

Cheltenham Borough Council
Cabinet – 14 May 2019
West Cheltenham – Acquisition of Land

Accountable member	Councillor Andrew McKinlay, Cabinet Member Development and Safety
Accountable officer	Tim Atkins – Managing Director Place and Growth
Ward(s) affected	All (site is in Hester’s Way and Springbank)
Significant Decision	Yes
Executive summary	<p>Cheltenham’s Place and Housing Investment Strategies set an ambitious context for the town’s economic growth. The proposed West Cheltenham urban extension has been a priority project for the Council over the last twelve months due to the potential positive economic and community outcomes that could be achieved. Two key strategic decisions have been made by Council in progressing this project; in July 2018 Council approved funds towards the creation of a multi-disciplinary team to consider and develop plans for growth across the residential and commercial property sectors.</p> <p>Subsequently, in February 2019 Council approved a budget allocation of £44,000,000 for land acquisition (to include fees, project costs and infrastructure allowances) at West Cheltenham (Fiddlers Green).</p> <p>Following detailed land searches an opportunity has arisen to acquire up to 112 acres of land within the Joint Core Strategy (JCS) strategic allocation at West Cheltenham. The land currently comprises arable and pastoral fields and is located to the west of existing settlements at Fiddlers Green.</p> <p>The landowners and promoter have agreed a purchase price with the Council of £37,500,000 to acquire the freehold interest in this land.</p> <p>The Council commissioned independent real estate consultants, Savills, to advise on the acquisition strategy and to determine a reasonable price to pay for the land. This concluded that whilst £37.5m represents a significant commitment for the Council it is the appropriate price to pay for the land under current market and economic conditions. It was also advised that the land was being acquired in an off market deal which created unique circumstances as a commercial property transaction.</p> <p>An independent review of the Savills advice was commissioned. Whilst this concluded that a premium was being paid for the land there is a strong economic and strategic case to justify the purchase of the land at this price. A subsequent internal Gate Review of the project carefully considered all the supporting evidence and determined the economic benefits of the Council pursuing this deal far outweighed the financial risk in renegotiating the terms or withdrawing from the deal. It recommended proceeding with the purchase of the land for £37.5m.</p>

In terms of financial settlement, a premium is proposed to be paid for the land. In effect, this premium reflects the additional cost associated with the promoter's involvement in the land and the work they have undertaken in bringing it forward as a development site. A range of values have been presented and assessed by way of due diligence at this early stage of the development process. It should be noted these scenarios are based on a wide range of assumptions and can only be used as guide. Correctly identifying development options/scenarios is impossible. In considering whether to proceed with the purchase at this price, the Council must also consider the risk of relying on a third party to develop land at West Cheltenham considering the far reaching growth potential and the future prosperity of Cheltenham.

The acquisition of the land at West Cheltenham will enable the Council to control and promote a co-ordinated approach to future development and investment. The acquisition aligns with the guiding principles of the corporate plan and supports the key priorities including making Cheltenham the cyber capital of the UK and increasing the supply of housing to build resilient communities. Further, it takes a considerable proactive step in fulfilling the ambition of the Place Strategy in promoting and delivering the growth agenda. It is therefore considered that the council should proceed with the purchase at this price accepting the risks and financial implications set out in this report.

Recommendations

Cabinet approves:

The acquisition for development of up to 112 acres of land allocated for employment and residential uses at West Cheltenham for £37,500,000. The purchase will be unconditional and comprise the freehold interest in the land with Vacant Possession.

Delegation of authority to the Managing Director Place and Growth, in consultation with the Cabinet Member Development & Safety and Executive Director Finance and Assets to negotiate any further terms as considered appropriate in advance of the exchange of contracts for acquisition of the land.

<p>Financial implications</p>	<p>The financial considerations including budget allocations and funding were presented to Council as part of the report dated 18 February 2018. At this meeting, Council approved:</p> <p style="padding-left: 40px;">that a budget allocation of £44,000,000 be approved to be funded via prudential borrowing, for the purchase of land that forms part of the allocated land as set out in the JCS located at Fiddlers Green. This will include provisions for:</p> <ul style="list-style-type: none"> i) £40,000,000 for the purchase of the land, including fees/charges etc. ii) £1,000,000 to fund project management procurement of professional services including legal, planning and real estate and the procurement of a master developer as well as other related activities to support the delivery and development of the project iii) £3,000,000 for potential enabling works or infrastructure costs if required. <p>Further financial implications specific to the land deal are included within Section 5 of this report.</p> <p>Contact officer: paul.jones@cheltenham.gov.uk</p>
<p>Legal implications</p>	<p>The Council has a number of powers which it can rely on when acquiring land and property including Section 120 of the 1972 Local Government Act which details powers to acquire land for the purposes of regeneration.</p> <p>Section 12 Local Government Act 2003 gives councils the power to invest either for the purposes of their functions or for the prudent management of their financial affairs. The authority must be satisfied that the investment is reasonable. In addition, the Authority may rely on S.1 Localism Act 2011 where the investment relates to regeneration and economic/social benefits in the council's area.</p> <p>There are private rights potentially affecting the land to be purchased (including rights of access, rights to drain and rights to obtain a water supply). The Council has the benefit of statutory provisions under Sections 203-206 of the Housing and Planning Act 2016 which limit the impact of these rights. In making this resolution to acquire the land the land is being acquired for development.</p> <p><i>Note comments provided by independent legal advisors Browne Jacobson</i></p> <p>Contact officer: gary.spencer@tewkesbury.gov.uk</p>
<p>HR implications (including learning and organisational development)</p>	<p>The acquisition of this land will add to the Council's property investment portfolio, there will therefore be a requirement for the property team to manage and maintain the land alongside existing assets. The capacity of the property team will be kept under review to ensure the land management can be fully resourced.</p> <p>Contact officer: clare.jones@cheltenham.gov.uk</p>

<p>Key risks</p>	<p>Property and land acquisitions can be volatile and investment/risk should be considered accordingly. Property values, rental values and occupancy rates typically fluctuate broadly in line with regional, national and global economies, whilst any redevelopment must be approved by the local planning authority. Key financial and deliverability risks have been considered throughout the acquisition process and are summarised in the body of this report, including the potential premium on land values being paid by the Council.</p> <p>The property being acquired benefits from a strategic planning allocation for future development; this has been considered as part of the risk/due diligence exercise set out below and the recommendations considered.</p> <p>Planning however still represents a critical risk in bringing forward the strategically allocated land for development. Currently there are significant challenges to overcome in terms of transport/junction capacity and other major infrastructure costs. Any delay in mitigating these challenges will result in significant holding costs in relation to the capital borrowed to acquire the land and delay any future revenue returns.</p>
<p>Corporate and community plan Implications</p>	<p>The Cyber vision is a key priority of the emerging Corporate Plan and land acquisition will support the key plan priorities including making Cheltenham the Cyber capital of the UK and increasing the supply of housing to build resilient communities.</p>
<p>Environmental and climate change implications</p>	<p>The acquisition of the land will support the overall vision of delivering a new urban extension and employment area for West Cheltenham. Any emerging developments will be governed by the Local Planning Authority and must adhere to adopted policies encouraging sustainable development and promoting health, wellbeing and biodiversity. Full assessment of the impact on the council's carbon emissions will be completed as West Cheltenham develops as a project.</p>
<p>Property/Asset Implications</p>	<p>This paper recommends the acquisition of up to 112 acres of allocated development land in West Cheltenham and therefore has widespread implications on the property and asset management programme of the Council. This report sets out the key considerations.</p> <p>Contact officer: dominic.stead@cheltenham.gov.uk</p>

1. Background

- 1.1 Cheltenham's Place Strategy sets an ambitious vision for economic growth and housing delivery. In September 2018 the Council unanimously approved a Housing Investment Strategy advocating the need for a step change for its approach to housing. It approved a budget of £100M for the council to take a direct role in housing delivery to support the wider growth and community objectives set out in the Place Strategy.
- 1.2 As a response to these key strategic drivers, the West Cheltenham urban extension is a priority project for the Council and considerable resource has been invested in maximising the economic opportunities that could arise through its development and delivery. Two key strategic decisions have been made by Council in progressing this project; in July 2018 Council approved funds towards the creation of a multi-disciplinary team to consider and develop plans for growth across the residential and commercial property sectors.
- 1.3 Subsequently, in February 2019 Council approved a budget allocation of £44,000,000 for land acquisition (to include fees) at West Cheltenham (Fiddlers Green). The £44m includes provisions for £40m towards land costs including fees/charges etc, £1m to fund project management and professional fees to support the delivery and development of the project and £3m for potential enabling works/infrastructure costs.
- 1.4 Both these meetings of Full Council discussed and assessed the merits of developing West Cheltenham and highlighted the benefits to Cheltenham in terms of increased employment and new housing provision that would result. Indeed it was suggested at Council that the biggest risk to the future of West Cheltenham was for the Council to do nothing at all. In promoting the corporate plan, the Council has a number of objectives for property acquisition; these include to acquire property for the overall economic wellbeing of the borough, to encourage the economic development of the borough, to increase its return on investment and to acquire property that would deliver more housing across the borough across a range of tenures.
- 1.5 In line with these decisions a project team has been engaged in examining options to progress this ambition. The Council now have the opportunity to acquire substantial landholdings of up to 112 acres at West Cheltenham.
- 1.6 The subject land is located to the west of the existing residential suburbs of Fiddler's Green and Hester's Way and is bound to the north by Old Gloucester Road, to the west by the Hayden Sewage Treatment Works and the south by Pheasant Lane. The land comprises two separate land parcels; the north extends to around 45 acres whilst the southern land comprises about 67 acres. The two land parcels can be seen on plan in Appendix 1.
- 1.7 The sites are located in highly accessible locations with good road connections to both the A40 and M5. The land is also approximately 15 minutes by foot from the town's railway station, Cheltenham Spa.
- 1.8 The freehold of the land is ultimately in two separate ownerships (both local farmers) and comprises a series of medium scale arable and pastoral fields set in a gently undulating landscape. Barberry, a strategic land promotion company, currently controls approximately up to 112 acres of land by way of a promotion agreement. Ultimately both the promoters and landowners share the same objective of maximising returns from the future sale of land.
- 1.9 The land sits within an area of land allocated for future development under Policy A7 of the Gloucester, Cheltenham and Tewkesbury Joint Core Strategy (JCS), adopted in December 2017. The Strategic Allocation allows for the development of approximately 1,100 new homes and 45 hectares B-class led employment space to be focused on cyber,

high technology and other high GVA generating development.

- 1.10 Cheltenham is recognised as the national centre of expertise in cyber security; it is already home to the national cyber security authority, GCHQ and has been identified as the proposed location for one of the two new Cyber Innovation Centres. Investment in land at West Cheltenham will enable the Authority to lead on the vision of Cyber Central and deliver one of the best places in the world to design, create, grow and operate innovative cyber security businesses. It will enable the development of a campus that integrates high tech work places with academic facilities, residential accommodation, and leisure and will be the catalyst for change in the region by driving forward economic growth and job opportunities.

2. Reasons for recommendations

- 2.1 The proposed purchase price of £37,500,000 has been reached by way of negotiation between the Council, the landowners and the land promoter. The purchase price is justified through a consideration of a combination of residual land appraisals, comparable transactional and land comparables and the consideration of the wider economic benefits for the wellbeing of the borough.
- 2.2 The Real Estate Consultancy, Savills, were appointed by the Council in November 2018 to advise on the acquisition of land at West Cheltenham and to consider what is reasonable purchase price. Savills issued a final acquisition and development advisory report in April 2019.
- 2.3 To support the acquisition, Savills produced a series of development desktop development appraisals accompanied by comparable land transactions to inform the negotiated and agreed price of £37.5m. The appraisals, assuming a series of development assumptions result in a range of indicative values from £34.1m to £43m as set out in the table below.

Appraisal version	Land value generated (£m)	At 10% discount (£m)	At 15% discount (£m)
405 residential plots, 5 commercial acres p/a, 4% interest, 10% profit	£34.1	£30.7	£29.0
405 residential plots, 7.5 commercial acre p/a, 4% interest, 10% profit	£35.8	£32.2	£30.4
500 residential plots, 5 commercial acres p/a, 6% interest, 10% profit	£34.1	£30.7	£29.0
500 residential plots, 7.5 commercial acres p/a, 6% interest, 10% profit	£36.2	£32.6	£30.8
500 residential plots, 35% AH, 7.5 commercial acres p/a, 4% interest, 10% profit	£39.5	£35.5	£33.6
500 residential plots, 25% AH, 7.5 commercial acres p/a, 4% interest, 10% profit	£43.0	£38.7	£36.6

- 2.4 The appraisals above present a series of assumptions, in terms of residential homes, 405 units is calculated assuming an average development density of 15 plots per acre. Applying a small increase in density results in the 500 units assumption. It is assumed that a commercial developer would apply this increased density in commercial appraisal terms. With regards the commercial element, the appraisals assume either 5 acres or 7.7 acres of commercial space would be sold annually in the future – the higher figure assumes strong economy in perpetuity and high demand for employment uses across the

region. The interest rates reflect borrowing costs; the higher figure represents commercial borrowing rates whilst the lower allows for more competitive public sector borrowing rates. Finally the quantum of achievable affordable housing has been tested; there is an assumption that a commercial developer may seek to deliver only 25% affordable housing on a scheme of this scale; the variation in results allows the Council to financially analyse the land in the same way a commercial developer would against policy compliant schemes.

2.5 Additional appraisals were also prepared by Savills which accounted for the worst case scenario and assumed development would be severely restricted due to the highway, infrastructure and other environmental considerations; these resulted in land values significantly below those set out in the table above.

2.6 In assessing these appraisal results, Savills advise that it is appropriate to apply a discount from the higher level appraisal values to reflect the risk identified with buying land at this stage in the development process – i.e. still with a number of unknown variables and uncertainties including planning. Savills advise using 10-15% as an appropriate discount on their residual land valuations to allow for risk. These discounted figures are also shown in the table above.

2.7 Savills conclude that whilst the agreed price of £37.5m represents a very significant commitment for the Council, it provides a unique opportunity for the Authority to safeguard and significantly expand the Cyber industry within the town.

2.8 Having considered all risks Savills advise that a purchase of the land today at £37.5m is appropriate for the land and recommend the Council proceed with the purchase.

2.9 To supplement the financial analysis, Savills Economics also provided a summary of the economic benefits to be considered alongside the financial modelling. These items are recognised as not necessarily being financially quantifiable but form key considerations in the business case for acquiring the land. These include:

- The opportunity to control and lead development across the strategic employment and residential allocation site;
- Will allow the safeguarding of land for the expansion of GCHQ and delivery of a Cyber Innovation Centre
- Allowing Cheltenham to develop as the Cyber capital of the UK
- Enable the development and growth of academia at sub-regional level
- In encouraging employment growth, develop a culture for innovation and interaction
- Supports the live bids for Garden Community status and Housing Infrastructure Funds monies;
- Working with our ALMO, Cheltenham Borough Homes, to implement the approved £100m housing investment plan and delivery of much need housing in this location
- Significant increased revenue to the Council through new business rates;
- The promotion of the cyber industry in this location is anticipated to provide up to 10,000 direct and indirect jobs;
- Enhances the Council's CPO position for the wider site;

2.10 Risk Analysis

2.11 In the report to Council on 18 February 2019, a number of risks were highlighted and committed to resolve. These are set out below including a summary of the mitigation proposed:

2.12 Transport infrastructure/Junction capacity – the capacity of the M5 junction 10 imposes restrictions on the quantum of development deliverable until such time investment is made in the junction. Significant work in modelling this capacity has been undertaken by

consultants for the Barberry consortium in bringing forward the land for development. The Council intends to purchase this technical work including all historic advice through the novation of the transport consultancy contract. This will ensure the Council controls the material and leads the negotiations regarding the future of J10 with the Highways Authority and importantly it will negate a potential time delay in bringing forward the overall project due to the need to prepare this work again.

- 2.13 It was further highlighted through the due diligence process that central government policy is changing and becoming more focused on delivery. Acquiring the land provides further justification in the HIF bidding process that the Council too is focused on delivery.
- 2.14 Odour nuisance – The Council has continued to develop its relationship with the owners of the adjacent sewage treatment works, Severn Trent Water (STW). This has allowed the Council to understand the comprehensive mitigation strategy to resolve odour issues being pursued by STW to enable the development of its own landholdings, and those being acquired by the Council at West Cheltenham. The Council has committed to work with STW to fully enable these mitigation measures to be implemented.
- 2.15 Local Green Space (LGS) – Since the last report to Full Council, the examination for the Cheltenham Local Plan has completed and the Inspector has reported their post hearing advice. This highlighted the need for reviewing the methodology for the assessment of LGS and having further careful consideration as to the needs to be given to those areas being proposed of local importance.
- 2.16 Report on Title – In advance of the land acquisition, a full report on title has been provided to the Council by our legal representatives, Browne Jacobson, as part of the conveyancing process. This identified a number of contractual matters to resolve in advance of formally entering into the agreement to purchase the land including;
- Ownership – The plan identifying ownership in Appendix 1 illustrates the land the Council are acquiring. This reflects the registered titles and has been cross-checked against the physical boundaries onsite.
 - Requirement for vacant possession on completion – We were made aware of a number of informal arrangements for car parking and storage at the site, it has been agreed the seller will cease any arrangements at exchange of contracts. One of the residential dwellings was occupied under an Assured Shorthold Tenancy however it has been advised the tenant has now vacated and handed keys back to the landlord and therefore surrendering the tenancy agreement.
 - Telecommunications – There are two telecommunication masts situated on the site. One mast is being de-commissioned and an offer has been made to agree to a surrender of the lease for £11,000. This offer is not binding on the mast operator, but they have shown an intention to remove the mast by agreeing the form of required legal documentation with the relevant landowner (which the Council's legal representatives have reviewed). If the surrender of the lease occurs before completion, then the £11,000 surrender premium will be retained by the landowner. If the surrender has not completed before the land purchase completes, then the Council will effectively take the land with the benefit of this informal offer. Assuming the second mast cannot be accommodated within the development plans in its current location, early dialogue is to be opened with the operators in order to ascertain their requirements for relocating their apparatus.
 - Unregistered land – There are two small plots of unregistered land within the site we are acquiring to which the landowners have no paper title. We have received statements of truth attesting to ownership of both parcels, and having considered various options it has been agreed the existing landowners will seek to gain adverse possession. Completion is not to be conditional upon registration, should matters be delayed contracts can transfer the property, subject to, and with the benefit of the ongoing application.

- Rights of Way – There are existing rights of way crossing the Property and a further application pending for another Public Right of Way. These will need to be accommodated in any plans for development.
 - Development of Land - Title searches into the land being purchased have identified at least 4 private rights potentially affecting the land to be purchased. These include rights of access, rights to drain and rights to obtain a water supply. The Council has the benefit of statutory provisions which limit the impact of these rights. In making this resolution to acquire the land the land is being acquired for development.
- 2.17 Appointment of consultants – Barberry have appointed, jointly with STW, a number of professional consultants to undertake work in relation to the proposed development of the site in conjunction with the adjacent land in Severn Trent's ownership. It is the Council's intention to have these appointments novated to the Council in due course such that the Council will take the benefit of any reports produced or to be produced by those consultants. In order to properly effect the novations, each consultant and each original client to the appointments must agree to the novation and sign an appropriately drafted deed of novation.

3. Alternative options considered

- 3.1 Prior to the purchase of any land parcel, consideration has been given to all other Council owned property and its suitability prior to any acquisition. This exercise was completed as part of the early work to identify potential land for establishing a new Cyber Park and deliver the wider ambitions set out in the Place Strategy regarding growth, housing investment & delivery. No alternative options were identified with the current Council landholdings. Careful consideration was given to this option as part of the Gateway Review. It was therefore determined that land acquisition was the only viable option.
- 3.2 As set out in this report and previously reported at Full Council (in February 2019), the opportunity to acquire land at West Cheltenham has been subject to detailed negotiations with the vendor for a period of time.
- 3.3 Option 1 – Consider alternative land parcels for acquisition
- The Council has considered alternative land for the delivery of new homes and employment land. No viable alternative land opportunities are available of such significant size and having the benefit of a strategic land allocation.
- 3.4 Option 2 – Seek a reduction in price for the land
- The vendors of the land have made a clear statement that the minimum value at which they would enter into a transaction is £37.5m. Any attempt to reduce this risk could result in an immediate and irrevocable termination of the deal and therefore been discounted.
- 3.5 Option 3 – Negotiate a deferred payment in the acquisition of the land
- A deferred payment will inevitably result in a materially higher price being sought by the vendor; there is also a substantial risk that any arrangement would be cease to be exclusive to the Council and off market, as agreed through negotiations to date. It is therefore concluded that pursuing this approach could result increased an increased risk of competing land offers from third parties; this approach has been discounted.
- 3.6 Option 4 – Negotiate a reduced upfront payment for the land (related to the risk profile), however allowing for future land value uplift.

This option allows for a reduced upfront payment on the basis of risk associated with the

purchase of land (for example transport risk as discussed elsewhere in this report). For a reduced upfront payment to be considered by the Vendor, a final payment would need to be substantially higher to have some benefit in consideration. Ultimately this would cost the Council a financially higher sum in the long term and therefore has been discounted as an alternative approach at this stage.

3.7 Preferred Option

It is concluded that the acquisition of the land as identified at West Cheltenham for the price of £37,500,000 represents the only viable and lowest risk option for the Council in terms of achieving the Council's objectives of controlling and leading on the delivery of development at West Cheltenham.

4. Management and Development Strategy

- 4.1 Through acquisition of the land, the Council will be significantly increasing its local landholding; the land will enter the asset register and be managed by the Council's property team moving forward. This brings challenges in terms of ongoing maintenance and security issues; Security measures will be implemented by the property team to ensure vehicular access is restricted to the site with the aim of preventing unauthorised access and encampments, fly-tipping, and vandalism.
- 4.2 With the view to having a physical presence on site and managing the land appropriately it is proposed that the agricultural land will be let on a short term Farm Business Tenancy with an option to include the agricultural buildings.
- 4.3 There are limited viable options to gain significant income from the site over the short term. Although some income will be received from letting the land the management strategy predominantly focuses on; mitigating costs, security, and effective maintenance of land and buildings. Clearly no short term management practices can effect, or cause delay to any future development plans.
- 4.4 Acquisition of the land at West Cheltenham is the first phase in developing this part of the town into a leading cyber campus providing diverse sustainable housing solutions and high tech working facilities for businesses to innovate, collaborate and thrive. The Council will continue to invest and develop these proposals through a series of work streams which include:
 - The completion of a comprehensive masterplan and development strategy to promote a co-ordinated approach to development and investment whilst securing the long term future of Cheltenham as the leading Cyber location
 - Work with key stakeholders to facilitate the delivery of this strategy, using Council powers where necessary
 - Secure anchor tenants for the Cyber campus and work with these to create a world class community
 - Identify the appropriate future investment strategy and procurement process in developing the land
 - Work with adjacent landowners in continuing to promote and develop the JCS allocations policy, A7

5. Financial Implications

- 5.1 The meeting of Full Council on 18 February 2019 approved the budget allocation of £44,000,000, via prudential borrowing, for the purchase of land that forms part of the allocated land as set out in the JCS at Fiddlers Green. This will include provisions for:

- i) £40,000,000 for the purchase of the land, including fees/charges etc.
- ii) £1,000,000 to fund project management procurement of professional services including legal, planning and real estate and the procurement of a master developer as well as other related activities to support the delivery and development of the project
- iii) £3,000,000 for potential enabling works or infrastructure costs if required.

This allocation was approved subject to further financial assessment and modelling in advance of any exchange of contracts to purchase.

5.2 Based on comparable land values presented by Savills it is proposed that the purchase is funding as follows:

- Residential - HRA Fund £10,000,000 (c. £555k per gross acre)
- Residential – General Fund £15,000,000 (c. £555k per gross acre)
- Commercial - General Fund £12,500,000 (c. £202k per gross acre)

5.3 Furthermore, taking the above land apportionment into account, it is proposed that fees totalling £3.5M which includes stamp duty, agent's fees and professional fees will be split 75/25 between the General Fund and HRA, in proportion to the estimated apportionment of land values, giving a total breakdown of budget allocations as follows:

- General Fund £30,125,000
- HRA £10,875,000

5.4 In terms of financing, the Council recognises that it is purchasing land which is not considered to depreciate. As a consequence there is no requirement at this stage to make statutory Minimum Revenue Provision (MRP) for debt repayment. Therefore, the Council's exposure to cost at this stage is in respect of the 'cost of carry' for interest payments.

5.5 There are a number of strategies available to the Council to servicing the interest payments which are directly related to the period of the loan taken out. Short-term debt (inclusive of brokerage fees) of 1 to 3 months ranges from 0.70% to 0.80% whereas 2 year maturity rates currently stand at 1.40%. Taking a mid-point range of 1% to service the debt would result in an annual charge of £410,000 which would be split £108,750 to the HRA and £301,250 to the General Fund.

5.6 As set out previously, the acquisition price for the land is agreed at £37,500,000. This sum is split between the freehold owners of the land and the land promotion company who are currently promoting the land through the planning process. The financial split between landowner and promoter is for their own agreement, however it should be highlighted that VAT will be payable on the promoters interest but not on the freehold landowners.

5.7 The promoter's portion of the purchase monies increases as they continue to do more work under their promotion agreement with the landowners, as their costs are recoverable under that promotion agreement. The number put to us as this worst case scenario is a payment of £8,103,830 to purchase the promoters option to Barberry plus vat of £1,620,766. This would result in SDLT payable of £475,729 in relation to the Promotion portion of the purchase price, and therefore £1,935,037 in total.

5.8 In relation to the freehold land acquisition, SDLT will be no higher than £1,459,308 (dependent upon costs as set out in paragraph 5.7).

6. Consultation and feedback

6.1 As previously detailed, two key strategic decisions have been made by Council over the

last year relating to this project; in July 2018 Council approved funds towards the creation of a team to consider and develop plans for growth across the residential and commercial property sectors at West Cheltenham. Subsequently, in February 2019 Council approved a budget allocation of £44,000,000 for land acquisition.

- 6.2 The previous promoters of the site presented their initial vision for the redevelopment of West Cheltenham in public in summer 2017 and February 2018. Following any land acquisition, the Council will review the strategy previously consulted upon and develop its own emerging recommendations for development and investment.
- 6.3 At this stage no formal consultation has taken place, however the Council commits to consult with both public and private sector organisations and local residents on emerging plans for the area.

7. Performance management – independent review

- 7.1 To further support the due diligence exercise undertaken for the case to acquire land at West Cheltenham, real estate consultants, Avison Young (AY), were appointed to undertake an independent review of the proposed acquisition deal, identify and review the risks whilst also looking at the benefits of the project. Following a review of the residual land appraisals, AY conclude there is a premium attached to the land deal at £37.5m, this premium could be as high as £10m based on the assumptions made in the Savills report, allowing for some degree of planning risk. This premium is largely a result of requirements to compensate the promoter for their interests in the land. AY have also identified a number of areas in which they believed Savills appraisals did not make sufficient allowance for unforeseen infrastructure costs and build out rates.
- 7.2 AY highlight the known risks at this stage concluding the biggest risk is the potential restriction on development due to highway capacity, highlighting this could be resolved through the HIF bid; other risks are highlighted as the unknown strategic costs of bringing forward land of this nature, particularly infrastructure and development costs.
- 7.3 In response to these points raised Savills state that in adopting a more cautious approach to the residual appraisal, allowing for a further £5m of additional costs for the commercial development, this would reduce the commercial land values accordingly broadly reducing the overall land value to £32.5m. Savills acknowledge that this would mean a premium being paid by the Council of £5m on the land. In summary the due diligence exercise has provided clarity regarding the risks and that if the Council wishes to proceed with the purchase, based on development appraisals, it would be potentially paying above the market value, in the region of £5m to £10m.
- 7.4 The AY report also recognises the importance of the Cyber industry to Cheltenham and highlights the risk that without the Council's intervention there will be a delay in bringing forward the employment land or worse still a different landowner may seek an alternative scheme for the site. The delivery of the employment allocation therefore brings a large range of economic benefits to the town.

8. Performance management – Gate Review

- 8.1 To ensure that the Cabinet recommendation to proceed with the acquisition of land was underpinned by a rigorous quality control mechanism, a Cheltenham Borough Council Gate Review exercise was completed for the West Cheltenham project. A Gate Review exercise is a review of a project in its entirety, concluding with a full review meeting, held on 30 April 2019, at which a major decision is taken.
- 8.2 This Gate Review assessed the project against the Corporate Plan objectives, the Place Strategy and the advice of external real estate consultants. The review fully considered

the advice that a premium of between £5m and £10m was potentially to be paid above the estimated open market value of the land at West Cheltenham and it was considered whether the Cabinet report recommendation should be changed to reflect the option of restructured purchase terms.

- 8.3 The Gateway discussions reviewed the benefits of the Council owning the land and the threat to Cheltenham and the Cyber industry if third parties were relied upon to develop West Cheltenham. The Group considered the potential premium being paid for the land concluding that whilst the full economic benefits could not be financially measured and there were identifiable risks in acquiring the land (as clearly highlighted by officers), the risk of not doing anything was clearly much greater.
- 8.4 In terms of financial settlement, it was fully acknowledged that a premium was being paid for the land and it was suggested that the premium reflected the promoters reward (or payment) above the nominal land values. It was also discussed that the technical information being acquired had no formal value in the contract for land. Finally it was concluded that whilst a range of values had been presented in the Savills acquisition report, it was difficult to correctly forecast which were financially accurate at this early stage of the development process; it was therefore concluded that the risk of reengaging in negotiations outweighed the necessity of concluding the deal under current terms.
- 8.5 Consideration was given to the option of seeking either a reduction in the price or a restructuring of the agreed terms. The group agreed that the potential benefit that might be achieved was considerably outweighed by the risks associated in either frustrating or delaying the purchase. The Review concluded the financial terms of the land deal were acceptable and there was no compelling reason to why the deal should be renegotiated. The output from this exercise was “Green – Go”, thereby recommending this report to be presented to Cabinet. Full details of this exercise can be found in Background information reference 6.

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Appendices	1. Plan showing land to be acquired
Background information	<ol style="list-style-type: none"> 1. Report to Council, 23 July 2018 2. Report to Council, 18 February 2019 3. Savills West Cheltenham Acquisition Report and Development Advice, April 2019 4. Savills supplementary letter, Acquisition of Land at West Cheltenham Urban Extension dated 26 April 2019 5. Avison Young, Independent Assessment, April 2019 6. Gate Review summary

Appendix 1

