CITY OF YORK COUNCIL

Executive **29 November 2018**

Joint report of the Director of Economy and Place and the Director of Corporate and Customer Services

Portfolio of the Executive Member for Finance and Performance and Executive Member for Economic Development & Community Engagement

York Central Enterprise Zone Investment Case

Summary

1. York Central is a 72 hectare (ha) area of land adjacent to the railway station and is one of the largest brownfield sites in northern England, see plan at Annex 1. It provides a huge opportunity for regeneration providing new homes, Grade A commercial office space, an enhanced National Railway Museum and a range of new public spaces and facilities.
2. The scheme is being promoted by the York Central Partnership (YCP) which is made up of Network Rail (NR) Homes England (formerly the Homes and Communities Agency or HCA), the National Railway Museum (NRM) and the City of York Council (CYC).
3. This report sets out the investment case for the York Central Enterprise Zone (EZ) and makes a recommendation to establish a capital budget to support the delivery of the enabling infrastructure to bring the scheme forward.

Recommendations

4. Executive is asked :-

   i. To recommend to full council a total capital budget of £155m, including an additional contribution from the Council of £35m to deliver the enabling infrastructure and open up York Central for the delivery of the masterplan and for future allocation of this budget to be agreed by Executive.
   ii. To allocate £1m of additional business rates income, from the 18/19 LCR business rates pilot, to the Venture Fund
   iii. To agree approval of up to £3m of the Venture Fund to be used to finance early years deficits on the revenue costs of borrowing related to

the £35m CYC contribution, this being repaid from future Enterprise Zone receipts

iv. To agree prudential borrowing of £35m with this being financed from future retained business rates as part of the York Central Enterprise Zone, plus in early years the use of Venture Fund referred to separately.

Reason: - To ensure the delivery of York Central and to provide funding for enabling infrastructure including a new access route to York Central within the timescale of available grant funding

Background

5. The delivery of York Central is essential to the growth of York, contributing significantly to the growth of the regional economy, through the provision of high quality office space, and to meeting housing need in the city. Though the site has been earmarked for regeneration for many years, previous attempts to deliver the scheme have not come to fruition and we are now poised to seize this once in a lifetime opportunity to make this development a reality.

6. York Central Partnership (YCP) is a partnership of landowning bodies on the York Central site and is comprised of Network Rail, Homes England National Railway Museum and CYC. Over the last 3 years YCP have developed a comprehensive masterplan for the 72 ha site and are currently awaiting the determination of an outline planning application for the 45ha main site to the west of the railway station, which will deliver up to 112,000 sq m of commercial space and up to 2500 homes as well as a large park, public squares and an expanded Railway Museum (over a net developable area of c25ha). Delivery of the site is central to the Strategic Economic Plans (SEPs) for both LEPS and has enjoyed wide spread national and regional support with it's' designation as both a Housing Zone and an Enterprise Zone.

7. Extensive local consultation and engagement has been undertaken ahead of the planning process which has shown significant support for the scheme despite its many challenges. Previous attempts by the market to bring a scheme forward on this site have foundered and given the unique risk profile of the site it will require public sector leadership and ownership to bring the site forward for development.

8. There have been a number of developments which have finally enabled the scheme to be brought forward :-

   i. The establishment of the York Central Partnership bringing together all the public sector land owners

   ii. Assembling the land for redevelopment and commencing the clearing of operational rail use

iii. Establishment of Housing Zone Status which has brought investment from Homes England to support the delivery of housing on the site.

iv. Establishment of the Enterprise Zone which brings with it the potential to retain the additional business rates generated from the site to allow investment in delivering economic growth on the site.

v. Securing significant enabling funding from a range of government agencies including the WY+TF, YNYER LEP, Leeds City Region LEP, the One Public Estate Programme, Homes England and the Ministry of Housing, Communities and Local Government (MHCLG).

9. The site has significant infrastructure challenges. It is entirely circumscribed by rail lines, with the rail station at the bottom of the teardrop of land. The East Coast Main Line (ECML) forms a barrier to the north and east, and the Freight Avoiding Lines (FAL) to the south and west. Current access roads onto the site run through minor residential streets in the Salisbury Terrace area, or through the Leeman Road Tunnel and have limited capacity and low bridges, limiting access for high vehicles. They are not suitable to serve a comprehensive re-development of York Central. It is therefore necessary for a new access route into the site to be constructed.

10. It is a priority for all partners to accelerate the delivery of York Central in order to:-
    i. Deliver a significant quantum of much needed mixed tenure housing within the local plan period
    ii. Deliver essential commercial space to promote economic growth
    iii. Maximise the ability to facilitate development through retained business rates from the EZ, by early phase build out of commercial space
    iv. Achieve early land receipts to cover the costs of bringing the site to market
    v. Undertake capital highways spend before the end date of the WYTF spend deadline in March 2021

Enterprise Zone Investment case

11. This report recommends the creation of a budget totalling £155m to fund core abnormal site infrastructure on York Central and allow viable development to proceed. This would be funded by a combination of external grants, contributions, previously agreed approvals and also significant new borrowing. The financial implications are therefore key in supporting the decision making process. The proposal has the support of the YNYER LEP Board and will go on from Executive to full council in December 2018. Other funding decisions will be taken by WYTF in February and by MHCLG for HIF by March 2019.

12. The Investment case is constituted from

a. Infrastructure Costs
b. Funding Strategy
c. Enterprise Zone Borrowing and Funding
d. Economic Rationale
e. Development Appraisal
f. Phasing
g. Developer Strategy
h. Governance
i. Delivery Programme

Financial Approvals to Date

13. Network Rail has already spent £4.4m on land assembly and rail clearance. Homes England has committed £18.9m towards land assembly and has contributed a further £200k towards the planning costs of the site. In addition Homes England is investing heavily in the establishment of a dedicated delivery team. Though some of this investment is backed by asset acquisitions these will not be realised unless the scheme is developed out so are "at risk" at this stage.

14. The NRM have spent £1.14m on the master planning of their museum development scheme supported by a CYC grant of £200k and they continue to fundraise. As an important cultural anchor they will continue to help shape the overall scheme and integrate their plans with the development of York Central, but their role differs from the major land owners NR and Homes England and from the Council as the custodian for a new part of the city and an enabler of the future scheme. As a Charitable organisation, NRM cannot undertake any development activity on non-Museum land, so NRM will not share in either the York Central development costs or receipts. The NRM have disposed of their surplus land assets to the Homes England in order to integrate them into the overall scheme and facilitate the early phases of their £50m development plans.

15. In December 2013 Members agreed to earmark £10m towards the delivery of York Central. Currently £5,338k has been released to support technical work, masterplan development through to planning, land acquisition costs and site preparation works. There have also been grant contributions from WYTF, Homes England, One Public Estate, Leeds City Region LEP, YNYER LEP and DCLG Enterprise Zone funding. These combine to total £10,349k shown in the table below:

	£'000	£'000
CYC – (£10m Allocation)		
Land purchase approval	1,014	
NRM Masterplan contribution	200	

Other Approvals *	4,124	
Total CYC		5,338
YNYER LEP *		2,890
WYTF Contribution		947
OPE Grant		250
Homes England Grants		689
LCR LEP Grant		200
DCLG EZ		35
Total Funding Available		**10,349**
***Additional £2,390k grant awarded by YNYER since August 2018 report replaces CYC funding**		

Table 1 York Central Funding

16. Actual expenditure to October 2018 and forecast

	Expend £'000
2015/16	112
2016/17	1,565
2017/18	2,197
2018/19 Actual to date	2,127
Estimate 2018/19	4,348
Total	**10,349**

Table 2 York Central Expenditure

17. These approvals take the project through to the end of the financial year and to the point prior to scheme delivery which require further approvals.

18. Any CYC funding will be at risk until a Partnership Agreement is signed and if the HIF funding is not forthcoming and if the scheme does not go ahead then this funding may be abortive. Should the scheme ultimately not be delivered then an element of these costs would be classed as abortive and need to be written off back to revenue. The estimated liability would total £3,324k based on the full spend of £10,349k at the end of March

Infrastructure Capital Cost

19. The York Central site is heavily constrained by abnormal infrastructure costs, principally related to providing site access, but also related to the brownfield nature of the site. These costs have inhibited the ability of the market to deliver the scheme in the past. A detailed appraisal of these core 'off plot' abnormal infrastructure costs has been undertaken and a cost of £155m determined. This infrastructure includes the new access bridge, highway cycle and pedestrian routes into and through the site, a new station entrance, a 5.5 ha park, 3 public squares with enabling ground works, site clearance, remediation and utilities supply. The masterplan is predicated on overcoming site

constraints and early provision of quality place making infrastructure which will be built out early in the development timetable to increase market confidence, encourage occupiers to the site and also optimise value from each plot. The infrastructure works are organised into logical packages of lots that will allow for efficient procurement and delivery programme whilst optimising market exposure.

20. The indicative breakdown of the key elements of the infrastructure scheme are as follows

	£'000
Enabling Works including site clearance, utility diversions, Millennium Green preparation	11,200
Phase 1 Infrastructure including bridge access onto site, new spine road, drainage	75,800
New Park	19,000
Museum Square and Boulevard	14,400
Southern Access to Site	4,800
Compliant Station Access	3,200
Full Western Station Entrance	17,400
Leeman Road Tunnel, Marble Arch Link	1,700
Leeman Road East	700
Utilities into site	6,800
Total Infrastructure	**155,000**

Table 3 Total Infrastructure Costs

21. The cost plan includes allowances for inflation to the mid point of construction as well as risk and contingency allowance across the infrastructure packages. Core costs also include prelims, contractor's overhead & profit and professional fees. The cost plan will continue to be iterated as the scheme progresses, and opportunities for cost efficiencies, value engineering, and savings through the sequencing and timing of provision will continue to be explored. It should be noted that there is also scope for costs to increase and unknown issues to be encountered as the scheme progresses. Opportunities to add further commercial and social value to the development through the available funding streams will also be explored as the scheme progresses, alongside the project's relationship with wider development opportunities including land to the front of the railway station.

22. This abnormal enabling infrastructure cost of £155m means that without significant public funding the site is simply not viable and the compound risks of preparing the site for development are not likely to be acceptable to the market. It is therefore proposed that the YCP, having undertaken the enablement and funded the work to date, continue to take the role of infrastructure deliverer for the first phase of infrastructure (CYC) and master developer (NR and Homes

England as the predominant land owners on the site), in order to de-risk the project and bring it within viable financial parameters. Through doing this, the partnership will also exert influence over the timing, nature and quality of development, to optimise fit with policy and corporate objectives whilst respecting the important relationships with local communities, the rest of the city and the historic setting of the site.

23. CYC have commenced the procurement of a construction partner using the YorCivil2 framework with an expectation of early appointment of a contractor to feed in to detailed design work in February 2019, early pre-construction works commencing in March 2019 and with a target of signing the main construction contract in July 2019.

Funding Strategy

24. The high level funding proposal for the infrastructure spend is shown below

	£'000	£'000
CYC		
Approved Budget	10,000	
Less allocated	(5,338)	
		4,662
CYC Borrowing – Enterprise Zone		35,000
Housing Infrastructure Fund		77,100
YNYER LEP		3,110
WYTF Contribution		23,500
Balance – Developer Contributions, further grant funding sources, Cost Control		11,628
Total Funding Available		**155,000**

Table 4 Total Funding Available

25. Looking at each of the funding sources

CYC Approved budget £4.662m
This funding, originally part of the council's EIF, was agreed by Council in December 2013 in order to develop York Central. There have since been specific allocations of £5,338k agreed to fund land acquisition, technical and master planning work and site preparation works.

CYC Borrowing – Enterprise Zone £35.0m (this approval)
This borrowing is recommended based on the assumed level of business rate capture across the Enterprise Zone. The detailed analysis is shown across paragraphs 26 to 37

Housing Infrastructure Fund (HIF) £77.1m
Homes England are the administering body for the Housing Infrastructure Fund (HIF) and CYC are mid way through the co development stage of the MHCLG HIF bidding process with a £77.1m capital grant bid to support the delivery of the project. This is based on the development appraisal of the site showing that without Public Sector Grant Support the site is undeliverable. The bid is expected to be submitted in December 2018 with an associated decision on funding in February/March 2019. HIF is an important part of the overall funding for the infrastructure and the delivery of infrastructure is wholly reliant on success of this bid.

York, North Yorkshire and East Riding (YNYER LEP)
The YNYER have in principal approved £7.5m of Growing Places Funding towards the development of York Central and surrounding area. To date £1.5m has been allocated to the scheme at Scarborough Bridge and £2.89m been provided to fund development costs. There remains £3.11m available subject to final sign off at the LEP.

West Yorkshire Transport Fund (WYTF) £23.5m
The West Yorkshire Combined Authority has approved the inclusion of the York Central Access (York Central + Station Frontage) scheme in the West Yorkshire Transport Fund Programme. This includes the access road and bridge on the site as well as the demolition of Queen St. Bridge and improvements at the front of the station. The proposed contribution for the infrastructure at the rear of the station is £23.5m and would be available to the scheme subject to formal sign off through the WYTF Assurance process at West Yorkshire Combined Authority.

Residual Balance - External Contributions (£11.628m)
The balance of funding of £11.628m is as yet to be determined. There are a number of ways this gap can be managed. This will include

- Cost review – all the costs included in the infrastructure plan are estimates and include levels of contingency/optimism bias. These will need to be managed so that if cost savings can be made these are banked to support later phases of the infrastructure.
- External Funding Opportunities – There are a number of further funding initiatives that the scheme may be able to bid for. This includes Transforming Cities which is available to fund improvements in Transport Connections. Further opportunities could arise from European Funds backed by the European Structural and Investment Fund. There may be further opportunities fro further support form LEPs / WYCA / Homes England Funds.
- Developer Contributions - In practice the infrastructure delivered into the scheme will enable developers to proceed with plot development therefore it can be expected that s106 contributions may be available to fund elements of the infrastructure.

- Land Values - there is also the potential for funding from the Partners land receipts should circumstances permit.

The release of capital budgets for infrastructure phases relying on this funding will only be provided when the funding becomes secure.

Enterprise Zone Borrowing and Funding

26. The granting of an Enterprise Zone on the site at York Central allows the council to retain 100% of business rates uplift to 2042 at the site. This potentially provides ongoing revenue that allows the council to borrow to fund a proportion of the total infrastructure costs. Modelling undertaken assumes that the full debt is drawn down in 2022/23 once HIF and WYCA funding has been used, and is then repaid over a 19 year period.

27. The level of income available from retained business rates will depend on a number of variables. The key ones being
    - Amount of Commercial Space made available on the development
    - Speed of delivery of the commercial units and letting
    - Rateable Value of properties within the development

    There have been a number of models run with varying sensitivities on the above with one “base case” and three additional scenarios are shown below

Scenario	**Commercial Space**	**Delay**	**RV**
Base	Low	None	Average
1	Low	Delay + 3yrs	Low
2	High	Delay + 2yrs	Low
3	Medium	Delay + 3 yrs	High

Table 5 Modelling scenarios

28. The result of the modelling shows that a borrowing level of £35m is affordable and can be repaid under each scenario. There are however potentially significant early year deficits where borrowing costs are higher than revenues. It is proposed that these are funded from Venture Fund and Business Rates Pool with appropriate financing charges applied.

29. The cash flow detail of the models is summarised below

All figures £’000	**Base**	**1 Min Commercial**	**2 Max Commercial**	**3 Medium Commercial**
Gross Rates	77,686	62,589	109,178	94,510
Debt Costs	-56,620	-56,620	-56,620	-56,620
Internal	-63	-5,183	-627	-1,636

Financing				
Net Rates	21,003	786	51,931	36,254
Max Cum deficit	-751	-11,431	-4,940	-8,159

Table 6 EZ Modelling results

30. The table above shows that across all scenarios the £35m investment is potentially affordable and provides a net surplus of business rates over the period of the Enterprise Zone scheme. The revenues vary according the sensitivities whilst the debt costs remain constant across all scenarios. The internal financing costs are linked to the deficits should they occur. These are more significant with the longer delays in build out as debt costs are being incurred without offsetting revenues. The modelling shows significant deficits in Model 1 and 3 which assumed 3 year delays which require large council internal financing. The Council is proposing to earmark some resources to enable it to manage these deficits; however the most pessimistic of the scenarios does create significant pressures.

31. There will be further changes to the modelling once the detailed infrastructure cost plan phasing is further iterated, which will determine when EZ borrowing is drawn down to support the infrastructure funding. There will also be ongoing discussions with partners as to phasing and timing of expenditure dependent on likely demand for the commercial development.

32. As set out above, there is a likely shortfall in the ability of enterprise zone receipts to be able to cover the financing costs associated with the £35m CYC debt in early years. Therefore the Council needs to consider how it will finance this shortfall. In order to avoid any impact on the revenue budget, it is proposed that the Venture Fund is used to finance these early year deficits. The value of this shortfall will be dependant upon many issues, including the pace of development, the value of development, and the Council's timing of actual borrowing. This figure based on earlier modelling is in the range of £750k to £11,431k. In reality if the scenarios show a delay to commercial occupation infrastructure spending can be delayed to reduce overall affordability risk. The cash flow shortfalls in reality are unlikely to be at the higher levels. It is considered prudent to earmark up to £3m from the Venture fund to fund any such shortfalls. The use of this fund will be subject to repayment in the future.

33. The Venture fund balance currently stands at £2,752k however there have been commitments approved of up to £1,680k to support the Community Stadium and Attendance Management so the amount unallocated totals £1,072k There are a number of repayments due to the fund primarily relating to West Offices which will increase the fund to £2.3m by the end of 2022/23.In order to increase the fund to a prudent level, given the proposed use of £3m for York Central, it is proposed to allocate a further £1m from additional business rates. Previous reports (financial strategy February 2018, revenue monitoring

Q1 report) have set out that arising from the Council being a part of the Leeds City Region business rates pool, there is an additional £2m business rates as yet not allocated to any projects. The revenue budget report has however set out that there potentially may be a need to draw down on some of that in 2018/19 due to pressures in particular in relation to children's services. Allocating £1m from the business rates to the Venture Fund is considered both prudent in the context of York Central, but also retains some of the business rates for other considerations linked to the Councils budget strategy. The table below shows the forecast year end balance of the Venture Fund including the additional £1m allocation. All use of the Venture fund relating to York Central will be monitored in line with usual revenue and capital budget monitoring reports.

	Forecast year end Venture Fund Balance £'000
2017/18	2,752
2018/19	3,729
2019/20	2,914
2020/21	3,239
2021/22	3,421
2022/23	3,309
2023/24	3,346
2024/25	3,549
2025/26	3,760
2026/27	3,979
2027/28	4,028
2028/29	4,079
2029/30	4,131

34. It is recommended that Council approves a budget of £155m to deliver infrastructure across the York Central site. It will then be for Executive to make approvals from that budget to fund specific work packages. Given the scale of investment and potential financial risks, Executive will only be asked to release funds where funding has either been secured from external partners or part of the CYC approval envelope.

35. There are advantages in that the significant external funding from HIF and WYCA will require spending in the early years meaning that the CYC funding can be delayed to the end of the process. This reduces the early year borrowing costs reducing the pressure on the Venture Fund.

Economic Rationale

36. York has a constrained economic core, with our ancient walled city providing few opportunities for significant developments. York Central has been identified as York's most significant development opportunity for over half a century. The quantum of employment space which will be provided in York Central represents a unique opportunity to shape the future development of our economy, redressing falling wage and GVA trends.

37. The region's SEPs identify the site as a housing and employment growth priority and set out, for YNYER a priority to 'fast track employment sites with market demand for high value sector growth', and for LCR a vision 'to be a globally recognized economy where good growth delivers high levels of prosperity, jobs, and quality of life for everyone'.

38. Aligned with this, the York economic strategy 2016-2020 has four long term targets:
    - To increase wages to above the national average by 2025
    - To meet in full our city's business space and housing requirements
    - To grow employment in our high-value sector firms 20% faster than baseline
    - To maintain our comparative advantages in employment, skills and connectivity

39. The successful delivery of York Central's workspace, housing and connectivity will play a crucial role in enabling the city and the broader region to meet these targets. To increase wages, we need to support the growth of high-value jobs in sectors such as financial services, rail engineering, digital technology and professional services. These jobs need high quality well-connected office space, and there is currently a shortage of such space in central York. The commercial floor space identified in the outline application has the potential to provide a supply of space which would support high-value employment.

40. The commercial floor space is a scarce resource to support curated long term growth in industries which provide high value employment. As the project develops, it will be important to evolve the outline strategy to target high-growth sectors when seeking developers and occupiers for the commercial space. The likely growth sectors include financial services, insurance, science and technology, and rail and transport high tech engineering. Innovation initiatives through the city's universities, seeking commercialisation opportunities through research, are likely to present additional opportunities. Providing space and facilities which encourage collaboration between university and industry should be a clear priority.

41. Our strategy across the city is to seek to boost the value of retail, leisure and tourism employment through promoting York as a destination for high-value customers. The York Tourism Strategy, which seeks to grow that sector to be a £1bn part of our economy. The expansion of the National Railway Museum will further enhance one of the city's key world class assets, making a significant contribution to this growth.

42. The site as a whole will be an attractive place to live, expressing York's unique world class cultural offer, and providing opportunities for current residents and those moving to York. The site will include 20% affordable housing as well as a range of property types and tenures to optimise social benefits. We already have the highest skill level (in terms of % of the workforce with a level 4 qualification or above) of any city in the North of England. To maintain this advantage, York needs the kind of space which is proposed for York Central for people to live, work and play.

43. Recently published statistics from ONS demonstrate the strength of the York economy. Employment in York grew by 5% in 2017, with 5,000 jobs added across a range of sectors, including 500 jobs in manufacturing, 1,000 in professional, scientific & technical, and 1,000 in administrative and support service activities. There has also been a sharp increase in the percentage of the York workforce with a Level 4+ qualification, with 49% of 16-64 year olds in York attaining at this level. The city has an expanding workforce, increasingly highly-qualified, with many companies beginning to grow. The challenge that many businesses face is in finding appropriate workspace to support this growth. York Central represents the main opportunity for such expansion, particularly for office-based jobs in the broader knowledge economy

Development Appraisal

44. A traditional development appraisal which includes all enabling infrastructure costs shows a deficit in the region of -£100m. The scheme couldn't come forward on this basis and therefore the public sector infrastructure funding package is vital to make York Central happen.

45. The York Central Development Appraisal has been undertaken for the master-developer Partnership by commercial advisors Savills. Market Assessments have been undertaken on an annual basis and have informed the residential and commercial assumptions in the appraisal as well as the masterplan and delivery strategy for the project.

46. The latest partnership appraisal (July 2018), based on the land that Homes England and Network Rail currently have control over, demonstrates that, on the basis of the off plot infrastructure being funded separately, the land has a residual land value of £0.84m per (gross) acre which equates to a £55m residual land value. This value is also equivalent to the sunk costs/

commitments and Existing Use Value (EUV) totalling approximately £55m on the project

47. There are opportunities to create further value in the release of land in the ownership of Network Rail which is currently not declared as surplus due to its on-going use as railway sidings as part of the rail network. The land, known as York Yard South, forms part of the masterplan, but because of its status cannot be assumed to form part of the investment case at this stage. However, provision is made, should it be included, to ensure the value is captured.

48. Savills consider that York is a sought after residential area popular to a wide spectrum of demographics. They identify that York city centre residential market has remained resilient over the past few years, with agents reporting consistently strong market conditions. The restricted supply of homes, and significant demand, has also created affordability challenges. All YCP partners are committed to delivering 20% affordable housing in accordance with planning policy despite the viability challenges of the site and hence investment in infrastructure helps meet this requirement for the city.

49. York's restricted supply of office space means York Central provides the opportunity for creating game changing economic growth through "Grade A" office space. There is currently little "Grade A" office space in York and this has resulted in a lack of investment in the city from financial and professional services sectors. This lack of supply has also created a pent up demand and discussions are being held with a number of potential high quality early occupiers for the office space. The Enterprise Zone status will also enhance the attractiveness to occupiers.

50. Savills consider that commercial values for York Central will set a new benchmark for the city and given the nature of the York Central development and the characteristics of the city. Therefore the site appraisals have included assessments of the proposed rents based on the position of York in the regional market and the location and quality of the proposed development.

51. It should be noted that as a traditional residual appraisal these are today's values. The appraisal does not include for possible value growth, or provide build cost inflation. Value assumption ranges are provided below:
    - Offices – rental £15-£23 per sq. ft.
    - Retail – rental £15 - £17.5 per sq. ft.
    - Residential – market sales £375 - £400 per sq. ft.

52. Comparable residential schemes in York, such as Hungate and Chocolate Works, are already achieving values of £375 per sq. ft. with some prime city centre developments achieving in excess of £450 per sq. ft. And hence residential sales rates have been set to reflect such evidence. The figures for residential sales also reflect the inclusion of affordable housing provision.

53. Robust cost assumptions have informed the development appraisal, with the build costs having been defined by cost consultants Turner and Townsend based on the York Central proposals:
    - Build cost range (dependent on use type and fit out standard) at £93-£163 per sq. Ft.
    - Professional fees at 12%
    - Developer margin at 17.5% for residential, 15% for commercial
    - S106 contributions including assumption of 20% affordable housing
    - Purchasers costs at 6.8%

54. The appraisals prepared by Savills show that there us a reasonable business case to bring the land forward for development to provide new homes and business space for the city. The tables below summarise development appraisals with and without public funding of the abnormal off plot infrastructure costs.

55. Development appraisal without off plot infrastructure funding package:

Revenue	**£m**	**Costs**	**£m**
Net development value	647	Off plot infrastructure costs	155
		Development and construction costs (including on-plot infrastructure)	499
		Developers margin (15-17.5%)	93
Total	**647**	**Total**	**747**
		Funding Gap	**-100**

56. Development Appraisal with off plot infrastructure funding package:

Revenue	**£m**	**Costs**	**£m**
Off plot infrastructure funding package	155	Off plot infrastructure costs	155
Net development value	647	On plot development and construction costs	499
		Developers margin (15-17.5%)	93
Total	**802**	**Total**	**747**
		Notional residual land value (landowner recovery of sunk costs and EUV)	**55**

Phasing Plan

57. The scale of York Central is such that it will be built out successively over a number of years. Site constraints mean that the bulk of site infrastructure will need to be implemented early in this programme (exacerbating its viability impacts), though it is also phased. Infrastructure works have been configured to allow flexibility in development phasing approach, and to allow the simultaneous release of multiple plots to market, increasing diversity and accelerating delivery. Establishing a sense of place and providing a range of facilities and amenities early in programme is of critical importance. The currently assumed sequencing and timing of release of commercial development plots is summarised below. This is based on the indicative masterplan scenario.

58. The approach establishes a prime, mixed-use quarter facing onto the new Museum Square early in programme, alongside the creation of a hub of community and SME space in converted buildings at Foundry Yard. Large footprint pre-let's to the rear of the station follow, and the commercial quarter is grown organically away from the station, on the alignment of the new pedestrian boulevard. National Railway Museum uses follow (including the Central Gallery) alongside ancillary retail uses in residential blocks. The phasing will be iterated and evolved as the project develops and development partners are appointed.

Developer Strategy

59. Through providing the strategic 'off-plot' infrastructure to service plots the partnership will manage the site abnormal costs which have inhibited development to date, reduce risk and establish the quality parameters and sense of place all of which are essential for the private sector to engage with the scheme. YCP will create serviced development plots which are viable and ready for development

60. The partners each have different roles to play within this. Homes England and Network Rail, as the majority landowners of the site, will act as Master Developers for the site and will lead on the comprehensive development of the site. CYC will act, in their role within the Partnership, as the attractor of funding and deliverer of the early off plot infrastructure and potentially act as developer of early commercial opportunities. The Museum will deliver its own £50m masterplan to enhance their existing facilities and continue to be the cultural anchor at the heart of York Central.

<u>The Master Developers (Development Partners)</u>

61. Homes England and Network Rail, acting as master developers, will work together to bring forward land for development, procuring developers to deliver

the scheme. This relationship will be governed by a Collaboration Agreement, which is currently in draft form, and is on the basis of cost and existing use value recovery and land value equalisation across the site. This positive collaborative working follows a previous transaction at York Central between Homes England and Network Rail when Homes England acquired land from Network Rail under their agreed Land Transfer Model.

62. By undertaking the role of Master Developer (instead of procuring a private sector partner to undertake this role) a layer of profit return to a developer is removed, and costs to the public purse are minimised. This approach also ensures that the project has flexibility to respond to changing market circumstances and gives greater control over build out rates.

63. The Development Partners will be led by a Project Director, currently being appointed by Homes England on behalf of Homes England and Network Rail. This post is a senior post and will be accountable for the delivery of York Central to Homes England and Network Rail's senior management teams. Further to the dedicated project team, consultant support will be appointed in the following areas:
    - Legal
    - Commercial advice
    - Technical support
    - Cost advice
    - Programme management
    - Design Briefs/Design Champion
    - Project assurance
    - Communications and Marketing

64. The Development Partners will not operate in isolation. They are part of a broader governance structure, as illustrated later in this report, which seeks to ensure all elements of the York Central project (including the NRM expansion, the delivery of the infrastructure and the York Station improvements) are coordinated and the interdependencies are managed to ensure delivery.

65. As Master Developers, working with the other YCP partners to create serviced development plots, the Development Partners are accepting a long term engagement with the project and commitment to the associated revenue and capital costs. Plots of different sizes, scales and uses will be attractive to a range of different developers and concurrent, complementary phases will be brought forward at any one time.

66. In accordance with this strategy, individual 'development plots' would be defined, and each plot would be provided with a vehicular access, drainage connection and utilities connections including Superfast Broadband connectivity as part of the gigabit city initiative. The plots will also benefit from

the outline planning consent (which will define development parameters for the plot) and a data room describing the plot's condition (e.g. history, presence of contamination, other constraints, etc.). Plot developers will be required to bring forward development via a development agreement. This agreement will require them to deliver the 'on-plot' infrastructure including public highway within the plots, green spaces, play areas and pathways. The definition of 'development plots' varies from residential to commercial, which is detailed later in this strategy.

67. The role of the Master Developer will include (but not exhaustively):

- Potential further land assembly
- Leading on community engagement
- Leading on stakeholder management
- Manage overall project programme
- Manage phasing plan
- Procuring Design Briefs for individual plots in the context of the Outline Planning Application
- Marketing of York Central
- Attract occupiers (in conjunction with chosen developers and other stakeholders including CYC and the LEPs)
- Procuring developers to deliver plots in phased manner
- Attraction of Registered Provider partner(s)
- Ensuring design standards are met
- Manage discharge of planning conditions
- Facilitate community uses through identification of community spaces in the development and working with stakeholders to identify what they are
- Determine Long Term Management Strategy and establish the solution
- Develop overall project energy waste and recycling strategy
- Commission the delivery of future phase infrastructure (beyond the early infrastructure CYC are delivering)

68. The exact scope and form of procurement for the serviced development plots will be determined over the next 6 months as soft market testing is undertaken and initial development plots are brought to the market. The Delivery Strategy will evolve to respond to this and will be formalised following the appointment of the Project Director.

Soft Market Testing

69. York Central has been a proposal for which there have been a number of failed attempts to bring forward previously. The certainty of planning and funding availability will be critical to give confidence to the development market and therefore, following advice from our commercial advisors, a formal period of soft market testing has not yet commenced. However, given the level of activity

on the site and the anticipation that a scheme will be imminent there has been a strategy of "warming up" the market, including the construction market for the delivery of the infrastructure.

70. York Central Partnership attended MIPIM UK in October 2017 and MIPIM Cannes in March 2018 with the Leeds City Region. As one of the region's key future opportunities there was significant interest and excitement from national and regional house builders which demonstrated that further wide-ranging soft market testing would be required once the proposals had been further developed. A formal soft market exercise will be undertaken over the next few months which will inform the ultimate delivery strategy.

71. It is anticipated that the first plots will be taken out to market by June 2019, when there will be planning certainty and full site investigations have been undertaken on the plots to further de-risk delivery. Should soft market testing indicate that it is appropriate, marketing commencement may be brought forward.

Occupier Attraction

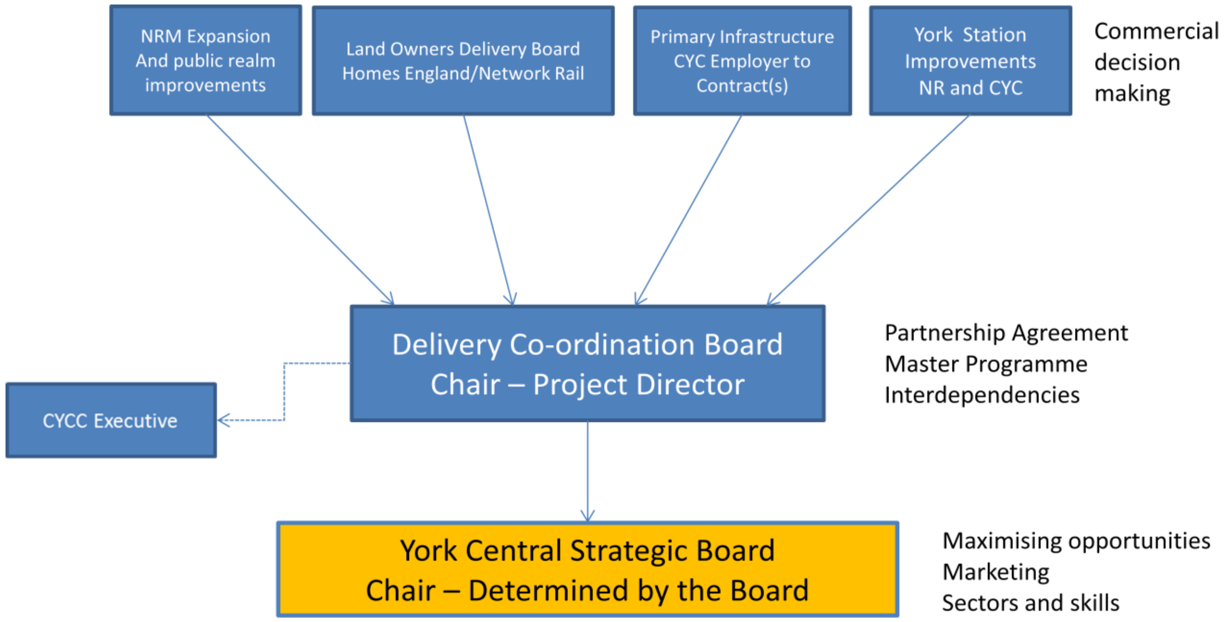
72. The targeting of occupiers for the commercial space will best follow the achieving of certainty around planning and infrastructure funding because a programme for future occupation is dependent on these dates. However, in anticipation of this and given momentum on the site, early discussions have already begun with a number of potential occupiers. A number of key stakeholders have been identified to support the attraction of occupiers and investors in the commercial led element of York Central, and these organisations will be integrated into the project through the Strategic Board:
    - The Department for International Trade has already been engaged and is poised to offer further support to attract international businesses to York Central. These connections will be maximised.
    - Both Local Enterprise Partnerships support in identifying potential occupiers will be maximised including events which maximise national and international exposure.
    - Both York based universities have identified growth sectors and also potential space requirements themselves. Their connections to these growth sectors will be vital to be explored and ensure all opportunities are maximised.
    - City of York Council, and the inward investment team at Make It York, has a vital role in steering the overall sectors for targeting based on the wider Economic Strategy for the City. The development of this will be vital to targeting key growth sectors and identifying a critical anchor tenant.

73. In addition to these, other local businesses will continue to be engaged through regular attendance to key city wide events and forums, such as the Chamber of Commerce and Business Improvement District meetings. Dependent on the

nature of occupier and developer interest in the commercial proposition, CYC may also assume a role as development enabler, utilising available funding streams to underwrite development risk and/ or more directly facilitate commercial plot development if this is deemed necessary.

Governance

74. As the project moves onto delivery phase it is appropriate to review and evolve the existing governance arrangements to ensure coherent delivery across a large programme of interdependent projects, including the front of York Railway station and the station itself. This is represented diagrammatically below.



75. The Strategic Board will determine its own chair and will be responsible for

   a. Maximising opportunities
   b. Ensuring Strategic fit
   c. Oversight of programme
   d. Sectors and skills development
   e. Advocating for the scheme
   f. Oversight of the promotion and marketing
   g. Leading effective decision making within their organisation

76. It is anticipated that senior representatives of both LEPs would sit on the Strategic Board.

77. The Delivery Co-ordination Board will be chaired by Project Director and will be responsible for :-
   a. Delivering the commitments set out in the Partnership Agreement
   b. The owners of the Master Programme, Cost and Quality benchmarks as set in Partnership Agreement

c. Baseline off plot infrastructure cost plan – agreed quality standard and extent
d. Decision making on delivery of future infrastructure packages
e. Baseline development appraisal (for monitoring of potential for super-profit via s106)
f. Proactive reporting from each of the “projects” on deviation from all the above, early identification of issues affecting the critical path
g. Manage interdependencies
h. Programme assurance

78. There will be a series of individual project boards for
    - Infrastructure Delivery – led by CYC but including NR - consideration to be given to inclusion of LEP representatives to oversee delivery of funding commitments
    - Front of Station and Station Board overseeing the works to the front of and including the railway station
    - Development Partners – led by Homes England and Network rail
    - NRM masterplan project

79. These will all feed into the Delivery Co-ordination Board and will be individually responsible for reporting to funding bodies and ensuring project assurance.

Delivery Programme

80. The delivery programme will evolve during the delivery phase of the project. A summary of key milestones is provided below:

• Submission of Outline Planning Application	Aug 2018
• Submission of Reserved Matters Planning Application for ph 1 infrastructure (western access bridge and spine road)	Feb 2019
• Executive decision on Partnership Agreement	Jan 2019
• WYCA TF funding decision	Feb 2019
• Infrastructure delivery contractor selection	Feb 2019
• HIF Funding decision	Mar 2019
• Pre construction enabling works commence	Mar 2019
• Main Infrastructure contract let	July 2019
• Marketing of residential plots	June 2019

- Procurement of Commercial development partners — July 2019
- Western Access / Bridge and spine road complete — July 2021

Partnership Agreement

81. The council plays a unique place making role in the partnership as long term custodians of the city with an ongoing remit to ensure that the scheme delivers the social and environmental benefits set out in the masterplan and that community engagement sits at the heart of the scheme as it is planned and delivered.

82. . In June 2018 Executive agreed a series of city objectives to be developed as part of the delivery of the scheme relating to
    i. Housing
    ii. Public realm
    iii. Sustainability
    iv. Community
    v. Economy
    vi. Culture

83. A Memorandum of Understanding has been agreed by all YCP partners and this will be formalised into a legal Partnership Agreement which will be brought back to Executive in the New Year.

84. The January report will set out how the council will seek to ensure the quality of York Central as it moves into delivery and will outline the financial agreements and the treatment of council land and how the city objectives could be delivered. The Partnership Agreement will be a mechanism for securing some of those objectives but this is supplemented by the council’s statutory powers as Planning Authority and Highways Authority and through the council’s work on city wide partnership development, community engagement, investment and economic development.

Council Plan

85. The project will assist in the creation of a Prosperous City for All, and be a Council that listens to residents particularly by ensuring that
    i. Everyone who lives in the city can enjoy its unique heritage and range of activities.
    ii. Residents can access affordable homes while the greenbelt and unique character of the city is protected.
    iii. Visitors, businesses and residents are impressed with the quality of our city.

iv. Local businesses can thrive.
v. Efficient and affordable transport links enable residents and businesses to access key services and opportunities.
vi. Environmental Sustainability underpins everything we do.
vii. We are entrepreneurial, by making the most of commercial activities.
viii. We engage with our communities, listening to their views and taking them into account.

Implications

Financial – Set out in the report and the risk section

Human Resources (HR) – none

Equalities – Equalities impacts will be considered in the full infrastructure planning application and detailed design process

Legal – The Council will predominantly be using its power of general competence granted by section 1 of the Localism Act 2011 in promoting this scheme although other specific powers are available such as the power to borrow contained in section 1 of the Local Government Act 2003 and powers under the Highways Act to provide infrastructure.

When making a decision the Council is bound by its general public law duties, in particular the duty to act reasonably and the duty to act with regard to its fiduciary responsibilities to councils tax payers. The fact that the Council has taken expert advice to support it's' assumptions evidences that these requirements have been treated seriously. Expert advice, both internal and external, including legal advice will though be required on an ongoing basis throughout this project.

Information Technology (IT) - There are no IT implications.

Crime and Disorder - none

Property – none.

Risk Management

86. The project contains a number of significant risks, which Members need to consider carefully, and be fully aware of. This is one of the largest capital projects the Council will have embarked upon, with only the Community Stadium, West Offices and the joint Waste Scheme with North Yorkshire County Council being of similar or greater value. It is also by its nature a project that has a number of different partners, and different funding sources. The £35m borrowing backed by Enterprise Zone receipts brings in a number of risks to the council as will be dependent on the overall state of

the economy, commercial demand for high quality offices. Whilst some risks can be mitigated to some extent, even after mitigation there remain significant risks inherent within the Project. These significant risks, in terms of provision of infrastructure and ongoing viability, are further set out in the following sections. Members should formally note and consider the risks

Project Affordability

87. The estimated costs across the infrastructure work streams of £155m have been determined by the Partnership’s master planning consultants and verified by cost consultants Turner and Townsend. They include allocations for risk and inflation but ultimately the final cost will be dependent on detailed designs and procurement exercises. Given such a large value it is inevitable that there will be cost pressures across elements of the programme. Overall costs will need to be managed across the stages and overspends in particular phases will need to be offset by changes to scope across other phases. The governance of the project will ensure that cost control is always at the forefront of delivery and CYC in its role of infrastructure deliverer will determine the pace at which infrastructure funding is released and delivery is completed.

88. There is a budget gap currently identified of £11.7m (c7.5% of total infrastructure cost). It is currently assumed that this will either be reduced through value engineering or be funded through the partnership from s106 contributions, further grant funding sources or from land value uplift from landowners. It may be necessary to spend this value before the contributions are received meaning that CYC may have to cash flow some of this budget shortfall. It is proposed that this will not happen without specific approval from Executive and the Partnership Agreement will seek to protect CYC in any forward funding. However reimbursement could ultimately be dependant on the economic success of the scheme and future land value.

89. Given the current wider economic climate there are a number of variables that could change to make the scheme more expensive. These include factors such as changes to the Business Rates regime which could reduce viability of the EZ borrowing, interest rates which have been historically low for a decade increasing the cost of borrowing, inflation which would potentially increase future costs and exchange rates impacting the prices of imported goods.

90. The EZ borrowing is based on current interest rates. There is a risk that they will rise prior to when borrowing is ultimately taken which will impact the overall borrowing cost. A ¼% rise in interest rates adds c£90k per annum to debt costs.

91. It is by splitting the role of infrastructure delivery to the council which reduces the risk in that whilst the partners will be influencing decisions made around infrastructure spending it ultimately will be in the control of the

council as accountable body. This means that cost overruns and overspends can be mitigated across the whole programme of works and expenditure committed only when budgets allow.

Enterprise Zone Receipts

92. As has been identified within the report there has been much modelling of potential income from the Enterprise Zone on the site. The key sensitivities which determine the success or otherwise are

Sensitivity	Impact	Control Measure
Speed of Delivery	Short term cash flow whereby the income receipts do not fund debt costs	If low demand for commercial space 1) Consideration as to the size of the enterprise zone. If additional land were released for housing that would reduce overall debt. 2) Manage costs by reducing infrastructure spend on site 3) Consideration of self developing particular plots
Amount of Commercial / Residential development	EZ revenues are dependent on levels of business rates paid on the site	As per 1) above
Level of Rateable Values	Not reaching assumed rateable values would lead to lower revenues	Working with developers to determine the commercial development is in line with business case.

93. In reality the business rates are directly related to rentals charged out. The developments will only become profitable to developers at the rents which provide the level of business rates modelled. Working closely with the Economic Development group within Make it York, the Local Enterprise Partnerships and other related bodies, the council will need to promote and advertise the advantages of major companies and organisations of the benefit of locating in the high quality offices on York Central. It is by completing the commercial zone in good time and delivering the EZ revenues that will de risk this investment at and early stage.

External Funding

94. The majority of the external funding (subject to HIF and WYCA approvals) has been sourced. The HIF funding is absolutely critical to the development

as it anticipated to fund c50% of the infrastructure costs. Without this funding the scheme in its current form will not progress. The West Yorkshire Transport Fund has allocated an indicative sum of £34m to York Central (including front of station) but release of funds will be subject to detailed business cases being approved. There is also a risk of the Government funding supporting the overall Transport Fund being reviewed post 2021 and therefore it is important to ensure eligible spend is undertaken before that date. In order to meet external funding obligations spend relating to HIF, WYCA and LEPs will be committed first with EZ borrowing funding later expenditure. This will need to be carefully managed with external funding agencies.

Partnership Working

95. There will be a formally agreed partnership agreement that will determine the working relationship between CYC, Homes England and Network Rail. There are issues that the actions of one partner could impact the costs and revenues of another partner. For example much of the infrastructure will require access onto Network Rail land in order to deliver the bridge and new spine road. CYC will require the land to be clear prior to occupation of the contractor. If the site is not clear at the required time costs will be increased. This will need to be mitigated by close working with partners to understand contractor requirements. It may also lead to delays in delivery as the council waits for clear sites.

Abortive Costs

96. In paragraph18 Members are advised that the abortive costs on the York Central project are currently up to £3,324k if the scheme were not to go ahead. This would need to be written back to revenue and charged back to the accounts. This can be mitigated by using funding from early years EZ revenues (assumed c£900k for 2017/18 and 2018/19) as well as additional Business Rates retention funding (c. £1m) however that will still leave a charge to revenue of over £1m. It is not currently deemed prudent to increase the potentially abortive costs further until HIF funding outcome is announced.

Regulatory Approvals

97. Failure to obtain the necessary regulatory approvals to dispose of land on the site for development or to clear operational railway uses from the site is another significant risk – this could prevent the development of the site in whole or part. Mitigation plans to date include the acquisition and extinguishment of long-term rail industry leases on the site by Network Rail and development of a strategy that identifies relocation sites for the rail uses. In addition, a rail land use strategy for York is being taken forward and it is believed this meets operator needs and Network Rail’s planned capacity

improvement schemes. This issue is being mitigated by Network Rail prior to any infrastructure investment with a clear commitment under the proposed partnership agreement to remove rail uses from the site within a phasing plan, to enable site development.

98. An obvious risk is of failure to secure planning permission – this has been mitigated by early engagement with CYC as local planning authority in the ongoing development plans and engagement of stakeholders and local communities at both concept stage and as detailed plans have emerged.

99. A full risk register has been developed by the YCP and will be regularly reviewed by the project board as the project progresses.

Contact Details

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Ben Murphy Commercial Project Officer	Report approved √ Date 16/11/18

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Wards Affected: Holgate**,** Micklegate

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Annex
Annex 1 – Site Plan

Background Papers:
Previous Executive Reports:

15 November 2017- York Central – Preferred Access Route and Preparation for Planning
15 March 2018 York Central - York Central Access Construction
21June 2018 - York Central Master Plan and Partnership Agreement
30 August 2018 - York Central Update - Western Access

List of Abbreviations

CYC - City of York Council
ECML - East Coast Main Line
EIA - Environmental Impact Assessment
EZ – Enterprise Zone
FAL - Freight Avoiding Lines
HIF - Housing Infrastructure Fund
LCR - Leeds City Region
LEP - Local Economic Partnership
MG - Millennium green
MGT - Millennium Green Trust
MHCLG –Ministry of Housing Communities and Local Government
NRM - National Railway Museum
ONS – Office of National Statistics
WYTF – West Yorkshire Transport Fund
YC - York Central
YCCF - York Central Community Forum
YCP - York Central Partnership