

**To:** Cabinet

**Date:** 12 July 2023

**Report of:** Executive Director (Development)

**Title of Report:** Proposal to contract with the preferred development partner & operator consortium to regenerate Council owned land at 38-40 George Street, Oxford OX1 2BL currently occupied by Odeon Cinemas

<b>Summary and recommendations</b>	
<b>Purpose of report:</b>	<ol style="list-style-type: none"> <li>1. To update Cabinet on progress of the procurement of a development partner to regenerate a council asset in the city centre;</li> <li>2. To recommend to Council to include additional budget for the scheme; and</li> <li>3. To seek approval to enter contracts with a preferred development partner and operator consortium to regenerate 38-40 George Street, Oxford.</li> </ol>
<b>Key decision:</b>	Yes
<b>Cabinet Member:</b>	Councillor Ed Turner, Deputy Leader (Statutory) - Finance and Asset Management
<b>Corporate Priority:</b>	<p>Enable an inclusive economy</p> <p>Pursue a zero carbon Oxford</p>
<b>Policy Frameworks:</b>	Oxford Local Plan; Oxford Economic Strategy and City Centre Action Plan; Asset Management Strategy

<b>Recommendations:</b> That Cabinet resolves to:	
1.	<b>Approve</b> the appointment of the preferred developer and operator as set out in this report for the reasons provided;
2.	<b>Recommend</b> to Council the approval of an additional capital budget of £12.1 million for delivery of this regeneration scheme (see Confidential Appendix 1 for more details);
3.	<b>Delegate authority</b> to the Executive Director (Development) in consultation with the Council's Head of Financial Services / Section 151 Officer; the Head of Law and Governance; and the Deputy Leader (Statutory) - Finance and Asset Management to: (i) agree the final terms of, and enter into, the relevant

contracts; (ii) agree the final scheme and submission of any planning application; and (iii) authorise any spending within the allocated budget (see Confidential Appendix 1 for more details).

<b>Appendices</b>	
Appendix 1	Confidential - Officer Report
Appendix 2	Confidential - Risk Register
Appendix 3	Confidential – EQIA
Appendix 4	Confidential – Proposed Scheme

## **Introduction**

1. In January 2022, Cabinet delegated authority to the Executive Director Development to agree the terms, route to market, and then select a preferred commercial partner for the potential redevelopment of council owned land in the city centre, as the current lease was due to expire in September 2024. As noted in that report any decision to enter into contract with the preferred commercial partner for the redevelopment of the land would require a separate Cabinet decision.
2. Following that decision, significant progress has been made following a procurement process. This report sets out the recommendations that have emerged from this process which has resulted in the preferred bidders' proposal for an aparthotel with community use on the ground floor.

## **Background to 38-40 George Street**

3. The property is currently occupied by the Odeon Cinema .The Council’s lease to Odeon Cinemas, for the premises at 38-40 George St, expires in September 2024. Given the Council’s responsibility to ensure continuity of income from this public asset, it has been desirable to explore other options including redevelopment to avoid an underperforming or empty asset.
4. There are risks with the current occupier of the property. Cinema footfall is down and has not reached pre-pandemic levels which does not support a vibrant city centre. In addition, the current cinema building has limited flexibility to accommodate other uses and tenants in future and so there is a risk to the stability of long term revenue from this Council asset. Given the state of the building, it is also anticipated the current tenant may request capital investment from the Council as part of any new lease negotiation. The property is one of the Council’s investment assets and an increase in income helps support our wider corporate ambitions and protects services.
5. The Odeon Cinema was aware that the Council had regeneration ambitions and could have come forward with a proposal, but didn’t engage in the process.
6. The site is a key city centre gateway, fronting both onto George St, and onto an important public open space in the city – Gloucester Green. The current building has extensive areas of blank façade at ground floor level and does not relate well to Gloucester Green. The regeneration of the site will increase active frontage to both Gloucester Green and George St providing place making benefits in this area.

## **Policy background**

### **Local Plan**

7. The adopted Oxford Local Plan 2036 seeks to support the vibrancy of the city centre through several policies. These relate to supporting town centre uses, sustainable tourism and cultural and social activities.
8. The plan identifies a key issue within the city is that a very large number of tourists make very short visits, often only for part of, or one day. The economic benefits to the city of these short visits are lower than for longer stays, and they do pose other challenges to the city. The plan identifies that proposals which facilitate longer stays will result in greater spend in Oxford's shops and restaurants which will in turn boost their viability and Oxford's economy. In addition to tourists the plan highlights that the short-stay accommodation market is very strong for business travellers in Oxford and provision of more accommodation would additionally help support the economic objectives of this Plan. This explains that when Oxford's hotel occupancy and room rates are compared with those of comparable cities, there is significant unmet demand and potential for growth in all varieties of short-stay accommodation.
9. The plan also seeks to support cultural and social activities. It highlights that Oxford has a rich infrastructure of cultural and social activities and venues, from theatres, museums, cinemas, galleries, sports and music venues to restaurants and pubs. These uses help to keep the centres vibrant and active and add greatly to the local quality of life. The plan puts in place policies that encourage such uses to develop, modernise and adapt for the benefit of the communities they serve.
10. The procurement of a developer has set policy V7 at the forefront of consideration. The procurement has required compliance with policy V7 to include a social and cultural use at ground floor.

### **Oxford Economic Strategy**

11. Oxford's Economic Strategy identifies the City Centre as a key area of focus. It identifies several areas to consider that are explored further in the City Centre Action plan. Among these are to:
  - Promote and facilitate more overnight visitor stays, increasing their enjoyment of our city, while maximising the contribution to the local economy
  - Prioritise city centre workspace for small and creative businesses
  - Innovate with publicly owned city centre assets to provide more flexible and progressive leases to support inclusive economy ambitions
  - Diversify uses in the heart of city
  - Support the night time economy

### **City Centre Action Plan**

12. The City Centre Action Plan sets out three key areas of focus to ensure the city centre continues to perform for the social, economic and environmental good of Oxford and its residents.

13. Several opportunities for the city centre. Some that are relevant to this site include:

- **Accommodate a wider range of uses across sectors.** A strong and increasing demand for city centre space in the science, tech, co-operative and cultural sectors provides an opportunity to explore new types of space and leases.
- **Increase visitor stays.** Identify further opportunities to support longer visitor stays through provision and promotion of more overnight accommodation alongside the diversification of attractions and experiences
- **Improve safety and ambience.** Improve the safety and ambience of the city, creating a centre that is safe and inclusive for all.
- **Promote distinctive development.** Development should contribute to the city's unique sense of place

14. This leads to four key workstream areas:

- Getting the mix right
- Getting the basics right
- Public realm and animation
- Connectivity and access

15. This site presents an opportunity to address several of the ambitions within getting the mix right, and public realm, and animation workstreams. Oxford city centre has a strong profile of shops and businesses, attracting national brands, as well as strengths in knowledge, innovation, creative and cultural sectors. However, there is a lack of community gathering spaces and live music venues and an undersupply of accommodation to support longer visitor stays. There is an opportunity to diversify the centre's mix of uses, providing new and flexible spaces for businesses, community, and night time offer.

16. The plan identifies George Street and Gloucester Green as a key opportunity area to improve activation and diversification. The current site has limited activation and makes a poor contribution to George Street and Gloucester Green. The redevelopment of the site provides the opportunity to enhance activation and public realm in this part of the city.

### **Asset management plan**

17. The Council's Asset Management Plan identifies the need to diversify the council portfolio including within the city centre in order to promote efficient use of buildings and support the city centre economy.

## **Project Objectives**

18. The policy background has informed a set of project objectives that were reflected in the procurement process.
- Scheme to align with planning policy
  - Provide a secure income stream
  - Support the City Centre, including improved activation of George St and Gloucester Green
19. Key Council priorities including supporting a zero carbon Oxford, and delivering social value in line with Oxford's Themes, Outcomes, and Measures were also embedded in the procurement process.
20. The procurement process was to find bidding consortiums consisting of both a development partner and operator. Further details on the procurement process, along with details of the preferred development partner, the proposed tenant, and funding arrangements are contained within the Confidential Appendix 1

## **The Procurement Process & Preferred Bidder's Proposal for the City Centre Site**

21. Bidding consortiums were asked to provide a range of material including:
- a designed scheme, planning strategy, and risk assessed programme making up the quality aspects of the scoring
  - financial offer and legal markup of key documents
  - social value proposals
22. Within the statutory Find a Tender Scheme (FTS) procurement process, 4 qualifying bidding consortiums were taken from the initial qualification (SQ) stage in September 2022, to the competitive dialogue stage of the procurement process in Nov 2022 – March 2023. The proposals received and dialogued included a range of building uses: hotel, student accommodation, aparthotel, and office/medical; all including the required replacement cultural/community use space on the ground floor.
23. During the dialogue stages two bidders fell away. This left the two strongest bidders proceeding to Final Solutions stage.
24. The highest scoring proposed scheme provides an aparthotel, with community space on the ground floor. Aparthotels are used by a wide range of visitors, tourists, and workers, and provide flexible short term accommodation options This has strong regeneration benefits and provides a financially viable scheme with a range of clear benefits being delivered in line with the City's Economic Strategy and City Centre Action Plan.
25. Due to commercial sensitivity, further information and analysis of the preferred bidder's proposal is contained in Confidential Appendices 1-4. However, the headline benefits of the highest scoring bidder's proposal are detailed below:
26. The proposal seeks to regenerate the site by development of a modern new build property that will extend the life of the on-site asset. The current building is unfit for other commercial uses in its current format.

27. The preferred bidder's proposal strongly aligns with relevant Local Plan policies and has taken considerable account of the constraints and opportunities of this location. It provides active frontage to George Street and Gloucester Green as well as providing for a flexible community space complemented by an Aparthotel that will significantly contribute to the objectives of the Local Plan and City Centre Action Plan to increase overnight stays. Aparthotel studios are used by a wide range of visitors, and tourists, and also workers employed on short term projects / shows in the city. Aparthotel users will support adjacent city centre businesses through using a wide range of local food and beverage and retail businesses. The community space on the ground floor increases the amount of activated frontages on George Street, and Gloucester Green. It is proposed to include affordable, hireable space for community groups in the heart of the city centre, and will have uses operating through daytime and into the evening.
28. The proposal commits to meeting the adopted Local Plan policy requirements for sustainable design and construction and identifies opportunities for going beyond these requirements. The bidder explored in detail whether the building could be reused but it was not feasible.
29. The preferred bidder's proposal provides rental income over a long lease term which also protects the ongoing economic sustainability of the City Centre; there is consistent demand for hotel / aparthotel accommodation in the city centre and the use is considered more sustainable than a cinema use at present.
30. In summary, the economic and place-making benefits to the city from this regeneration scheme; providing aparthotel to support longer stays that in turn support the local day and night economy, together with the new city centre community space, and a more sustainable and future proofed building are considered, on balance, to outweigh the loss of the cinema on this site. The cinema within the Westgate centre as well as other existing cinemas within the city e.g. the Phoenix Picturehouse in Jericho, the Ultimate Picture Palace on the Cowley Road and the Vue cinema at the Kassam Stadium provide a range of options for residents and visitors. As a comparison the cinema provision without the Odeon will be in line with York and Cambridge.
31. Odeon have announced the closure of the Magdalen Street cinema. This was not discussed with the Council but may be something that they review.
32. The proposal commits social value through construction but also, due to the long lease, provides social value commitments throughout the lease term. For example, the proposal includes a commitment to pay the Oxford Living Wage to workers during the construction phase, and long term through the operational phase; as well as delivery of a rolling programme of apprenticeships through the life of the project.

### **Milestones and Programme**

33. The programme is dependent on the preferred bidder's proposal and funding for the scheme, being approved by Cabinet and Full Council in July 2023. This is to give the necessary assurance to the preferred bidder to enable them to progress project work in line with the milestones below:

Developer/operator consortium Cabinet approval	12 July 2023
Approval of funding at Full Council	17 July 2023
Complete due diligence	Aug 2023
Enter into Contract with the preferred bidder	Aug/Sep 2023
Complete planning approval process	June 2024
Construction works on site	2025-2027

## **Financial implications**

34. Confidential financial details are provided in the Confidential Appendix 1. However, the proposed scheme provides on acceptable return for the Council's investment, more importantly it provides a new modern building which future proofs the rental income without the need for further investment by way of repairs and maintenance.
35. The Council has to comply with PWLB lending criteria for all of its capital projects in order to be able to access PWLB finance. This project involves the regeneration of a large building in the City Centre and also delivers a number of other policy objectives as outlined in the report. The scheme therefore complies with PWLB criteria as fulfilling both the regeneration activity criteria and service delivery through the other policy objectives that are delivered.

### Financial Treatment

36. The rental income from the tenant will be treated as revenue as the lease will be classified as an operational lease. The decision over whether a lease transaction is treated as a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. This decision is based on the long term ownership of the asset, how much of the economic life of the asset is transferred under the lease and whether the asset is so specialised that only the lessee can realistic use the asset. The development is on a City Centre site owned by the Council, developed by a developer under contract and subsequently leased out to an operator on a full repairing long term lease. The lease will not transfer ownership of the asset at the end of the lease and there will be no option to purchase; the Council intends to retain ownership as part of its strategic City Centre asset holdings. The economic life of the development is expected to be in excess of 100 years and the lease length is far less than the expected life of the asset. The asset being constructed is an Apart-hotel and there are many operators who could operate the asset without modifications. Based on these details, this arrangement is therefore considered to be an operating lease.

### Funding required for the City Centre redevelopment scheme

37. Funding for regeneration of Council assets is currently allocated in the MTFs, and so the additional funding that requires approval is £12.1M. Detail of the financial aspects of the funding is contained at Appendix 1
38. Project costs will be financed through Public Works Loan Board (PWLB) borrowing, subject to capital financing being undertaken at a corporate level rather than by individual scheme. However, the provisions of the agreement encompass sufficient

flexibility to allow the Council to refinance its position at a later juncture in the project if required.

39. For appraisal purposes, borrowing has been modelled over a 50 year period using an interest rate of 3.4% for the long term borrowing and has been sensitivity tested with an additional 1% interest rate cost.
40. Cabinet is therefore now asked to recommend that Council approve the additional funding for delivery of this project. Changes in budget to be delegated to the Executive Director Development, in consultation with the Council's Section 151 Officer, the Head of Law and Governance, and the Cabinet Member for Finance and Asset Management.

### **Legal issues**

41. The Council's legal team has been fully involved in the procurement process , additional legal advice continues to be gained from Browne Jacobson LLP

### **Level of risk**

42. Refer to the attached Appendix 2 – Confidential Risk Register.

### **Equalities impact**

43. This regeneration project will involve the creation of a new building to be leased out to support the City Centre and to generate additional revenue income for funding Council services. An assessment of the foreseen direct and indirect impacts on protected groups is shown in the EQIA at Appendix 3.

### **Carbon and Environmental Considerations**

44. This key decision will assist delivery of the Council's priority to pursue a zero carbon Oxford and the council's environmental sustainability team have been engaged through the procurement process in feedback through dialogue stages. The bidders explored options to retain the building but this was not economically feasible and would not have delivered the wider regeneration benefits. However, the preferred bidder has set out how they will seek to minimise the environmental impact of the building through reuse of materials where possible. The proposal meets the adopted Local Plan policies and seeks to exceed them in some areas.

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**Background Papers:** None