheme and the regeneration of the site.

6.7.3 The applicant is committed to holding continued dialogue with Planning Services and Historic England to further inform the scheme in advance of submission of a planning application. Ultimately the decision on any planning application would be taken by Planning and Development Committee.

6.7.4 The risk of obtaining planning for the scheme lies with the SPV.

A handwritten signature in black ink that reads "Richard Bradley". The signature is written in a cursive style with a large, looped initial 'R' and a distinct 'B'.

**Richard Bradley**  
**Director**

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## RISK ASSESSMENT

Risk Ref	Date	Risk	Consequences	Mitigation	Current Risk Score	Target Score	Service Unit Manager/ Responsible Officer	Action Plan
1	Jul-19	Council does not approve the scheme	<ul style="list-style-type: none"> <li>• Prominent town centre building falls into further decline with no likely opportunity for private sector intervention</li> <li>• Loss of potential regeneration benefits for the wider site and town centre and reduced chance of attracting grant funding to pursue town square opportunity</li> <li>• Impact on university's ability to grow leading to failure to achieve growth &amp; educational outcomes for the borough.</li> <li>• Potential for the financial viability and future of Scarborough campus to be jeopardised</li> <li>• Impact on Council's aspiration to become a student town.</li> <li>• Potential need for future public sector subsidy to regenerate the site / stop a negative spiral of decline within the area</li> <li>• Impact on NHS' ability to</li> </ul>	<p>Member briefings</p> <p>Comprehensive advice from professional advisors, including legal, property, tax and procurement practitioners</p> <p>Longstanding relationships with Wrenbridge, University and NHS</p>	B4	A1	RB	

Risk Ref	Date	Risk	Consequences	Mitigation	Current Risk Score	Target Score	Service Unit Manager/ Responsible Officer	Action Plan
			<p>recruit key workers and negative effect on the provision of health services within the Borough</p> <ul style="list-style-type: none"> <li>• Loss of private sector confidence in the Council's desire to pursue regeneration and development opportunities within the Borough</li> <li>• Loss of wider regenerative opportunities and inability to match fund other funding programmes totalling £15m</li> </ul>					
2	Jul-19	Agreement for Leases not entered into	Development fails to proceed (see above)	<p>Agreements for lease have been developed in full consultation with the lesee's and at their behest.</p> <p>HOT's agreed</p>	A3	A1	N/A	
3	Jul-19	FutureLets defaults on their lease terms / payments	<ul style="list-style-type: none"> <li>• Rents payable to SBC not received</li> <li>• Alternative operator needs to be found</li> <li>• Council has to step in to run the accommodation itself</li> <li>• Alternative uses need to be found for the building</li> </ul>	<ul style="list-style-type: none"> <li>• Coventry University provided a parent Company guarantee to honour the payment terms of the lease for the entire 10 year lease period.</li> </ul>	B2	B1	N/A	

Risk Ref	Date	Risk	Consequences	Mitigation	Current Risk Score	Target Score	Service Unit Manager/ Responsible Officer	Action Plan
4	Jul-19	University don't achieve the growth in student numbers and demand for accommodation not fulfilled.	<p>University may not renew lease after 10 year term</p> <p>Potential FutureLets default on lease payments</p>	<p>HOTs of lease ensure that Landlord (SBC) receives payment for all accommodation regardless of occupancy levels during the lease period.</p> <p>FutureLets are direct subsidiary of Cov University. All risk associated with room occupancy lies with FutureLets and is underwritten by Cov University (during 10yr lease period)</p>	B3	A2	N/A	
5	Jul-19	University cease operating from Scarborough	<p>Loss of higher education provision within the Borough.</p> <p>Economic impact throughout the economy particularly to service sector.</p> <p>Increased outward migration of young people.</p> <p>Reduction in educational attainment in the borough.</p> <p>Effect on business within the borough reliant on sourcing / training employees from the local community.</p>	Coventry University are consistently high performing university within national rankings. Have a high degree of commercial experience and provide dynamic and adaptable courses to meet local demand. To date all growth predications have been exceeded.	B4	B3	N/A	



Risk Ref	Date	Risk	Consequences	Mitigation	Current Risk Score	Target Score	Service Unit Manager/ Responsible Officer	Action Plan
6	Jul-19	New gov't funding affects University funding	Coventry University Scarborough campus no longer financially viable University pulls out of town	Coventry university have a business model whereby Student fees are already capped at circa 20% below industry maximum and have a strong commercial function and therefore a very good gearing ratio. They have assessed they a very resilient to policy shock within the HE sector.	B4	B3	N/A	
7	Jul-19	Planning for the accommodation not obtained	Abortive costs Development not pursued SPV retains ownership of the site Further decline in the building / site	Planning risk lies with the SPV. Pre-application advice obtained. Discussions and early dialogue held with Historic England.	B4	A1	N/A	
8	Jul-19	Planning obtained but scheme not financially viable	SBC obligated to purchase the site SBC has option to pursue the development itself or identify alternative uses for the site Borrowing costs for the purchase	No developer profits payable until practical completion so developer motivated to ensure financial viability Developer retains control over AFL's until development completed to allow rents to be	B4	A1	N/A	

Risk Ref	Date	Risk	Consequences	Mitigation	Current Risk Score	Target Score	Service Unit Manager/ Responsible Officer	Action Plan
			along with other costs associated with the site need to be funded from the Council's revenue budget	negotiated throughout the pre-development phase.				
9	Jul-19	Interest rates increase	Scheme potentially not viable	None	B3	A1	N/A	
10	Jul-19	Procurement / State Aid challenge	Scheme does not proceed / is delayed  Potential cost implications  Reputational damage	Professional advice obtained and will be considered alongside the drafting of the final legal agreements.	B3	B3	LD	
12	Jul-19	Commercial units not let	Loss of income circa £87k per annum.  Erodes Council's net financial return from the scheme.	HOT's see 1x commercial unit already let at 40k per annum on 15 yr lease so reducing risk to £47kpa.  Remaining commercial units if unlet can be turned to alternative income generating activity including possible additional accommodation and or leisure / office accommodation.	B3	A2		
13	Jul-19	Seasonal let profit share income from the letting of accommodation in the non-academic summer period is not achieved or less than envisaged	£24k per annum income included in the financial appraisal is not achieved.  Erodes Council's net financial return from the scheme.		C2	B2		

Risk Ref	Date	Risk	Consequences	Mitigation	Current Risk Score	Target Score	Service Unit Manager/ Responsible Officer	Action Plan
14	Jul-19	Lease not renewed after 10 years	<p>Alternative occupier / user required would have to be sought and or repurposing of the building would have to be financed.</p> <p>If unsuccessful council will have outstanding loan balance of circa £16m against a book valued asset of circa £7.5m</p>	<p>Number of possible alternative uses envisaged including:</p> <p>a) Re-letting the entire accommodation element of the property to the NHS and or other key worker agencies.</p> <p>b) Repurposing of the building for a hotel / holiday accommodation provider</p> <p>c) Repurposing of the building for the provision for private and or social rented housing</p> <p>d) disposing of asset on open market</p>	B4	A3		
15	Jul-19	Irrecoverable tax makes the scheme unviable	Scheme does not proceed	<p>VAT and SDLT advice obtained.</p> <p>Tax implications will be discussed and agreed with all relevant parties prior to entry into formal legal agreements</p>	B4	A4		
16	Jul-19	Construction stalls and is not completed by the SPV	<p>Delays in delivering the scheme and impact on the AFL's</p> <p>Council owns the site with a partially completed development</p>	<p>Council step in rights</p> <p>Milestone payments agreed in advance and funding drawn down only payable upon completion of</p>	B3	A3		

Risk Ref	Date	Risk	Consequences	Mitigation	Current Risk Score	Target Score	Service Unit Manager/ Responsible Officer	Action Plan
			Council has to step into construction contract and fund cost overruns / complete the development	milestones  Developer profit not payable until practical completion				

Risk

An event which may prevent the Council achieving its objectives

Consequences  
 Mitigation  
 Current Risk Score  
 Corporate Objectives  
 Target Risk Score  
 Service Unit Manager  
 Action Plan

The outcome if the risk materialised  
 The processes and procedures that are in place to reduce the risk  
 The likelihood and impact score with the current mitigation measures in place  
 An assessment of the Corporate Objectives that are affected by the risk identified.  
 The likelihood and impact score that the Council is aiming to achieve  
 The Service Unit or Officer responsible for managing the risk  
 The proposed actions to be implemented in order to reduce the risk to the target score

### Risk Scoring

Impact	5					
	4					
	3					
	2					
	1					
		A	B	C	D	E
	Likelihood					

Likelihood:

A = Very Low  
 B = Not Likely  
 C = Likely  
 D = Very Likely  
 E = Almost Certain

Impact

1 = Low  
 2 = Minor  
 3 = Medium  
 4 = Major  
 5 = Disaster

HEADLINE DEVELOPMENT PROGRAMME

