

Subject: Preston Barracks Development
Date of Meeting: 11 July 2013
Report of: Executive Director Environment, Development & Housing
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Wards Affected: All

FOR GENERAL RELEASE

1. SUMMARY AND POLICY CONTEXT:

- 1.1 This report advises Policy & Resources Committee of progress made during the past 12 months in examining the development opportunities at the council owned former Preston Barracks site together with land owned by the University of Brighton (“the University”). Joint working with the University to develop a Masterplan study covering the wider development area has the potential to bring about comprehensive redevelopment.
- 1.2 The report sets out the recommendations of the Preston Barracks Project Board, the planned next steps and seeks agreement to enter into detailed discussions to explore options capable of unlocking the development potential of the sites to enable the mixed-use regeneration scheme to be brought forward as part of the Greater Brighton City Deal proposals.

2. RECOMMENDATIONS:

That Policy & Resources Committee:

- 2.1 Note the work to date summarised in Section 3 of this report, and the cross-party Project Board’s recommendations to proceed accordingly.
- 2.2 Support the Project Board’s view, that the partnership with the University of Brighton and alignment with the Greater Brighton City Deal ‘Growth Hub’ proposals presents the preferred route to successful delivery of the regeneration of the Preston Barracks site.

- 2.3 Authorises the Executive Director Finance & Resources, Executive Director Environment Development & Housing and Head of Law to enter into further negotiations to actively consider disposal of the Preston Barracks site to the University of Brighton and/or its development partner to enable delivery of the mixed use scheme, subject to a further report to the Project Board and Policy & Resources Committee being required to detail the proposed terms of such a disposal.

3. RELEVANT BACKGROUND INFORMATION/CHRONOLOGY OF KEY EVENTS:

- 3.1 As a large brownfield site, Preston Barracks is of significant importance to the city particularly for local regeneration, employment and business growth opportunities and housing. With few such sites available in the city, it offers a rare opportunity to deliver a genuine mixed-use development capable of generating substantial employment and inward investment opportunities. It was the strength of this case, together with the risks posed by potentially unacceptable development, which led to the city council's decision, supported and funded by the South East England Development Agency (SEEDA), to take up its pre-emption to purchase the site from the Ministry of Defence in 2002.
- 3.2 The relationship with the council's original Preferred Developer (appointed April 2004) was terminated in 2009. This followed 5 years of intensive work aimed at formulating an appropriate and financially viable scheme. Ultimately this proved not possible. The most challenging element of the scheme was achieving financial viability of a required 18,600 sq.m of office space.
- 3.3 In March 2009 Cabinet agreed to a review of the redevelopment opportunities and delivery arrangements for the mixed use redevelopment of the Preston Barracks site. It was through this review that the partnership with the University was formed. The partnership was formed in recognition of the fact that achieving a financially viable scheme in isolation had not been possible. Partnership with the University was considered to have the potential for a more flexible approach, offering the greatest potential to bring about comprehensive redevelopment, and also offering wider benefits for this part of the city.
- 3.4 Since 2009, the council has worked in partnership with the University on the development of proposals. The plan annexed to this report indicates the land ownership. A number of preparatory stages have been completed during the past 3 years, all of which were jointly developed or commissioned i.e. agreement to the 'Shared Vision' (2009), completion of a Site Capacity Assessment (2010), approval of the Planning Brief (2011), and the recently completed Masterplan covering Preston Barracks, Mithras House and Watts Campus sites.

- 3.5 Partnership arrangements to date have been governed by an informal 'Partnership Protocol'. It was agreed by Cabinet in September 2009, that a report would need to be presented to Members prior to any longer-term commitments being put in place.
- 3.6 The latest masterplan study was completed in December 2012. The main uses for the comprehensive and integrated development, originally agreed by the partners through the 'Shared Vision' and refined through subsequent stages are:
- New 8,000 sq.m Academic Building (inc. new Business School)
 - 750 student units
 - 10,600 sq.m of office space
 - 300 housing units
 - Ancillary retail
 - High quality public open spaces
 - Possible relocation of MoD cadet facility but not reliant on it.

Development of the Masterplan

- 3.7 The primary purpose of the recent masterplan study has been to draw on the broad guidance set out in the Planning Brief and establish the design and development parameters of a deliverable scheme, including: identifying buildings/land uses; the relationships between buildings; and, defining building heights, bulk and massing. Importantly, the study also addressed the need for a "market review, financial viability and implementation plan".
- 3.8 The consultant team began work on the new masterplan in April 2012, and submitted their final report in December 2012. The masterplan achieved the partners' shared objective of creating a mixed-use development that incorporates an agreed mix of uses. It also integrates the various sites with the new academic building in a prominent location on the barracks site, along with housing and student accommodation on University land (Mithras House and Watts car parks) and employment space on the Watts car park.
- 3.9 The Masterplan study offers a flexible framework to create a new mixed use local centre offering a new residential community along with community, leisure, retail, University and employment uses. Having participated fully throughout the masterplan's development, the partners are supportive of many of the spatial concepts and in agreement about its positive features. Notwithstanding, the design progress made, the study fell short of achieving financial viability for all of the proposed phases of development.

- 3.10 With the University's agreement, the council sought specialist financial advice to strengthen the financial viability solutions and to identify options for improving deliverability of the overall scheme.
- 3.11 This work has identified key aspects where the financial viability of the scheme can be improved. Together with potential EU funding and City Deal opportunities, further re-engineering of the masterplanning work is underway with the University to finalise a deliverable scheme. This additional work is likely to result in further modifications to the density of the scheme, reduce the need for parking spaces and introduce higher value uses. It includes:
- Further work on value engineering, phasing and reviewing university car parking requirements;
 - Soft market testing with residential developers to determine their market view on the mix of student and residential accommodation as well as sales assumptions;
 - Discussion with affordable housing providers to determine the volume, tenure and pricing of rental and shared ownership properties;
 - Joint investment options between the University and the Council to deliver business innovation laboratory and incubator space.
- 3.12 In October 2012, the council received an unsolicited formal offer from a third party developer to acquire the council owned Preston Barracks site. They identified their interest in acquiring the entire 2.2 hectare site for a major office development (17,500 sq m), 100 units of housing and a desire to relocate the MoD facility. Their financial offer, which is significantly more than the council's original purchase price of £4m, is conditional upon securing planning approval but is said not to be entirely reliant upon a pre-let. Council officers have held three meetings with the developer (the most recent on 26 February 2013) to gather additional information and gain a fuller understanding of their proposal. The developer has been made aware of the partnership with the University, our shared priorities for redevelopment and the current status (but not detail) of the masterplan study. Such a large speculative development in the current market raises questions of development funding viability and delivery risk. It is an option that the council could pursue or consider as a fall-back albeit the former would conflict with the current partnership approach adopted with the University.

Options considered by the cross-party Project Board

- 3.13 At its meeting on 25th March 2013, the Project Board considered a range of options with the aim of developing a viable approach to the delivery of the scheme. These included revising the current masterplan; disposal of the council owned Preston Barracks site to the University; consideration of the third party offer to acquire the entire

Preston Barracks site; and marketing the site for sale. The Project Board agreed that officers should continue to work with the University to explore options for improving scheme viability.

- 3.14 Subsequent meetings with the University during April and May 2013 have established that:
- There is a shared ambition to work further in overcoming the identified viability challenges;
 - There is risk of sterilising the site by a piecemeal approach to developing the site.
 - The University is proposing to take forward a planning application for student accommodation on Mithras car park.
 - The University has a clear preference to acquire the council's freehold interest on the site.
- 3.15 The University's preferred approach is for the council to dispose of the site to the University and/or its preferred developer partner, by way of a bona fide land deal. This may negate the need to apply EU procurement rules. Subject to the agreement of the Committee, further legal exploration and negotiations with the University will be undertaken to ensure compliance with public procurement rules and the 'best consideration' test in the case of disposal.
- 3.16 In the event of taking forward further legal and procurement work, account will be taken of proposals to strengthen economic viability:
- Developing the site as an Innovation Growth Hub as part of a City Deal proposals which may provide a mechanism for de-risking the employment element of the scheme through access to cheaper loan financing;
 - Making an application for EU Structural Funds that may provide grant funding to support the viability of employment element of the scheme;
 - Working with Registered Providers and the HCA to explore grant funding for affordable housing through co-operative housing;
 - Minimising car parking provision;
 - Increasing the quantum of value generating student accommodation;
 - Introducing enabling elements to the scheme such as a small hotel.

Proposed next steps to deliver a viable scheme aligned to City Deal proposals

- 3.17 The University is keen to continue to work in partnership with the council to deliver a scheme consistent with the strategic employment and economic growth potential of the site and to incorporate this into a City Deal 'Innovation Growth Hub' proposal. This could potentially attract other economic development funding opportunities, such as EU Structural Funds.

- 3.18 The Greater Brighton City Deal aims to develop a network of knowledge intensive employment Growth Hubs, to support high value sectors, linked to university specialisms. The University is a partner to the City Deal and key to supporting the development of new high value businesses through knowledge exchange partnerships and Research & Development business spin outs.
- 3.19 At its meeting on 26 June 2013, the Project Board was updated, through a draft version of this report, on progress since March 2013. Having considered the progress that had already been made, particularly in recent months as part of ongoing discussions with the University, which had served to confirm the partners' shared commitment to bring about comprehensive development, the Board supported the recommendations presented in this report and agreed referral to the Policy & Resources Committee. The Board also emphasised its desire to maintain momentum and it was agreed that the outcome of negotiations would return to the Project Board for consideration prior to referral to a future Policy & Resources Committee meeting.

4. CONSULTATION & COMMUNITY ENGAGEMENT

- 4.1 Wider consultation prior to this point has not been appropriate. However, the cross-party Project Board, attended by Cllrs Rufus, Peltzer Dunn, and Lepper, has been engaged throughout this process and its role will continue through the next stages. Consultation will be an important element of future work, particularly as the scheme progresses towards a planning application.

5. FINANCIAL & OTHER IMPLICATIONS:

Financial Implications:

- 5.1 The Preston Barracks site was originally purchased for redevelopment using grant funding from the Regional Development Agency (SEEDA). A requirement of the grant was to ringfence any proceeds from any subsequent sale for regeneration in Brighton and Hove. To date, proposed developments for the site have had significant viability issues and no development scheme has progressed.

A disposal of the site to unlock development would provide a capital receipt which could be used to support schemes within the Greater Brighton City Deal and potentially provide match funding for bids to government for investment funding in regeneration and thereby meet the original requirements.

Proposals for the site include employment space which could generate additional business rates and the council would retain a proportion of this. The housing on the site would generate additional council tax revenue for the council and the student accommodation potentially could free up housing stock currently occupied by students which are exempt from paying council tax and therefore could also increase future council tax income.

Any disposal will need to demonstrate best consideration and the council will use specialist advisors where required with the costs being met from the Strategic Investment Fund in the first instance or, if a disposal is agreed, from the sale proceeds.

Finance Officer Consulted: James Hengeveld

Date: 24/06/13

Legal Implications:

- 5.2 Drafts of a proposed Memorandum of Understanding and Heads of Terms for a proposed disposal of either the freehold or a 250 year lease have been produced by the University. These drafts have raised a number of issues which are being considered and will need to form part of ongoing negotiations.

As a matter of law, bona fide land deals fall outside the EU procurement rules. In essence the council as the contracting authority has to choose between following the Works and Services Regulations to procure a developer with positive development obligations or avoiding a lengthy procurement process, but losing the ability to require development of the site.

Lawyer Consulted: Bob Bruce

Date: 25/06/13

Equalities Implications:

- 5.3 There are not considered to be any specific equalities issues arising from this report.

Sustainability Implications:

- 5.4 Sustainability implications have been a significant feature of all previous stages of work and will remain a focus for future work. Both partners are committed to ensuring the highest standards to deliver a sustainable development with a high level of sustainable design and to minimise or re-use energy need within the site.

Crime & Disorder Implications:

- 5.5 The Preston Barracks site has been extensively vacant for a number of years and has on occasion been subject to crime and vandalism. Redevelopment of the site would serve to limit such opportunities.

Risk and Opportunity Management Implications:

- 5.6 At this stage the partnership with the University of Brighton and alignment with the Greater Brighton City Deal 'Growth Hub' proposals presents the best opportunity for the successful delivery of the regeneration of the Preston Barracks site. However a number of complex legal negotiations will need to take place and there is a risk that the final proposal brought forward by the university is not acceptable to the council, creating a further delay to the development of the Preston Barracks site.

Corporate / Citywide Implications:

- 5.7 The Preston Barracks site is of strategic importance as both an employment site and as an urban gateway to Brighton. The development opportunity it presents is significant to the city as a whole as well as the local communities that adjoin it. The shortage of quality sites for development and regeneration purposes places real pressure on the city council and University to ensure this mixed-use redevelopment performs across physical, economic and social levels. The partnership with the University is regarded as offering the best prospect for a successful development in line with the original vision and the city's strategic objectives.

SUPPORTING DOCUMENTATION

Appendices:

1. Plan of sites showing land ownership.

Documents in Members' Rooms:

None

Background Documents:

1. Report to Planning, Employment, Economy & Regeneration CMM (September 2011)
2. Report to Cabinet (September 2009)