

EAST HERTS COUNCIL

COUNCIL: 5 MARCH 2019

REPORT BY: COUNCILLOR G WILLIAMSON, EXECUTIVE MEMBER FOR
FINANCE AND SUPPORT SERVICES

OLD RIVER LANE

WARD(S) AFFECTED: ALL

Purpose/Summary of Report

Following the selection of a preferred developer by Executive on 26 February 2019, Members are being asked to approve the capital and revenue budgets for Old River Lane.

RECOMMENDATIONS FOR COUNCIL:

(A)	<p>With reference to the Proposed Capital Funding Package, set out at Exempt ERP F and the Financial Business Case for the new arts centre, set out at Exempt ERP G, Council approves:</p> <ul style="list-style-type: none"><li data-bbox="395 1429 1295 1570">(i) a capital allocation of £30m to fund the arts centre is made in the Council's capital programme<li data-bbox="395 1630 1390 1816">(ii) a revenue allocation of £250,000 to fund the East Herts' share of the arts centre running costs be made in the Medium Term Financial Plan from 2022 onwards<li data-bbox="395 1883 1390 2069">(iii) a provisional revenue allocation of £468,000 be made to cover the required borrowing costs <i>once all other funding bids/strategies have been exhausted.</i>
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1.0 Background

1.1 Old River Lane (ORL) is an ambitious town centre scheme which replaces a dated office building and sizeable surface car park in the middle of Bishop's Stortford with a vibrant new quarter for the town, featuring a 5,500 m² modern multi-purpose arts and entertainment venue, 4,220 m² commercial/retail space, enhanced public realm including a new town square, and 137 residential units.

1.2 Over the course of nearly two years, officers have worked under the guidance of the Old River Lane Delivery Board to secure the support of partners (Rhodes Trust, Bishop's Stortford Town Council and Hertfordshire County Council) on this exciting project. All partners are fully supportive of the project, demonstrated by their involvement in developing various elements of it, and in the case of the Town Council, a firm commitment to a significant capital contribution.

1.3 The final part of the process is now to complete the funding package required to deliver the capital and revenue funding for the arts centre.

2.0 Report

Appointment of preferred bidder

2.1 On 26th February, the Executive approved the appointment of a preferred bidder. Their Heads of Terms is attached at **Exempt ERP B**, and Draft Masterplan at **Exempt ERP C**. The Viability Report written by our Property advisors, Montagu Evans, is set out at **Exempt ERP D**.

Arts Centre capital and revenue budgets

- 2.2 Having selected a preferred developer, the only remaining decision is to secure funding for the part of the scheme which the Council will own – the Arts and Entertainment Centre.
- 2.3 The new venue has the potential to transform the centre of Bishop’s Stortford, creating a public space which will bring new life and vibrancy to the town centre. Open 14 hours a day, seven days a week, high footfall is expected throughout the day by visitors of the library, cinemas and café, while the theatre, studio and cinemas will also create a night time destination that will bring added value and diversity to the town’s night time economy. The professional artistic programme will be mixed, appealing to a wide and varied audience, and the new centre will also offer the opportunity for young people and amateur groups to perform in state of the art facilities, whether in the main or studio theatres. Incorporating the library into the Arts and Entertainment Centre is an exciting opportunity to create potential new audiences for both the arts centre and the library, and the concept is fully supported by Hertfordshire County Council (represented on the Arts Centre Steering Group by a senior library service officer).

Capital funding

- 2.4 A budget of £28m has been set for the arts centre, on the basis of the agreed brief (which went through an extensive consultation process under the guidance of the Arts Centre Steering Group). This budget excludes professional fees, estimated to be £2m, taking the overall required capital sum to £30m.
- 2.5 Bishop’s Stortford Town Council agreed at their Council meeting on 4 February to provide up to £3m of capital funding for the arts centre, subject to a number of conditions, set out in **Essential Reference Paper E**.
- 2.6 Discussions are still ongoing with Hertfordshire County Council about whether their contribution to the library should be via

revenue funding (effectively renting space annually) or a capitalised sum paid up front. For now, the latter has been modelled and is set out at **Exempt ERP F**. It should be noted that we are still in discussions with HCC and no capital sum has been agreed.

- 2.7 The total budget and committed funding for the project is set out below:

Funding requirement	£30m
<i>Less funding secured:</i>	
East Herts DC S106	1.4m
Herts CC S106 (library allocations)	0.2m
Bishop's Stortford Town Council	3.0m
National Lottery	0.1m
Remaining funding requirement	25.3m

- 2.8 The remaining funding requirement is £25.3m. The proposed funding package to fill the gap is set out in **Exempt ERP F**. The reason this appendix is exempt is because it contains commercially sensitive information.

Revenue funding

- 2.9 The financial business case for the arts centre revenue funding is set out at **Exempt ERP G**. This has been developed in partnership with officers from the Rhodes Trust and Bishop's Stortford Town Council, and has been scrutinised by the Arts Centre Steering Group (which consists of two members from each of East Herts, Rhodes Trust and Bishop's Stortford Town Council, and three independent members). Expert advice from consultants has been sought for the cinema, and food and beverage ('F&B') elements. The financial business case is inevitably still reasonably high level, not least because it won't come into effect for another three or so years. However, given

the level of scrutiny it has received, officers believe it to be robust and reliable.

- 2.10 Members will recall the Heads of Terms which was signed with Bishop's Stortford Town Council, East Herts Council and the Rhodes Birthplace Trust. The Heads of Terms can be found on the council's website here:

<https://www.eastherts.gov.uk/oldriverlane>

- 2.11 With respect to revenue funding the key section from the Heads of Terms is set out here:

"2d. Provided that the Bishop's Stortford Museum becomes self-sufficient, the parties agree that the running costs will be in the region of £550,000 per annum (subject to a final business case). Best endeavours will be made to reduce this sum to no more than £0.5m per annum.

- *EHDC agrees to contribute 50% towards running costs;*
- *BSTC agrees to contribute 50% towards running costs.*

Should the revenue funding be higher than £0.5m, further funding will be sought from EHDC, or a third party. The Project will not proceed until the overall revenue funding package for the Arts Centre is in place.

In concluding this agreement the parties recognise that the Rhodes Birthplace Trust has stated that it is not possible for the current operations at the Rhodes to become self-sufficient and the Rhodes Trust cannot voluntarily surrender the grant from the Town Council. However the Trust recognises that the Town Council may make the decision to withdraw all or part of the grant currently received as part of the package and the Trustees will explore other funding options as a contingency provision in case this occurs. The parties commit to working together to seek a satisfactory resolution to these challenges. Having regard to this the future of the museum, which is the principal responsibility of the Rhodes

Trust, will be an integral part of the planning during the implementation of this partnership agreement.”

- 2.12 The financial business case as set out in Exempt ERP G demonstrates the need for subsidy of £446,000 in year 1, reducing to £293,000 in year 5. Split 50:50 with BSTC, this would mean indicative costs for East Herts of £223,000 in year 1 reducing to £146,500 in year 5.
- 2.13 BSTC is unable to finalise their contribution to the arts centre until the Rhodes Birthplace Trust has finalised its proposed future business plan (and how much money will be required to subsidise the museum). Officers understand that this information will not be publicly available until the late Summer. However, the business case demonstrates that by year 5 considerably less than £250,000 per council will be required, and East Herts should therefore feel comfortable to proceed on the basis of a 50:50 split of the subsidy, mindful of the fact that it is possible in the first 2-3 years East Herts may need to pay slightly more than £250,000. Given that the financial business case is still reasonably high level and the numbers around the cinema and food and beverage income are fairly conservative, officers recommend that East Herts should feel comfortable with allocating £250,000 in the MTFP from 2022.

Risk and Other Options

- 2.14 The Council has made a number of decisions about Old River Lane over the last 18 months. First it agreed the land use (December 2017), then the delivery options and procurement routes for both the ORL and Northgate End sites (July 2018) and latterly the capital allocation of funding for the multi-storey car park (December 2018). This is now the final stage of the process.

2.15 The development is not without risk and a detailed risk register can be found at Exempt Essential Reference Paper H. This ERP is exempt for reasons of commercial sensitivity.

2.16 Other options at this stage are as follows:

(a) Do not proceed

The Council could simply leave the site as it is – a surface car park, three houses and a dated (but income generating) office building. The Council has invested £1.15m into the ORL project so far (£480k of which was funded by the LEP), and has received unanimous support at each Council meeting to proceed with a town centre redevelopment scheme (see 2.14 for a summary of the decisions taken at this meeting). A LEP grant of £6m and loan of nearly £4m has been awarded and any spent funds would need to be repaid. This is therefore not a recommended course of action.

(b) Delay proceeding

The developer's offer is valid for 12 months, so while the Council could delay the decision, doing so could give a poor signal to the developer who has spent nearly eight months investing time and money in developing their scheme and proposals. Considering the strong support from members for this important town centre redevelopment as demonstrated at the three previous Council meetings, there is no clear rationale to delay proceeding.

(c) Sell the entire site to a developer at market rate.

The Council could choose not to proceed with any of its own development at Old River Lane and sell the site to a developer. Assuming that the developer did not build an arts centre, this would create a bigger capital receipt for the Council. However, it would be contrary to all commitments made and decisions taken by the Council over the last two

years (and the decision in 2015 to purchase the site from a developer).

3.0 Implications/Consultations

3.1 Information on any corporate issues and consultation associated with this report can be found within **Essential Reference Paper 'A'**.

Background Papers

Council December 2017

<http://democracy.eastherts.gov.uk/documents/s42341/Old%20River%20Lane%20Land%20Use.pdf?j=5>

Council July 2018

<http://democracy.eastherts.gov.uk/documents/s45373/ORL.pdf?j=3>

Council December 2018

<http://democracy.eastherts.gov.uk/documents/s47205/Old%20River%20Lane.pdf?j=3>

Essential Reference Paper A: Corporate issues

Exempt Essential Reference Paper B: final Heads of Terms for the preferred developer

Exempt Essential Reference Paper C: Draft masterplan by the preferred developer

Exempt Essential Reference Paper D: ORL Viability Report

Essential Reference Paper E: Bishop's Stortford Council funding resolution

Exempt Essential Reference Paper F: Proposed Capital Funding Package

Exempt Essential Reference Paper G: Arts Centre Financial
Business Case (Revenue)

Exempt Essential Reference Paper H: Risk Register

Contact Member: Cllr Geoff Williamson – Executive Member for
Finance and Support Services
geoff.williamson@eastherts.gov.uk

Contact Officer: Liz Watts – Chief Executive
Contact Tel No: 01992 531650
liz.watts@eastherts.gov.uk