

To: City Executive Board

Date: 15 October 2015

Report of: Executive Director Regeneration and Housing

Title of Report: Oxpens Delivery Strategy

Summary and Recommendations

Purpose of report: To provide an update and seek approval for an amendment to the Oxpens Delivery Strategy and budgetary adjustments.

Key decision Yes

Executive lead members:

Cllr Bob Price, Board Member for Corporate Strategy and Economic Development;
Cllr Ed Turner, Board Member for Finance, Asset Management and Public Health;
Councillor Alex Hollingsworth Board Member for Planning & Regulatory.

Policy Framework: Corporate Plan- vibrant & sustainable economy; Core Strategy 2010; West End Area Action Plan 2008; Regeneration Framework 2010; Oxpens SPD 2013.

Recommendations: That the City Executive Board resolves to:

1. **Note** the contents of this report;
2. **Delegate to** the Executive Director Regeneration and Housing authority to agree terms for the acquisition of land at Oxpens (in consultation with the Chief Executive, s151 Officer and Monitoring Officer) subject to Council agreeing the recommendation set out at number 4 below;
3. **Approve** the creation of a wholly owned investment vehicle and the commencement of a competitive exercise to secure a joint venture partner to become a Member of such a vehicle; and
4. **Recommend Council to resolve to** approve the establishment of a capital budget of £8.4m to progress the project through the next stages.

Appendices

Appendix 1 Risk Register

Appendix 2 Confidential Appendix

Background

1. In April 2015, CEB agreed to establish an investment vehicle with a private sector partner, Exemplar Properties Ltd, and to an agreement with the Department for Transport/Cabinet Office (DfT/CO) for the acquisition of the railway lands. The background to the project and fuller details are as set out in the previous CEB paper and as such are not repeated here.
2. The partner withdrew at late stage as it no longer wished to proceed on the agreed basis. This report sets out the proposed revised arrangements and budgetary implications.

Priority

3. The Oxpens development is a strategic priority in the Oxford City Deal and the Oxfordshire Strategic Economic Plan and unlocks major private sector investment and jobs as well as delivering significant wider benefits, including:
 - essential business space and accommodation for new and growing enterprises and services which require links to the universities and service economy
 - city centre regeneration linked to major investment committed at the railway station and Westgate (£500m redevelopment starting in 2015)
 - transport improvements and flooding infrastructure which are essential to enable the city's economy to grow
 - providing a platform for wider regeneration including employment areas near the station and Osney Mead, and supporting redevelopment around Frideswide Square
 - providing new market and affordable housing (over 300 homes), and visitor accommodation.

Timing & Way Forward

4. Central Government is still to confirm how it now wishes to handle the disposal of the railway lands at Oxpens. It is possible that the Government (through London and Continental Railways who are the owners of the site) will offer the site for sale to the previous bidders based on an unconditional contract and that this transfer will take place swiftly. If this were to be the case, the Council would also be invited to make a bid and it is therefore important that it is in a position to move quickly to seek to acquire the site if this takes place.

5. The Council proposes to seek to acquire the railway lands in order to combine the site with its adjoining holdings and promote mixed-use development. The Council would then seek a private sector partner to undertake a comprehensive scheme of development. The partnership structure would adopt the same principles as the Barton LLP with Grosvenor. A number of leading developers have already expressed strong interest in working with the Council on this basis.
6. If the railway land can be acquired the Council intends to run a competition for a partner and the development will proceed as planned with strategic infrastructure being installed, planning permission sought and onward sale of plots for development. The private sector partner would become an equal partner with the Council and refund half the costs of acquiring the railway lands-with the balance of the land value together with any development uplift being returned to the Council as development takes place. The Council's own land will be also transferred into the partnership for an agreed price subject to an independent valuation. The intention is to have a new partner in place within six months of the acquisition.
7. The Council has taken independent advice from leading property advisers JLL who has also carried out soft market testing with major private sector developers. This has demonstrated that there is significant interest in the wider Oxpens site from developers of excellent standing, who have proven track records in bringing forward large, complex regeneration sites, combining housing and commercial elements. These developers also agree that the Oxpens opportunity site should be brought forward as a comprehensive scheme to maximise receipts and reduce delivery risk. An equal joint venture partnership with the Council is considered to be a positive proposition.

Delivery and Development Programme

8. It is anticipated that infrastructure development could start on site in 2017 with the support of secured Local Growth Fund (LGF) funds already allocated.

Legal and Procurement Issues

9. Powers: The City Council is entering into the project for the purposes of regeneration and economic growth exercising the General Power of Competence in Section 1 of the Localism Act 2011.
10. Procurement: PinsentMasons solicitors have provided procurement advice to the Council. Selection of a partner will require a form of competition.

Financial Issues & Due Diligence

11. The Capital Programme Budget for 2015/16 that was agreed at full Council on 18 February 2015 included £2.0m for investment at Oxpens. The

revised approach will require budgetary provision to be made for a variable investment with a maximum exposure of £8.4m.

12. Timeframes for receipts: Returns will be linked to sales of land plots. The revised programme currently anticipates first sales in 2018. This will be subject to a detailed business plan that will be agreed between partners and reported back to CEB.
13. Further details are provided in Appendix 2.
14. Legal, Property and Technical Fees: The CEB and Council Reports of 3 July 2014 and 14 July 2014 respectively identified a total estimated cost of £370k, of which an initial budget of £320k was established to progress the first stages, wholly funded from the New Growth Points grant. The CEB report of 28 April 2015 confirmed that the initial budget of £320k was adequate but that any changes in the original planned delivery route would require a review of the cost of fees. Abortive cost and rework means that the revised estimate of fee expenditure reverts to the full original estimate of £370K. A budget change will be required accordingly.

Oxpens Delivery Strategy legal, property, technical fees				
Total Estimated	Current Estimate	Spend/Committed to date	Approved Budget (NGP)	Additional Budget Req.
370k	370k	114k	320k	50K

15. The funding of the additional £6.4 million of capital expenditure will be through prudential borrowing. There is an option to provide internal funds to finance the deal which will result in a loss of investment interest at an average rate of around 1.5% of up to approximately £120k per annum which would need to be adjusted in the Council's Medium Term Financial Plan. The return on the investment is shown in the Confidential Appendix 2 but officers are confident in recommending the transaction at this level; it would be above the returns expected from other options for use of the resources such as indirect property funds.
16. The Council will need to take further advice on the taxation aspects of this type of arrangement and will seek to ensure that the arrangements do not put pressure on the Council's VAT partial exemption position. No issues around this are envisaged at this time but more detailed analysis will be required as the scheme develops.
17. An authority is required to make a "prudent provision" in respect of its Minimum Revenue Provision (MRP) charge, and to arrange for its debt liability to be repaid over a similar period to that which the asset associated with the capital expenditure provides benefits such that the majority of new capital expenditure "financed by borrowing" is subject to a charge which reflects its estimated useful life. The guidance enables local circumstances and discretion to be taken into account.

18. In the case of the investment proposed the Head of Financial Services considers that there is no requirement to make an MRP over the term of the investment because the Council would not itself be developing the site, rather this would be undertaken by a private developer. At this point a capital receipt would be used to repay the debt liability at the end of the investment period. This approach needs to be agreed with the Council's auditors.
19. Should the value of the capital investment reduce and not be sufficient to repay the entirety of the "borrowing"; an MRP charge would need to be made to make up the shortfall.

Environmental Impact

20. Site area is on the Council's Prioritised list under Part 2A of the Environmental Protection Act 1990 and an intrusive investigation will be required as a condition of planning for any proposed change of use. Remediation will be required to make the land suitable for residential uses.
21. The project provides the opportunity to remediate or remove the historic landfill on the site and to improve the flood capacity of the Oxpens area

Equalities Impact

22. The Initial Assessment is that the contents of this report do not lead to any unjustifiable differential impact on relevant groups. The project will provide an important means to deliver new private and affordable housing and commercial spaces in support of economic development and the creation of new jobs.

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Background Papers: None

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