

Temple Island – update on proposals and disposal arrangements

APPENDIX A: Further essential background / detail on the proposal.

1. ADDITIONAL BACKGROUND INFORMATION

Site/location detail:

Although many aspects of the Temple Island site make it a challenging site to develop, the proximity of the site to Temple Meads station, the proposed University of Bristol Temple Quarter Enterprise Campus and the existing commercial centre at Temple Quay mean that the site has significant opportunities to create a new, vibrant and creative business cluster, supported by residential uses and other uses including retail and hotel/conference facilities – supported by the development already proposed by the University of Bristol.

The site has points of comparison with London’s Kings Cross development; the proximity to a major station & transport hub; the presence of a University of significant repute; significant heritage features and a growing and developing residential community. Successful precedents do therefore exist for Temple Island to learn from in terms of creating a dynamic and successful mix of uses where activity can take place across all parts of the day and active ground floor uses and well thought out public realm facilitate opportunities for collaboration and interaction.

Significant potential also exists for the site, and the wider Temple Quarter, to host an events schedule – making use of both meanwhile opportunities, as well as new, permanent public realm delivered through redevelopment. These events and spaces can begin to activate the Temple Quarter and ensure that the area is able to begin to develop its own character and facilitate increased community and business engagement. Again – lessons can be learnt from other successful schemes, including Kings Cross, and work will be undertaken to identify and realise both short term and longer term opportunities.

Key to realising such a Vision is the ability to work with a partner who shares this Vision and wants to take a long-term interest in the scheme, and has experience of bringing forward and delivering flagship mixed use schemes.

In addition to this, the redevelopment of Temple Island also has the potential to add a further critical mass of development to the east of Temple Meads, supporting the existing regeneration of this area of the city and supporting the creation of a new city quarter and destination and enhance connectivity through the Temple Quarter and St Philips areas, improving accessibility and connectivity from St Philips Marsh, and the residential communities beyond, to the City Centre. Consideration to these linkages is already being given through the emerging Temple Quarter masterplan/development framework.

Legal and General:

L&G Investment Management is one of the largest fund investors in the UK and L&G are one of Europe’s largest institutional asset and fund managers - currently managing in excess of £1 trillion of assets across all investment classes. Meanwhile, L&G uses its own balance sheet investment to fund and develop assets which can be subsequently transferred in to the L&G portfolio to generate income for 20-40 years, matching L&G’s pension commitments. This means that L&G have a long-term vested interest in developing successful and sustainable communities – where long term value can be assured. The L&G business is therefore well suited to promoting and funding the development of a mixed use

scheme on Temple Island – where the opportunity for long term value can be created through well considered and delivered development and through ongoing curation of occupiers and tenants. This structure of the L&G business also means that L&G have significant in-house expertise in regeneration, funding, development and asset management and are able to operate in a highly cost effective and efficient manner.

In other cities where L&G have committed to a significant investment, they have subsequently sought out additional investment opportunities within the city – and it is anticipated that the same may happen in Bristol, resulting in a level of investment significantly above the initial commitment.

The Strategic Partnership

The Strategic Partnership arrangement outlined in the Cabinet Report would be unique and bespoke to Bristol and is something which BCC have sought to promote with L&G as a mechanism through which to gain further benefits for the city and its citizens. The achievement of such a Strategic Partnership with an institutional funder of the scale and calibre of L&G would be a significant achievement for the city; demonstrate the city's commitment to public-private sector collaboration and offer a template for discussions with other major institutional investors and developers who may wish to do business with the city in the future.

The Strategic Partnership will be supported by a non-legally binding agreement (a Memorandum of Understanding). It will involve the parties (the Council & L&G) engaging on strategic or specific projects and activities within the Temple Quarter (and potentially the wider city) in order to deliver against an agreed set of objectives.

The objectives of the partnership are to be finalised, but would be expected to include non-binding commitments to support in delivering inclusive economic growth; deliver new schemes in accordance with the Council's affordable housing policy; support the delivery of schemes incorporating modern methods of construction; support training and education opportunities and assist the council in meeting its commitments around sustainable development and Carbon neutrality.

The Strategic Partnership would operate under an agreed governance structure, reporting to a quarterly board. No binding legal or financial obligations would be placed upon either party through the partnership arrangement (barring confidentiality arrangements) and it is expected that it would initially run for a 5 year period.

The proposed disposal route:

Under the proposed arrangements, the parties would enter in to a conditional agreement on Temple Island, with BCC granting L&G a 250 year long leasehold interest preceded by an Agreement for Lease. The proposed transaction will be structured to ensure that the Council receives the best consideration reasonably obtainable as required under S123 of the LGA 1972.

The Agreement will contain conditions precedent in order to ensure that progress is made on the project and that both parties' interests are protected. Under the Agreement for Lease, the parties will have 12 months in which to satisfy the Conditions precedent.

Under the proposed Agreement, the intention is that should L&G fail to proceed with, commence or complete the development within a pre-agreed timetable, the Council will retain the right to buy back the site/development plots on terms which would reflect the investment by both parties and seek to promote the redevelopment of the site via alternative mechanisms. This aims to ensure against the possibility of L&G 'land-banking' the site or the site remaining undeveloped.

Risks and benefits of the proposed approach:

There are commercial risks to the Council entering in to the arrangement as outlined within the Cabinet Report, most notably;

1. The Council will be disposing of a long leasehold interest in the site to L&G with limited control over the form of development which will take place upon the site. The Council therefore needs to be mindful that the main form of control will be through the Local Planning Authority (LPA). This reduction in direct control is a consequence of the restrictions imposed as a result of the Faraday case, through which the Council is limited in its ability to place positive obligations upon the developer, but must seek to achieve desired outcomes through the imposition of negative covenants. There are however also benefits to this approach, as set out below.
2. Should the Council fail to secure a sub-tenant for the office building; the Council will remain liable for the payment of rent to L&G after the completion of the building – placing a potentially significant financial burden upon the Council. Mitigations for these risks do exist and are set out below. The exact financial risk and reward of this approach will be established as part of the next stage of work to be undertaken and, once fully determined and understood, will be presented to Cabinet for review, consideration and approval.

The commercial benefits of the proposed approach are notably;

1. The disposal route will allow the Council to work with a high-calibre funding and development partner (L&G) with a track record of successfully funding, promoting and delivering high-quality mixed use urban regeneration projects;
2. The Council should be in a position to use its covenant strength to secure a highly competitive rental figure on the first office building which, subject to positive market conditions, should provide a significant opportunity for the Council to derive a profit rent from letting the office accommodation to commercial occupiers on market terms and reduce the likelihood of the Council realising a financial loss on the commercial office space;
3. The approach is likely to expedite the pace of delivery of Temple Island as a funding and development partner of sufficient standing and calibre can mobilise immediately, without the alternative of the Council having to undertake a lengthy procurement exercises to appoint a developer to carry out works under a traditional development agreement that would be subject to the public procurement rules;
4. L&G's long term approach to income generation mean that they are willing to accept a lower level of developer profit – maximising areas of financial return to the Council, and;
5. L&G's long term investment priorities means that they are fully aligned with the Council in terms of a desire to see Temple Island succeed in the long term.

The commercial risk associated with the Council taking the head-lease on the first office building can be minimised in various way and the Council will seek to engage appropriate professionals at the appropriate time to ensure that the Council maximises the likelihood of promptly securing occupiers for the commercial office accommodation. Ways of ensuring this are anticipated to include;

1. the Council proactively seeking a sub-tenant at an early stage, especially to those businesses within target growth sectors;
2. by the Council receiving a commercially attractive office building built by L&G, and;
3. by ensuring the Council's rental obligation will be much lower than the open market would pay – minimising the financial risk to the Council.

Legal advisors are retained by the Council in order to provide continued legal advice and to negotiate and draft the legal agreements.

Funding required to support the development of the scheme:

The Cabinet Report seeks funding of up to £0.5m to support the development of proposals for the mixed use scheme on Temple Island. Funding will be utilised for;

1. Internal Council staff time/cost associated with progressing the project;
2. External professional and consultancy fees;
3. Site works/costs and survey costs, and;
4. A project contingency for additional works or miscellaneous items.

Anticipated BCC enabling works:

As outlined within the Cabinet Report, it is anticipated that the Council will undertake some enabling works in order to prepare the Temple Island site for redevelopment. Works are anticipated to include works to upgrade the provision of Utility services to the site; works to improve the A4 pedestrian and cycle carriageway adjacent to the 'tump' near the 3 lamps junction; works to deliver a stabilised A4 retaining wall and create a bridge link spanning the railway spur-line adjacent to the A4, and; improvement works to the A4 slip road/access to Temple Island. Works may also include further remediation works to the site. Further detail on these will be provided in the future report. It is expected that these works will be funded through the re-purposing of EDF funds previously allocated to the Arena project and, if funding is successfully secured, through the Housing Infrastructure Fund (HIF).

Alternative delivery mechanisms:

Alternative delivery mechanisms would exist through which to promote the redevelopment of Temple Island, and consideration has been given to the appropriateness and attractiveness of these options to the Council;

1. A straight land sale (disposal) potentially via tender or auction:
This would allow the Council to dispose of the site quickly; but would not include the advantage to the Council under the proposed arrangements to input into the type and speed of development which may come forwards. It may also not allow the Council to maximise the land receipt generated by the development of the site, participate in any way in the development of the site or generate ongoing income. This approach may also fail to generate significant market interest as the costs of enabling the site (remediation, infrastructure etc.) would be wholly borne by the developer. The approach would also run the risk of a developer over-paying for the site and subsequently being unable to bring forwards development – delaying the regeneration of this prominent gateway site. The approach is therefore not one which is recommended.
2. A Joint Venture arrangement:
A Joint Venture would involve the Council seeking to partner with L&G (or another organisation) in developing and delivering the scheme. The Council would exercise control over the development as a consequence of being part of the JV entity. A Joint Venture arrangement would potentially allow BCC to participate in the full design and delivery of the Temple Island scheme, but could be complicated, costly and risky and may not achieve more than the proposed structure (in the sense that the Council will be afforded the opportunity to invest in the development via the proposed

disposal routes should it so choose to do so.) Therefore the Council would be able to share in the profit for the project but would also have a higher share of the associated risk of development and delivery. The current L&G proposal ensures the Council is paid its land value and its risks are agreed and limited in cost. This approach therefore has both pro's and con's, but is not felt to offer significant benefits over the suggested approach.

3. An OJEU Procurement process:

This could involve following one of the prescribed OJEU procurement routes, such as the competitive dialogue process or negotiated process. Adopting an OJEU procurement process would be typical in an arrangement whereby the seller wishes to be prescriptive in the form and timing of development and in achieving set criteria including delivery, and it supports this by allowing the seller to exercise increased control over development. However, OJEU processes can be lengthy and costly and the risk of challenge always exists. OJEU procurement processes can also make development opportunities less attractive to private sector developers owing to the significant time, effort and resource required to participate in the process and the (relatively) low likelihood of successful appointment. Progressing an OJEU compliant procurement process would possibly present a lower risk option, but it would introduce a significant time delay and cost, and even after the selection of the preferred development partner through the OJEU process, works may not be able to commence on site for some time as the development partner may still need to refine and develop their scheme, and secure a planning consent. The option would therefore add significant delay to the delivery of development on site.