

**Cabinet**

October 9th 2012

Report of the Leader of the Council and the Cabinet Member for Corporate Services

## **Sale of the Hungate site**

### **Summary**

1. This report sets out a proposal to sell the Council's land on the Hungate site in order to bring new jobs into the city and generate a capital receipt.

### **Background**

2. The Hungate site is comprised of the site of the former Peasholme Hostel, Haymarket Car Park and the former Dundas Street Ambulance Station site. A site plan is attached at Annex 1. This site was originally the proposed location of the Council's new headquarters building, until the planning application was withdrawn in July 2008. Since this date the former Peaseholme Hostel and former Dundas Street Ambulance station have been demolished and the Haymarket Car Park has continued to operate. The whole site has been identified for disposal and the anticipated capital receipt is being used to fund the overall capital programme.
3. In December 2011 Cabinet agreed to remove archaeological remains on the site which has enabled the identification of areas where development will be restricted, giving more certainty to developers as to how the site can be developed and thus making the site more saleable.
4. As part of the Masterplan for the broader Hungate development, this site is zoned for employment use. The Council's Asset Management Strategy also sets out the intention to use Council assets to promote the city economy.
5. The site has been independently valued and the assessment of the commercial value of the site is attached as confidential Annex 3.

### **Bids**

6. In the early summer the Council was approached by Hiscox Ltd, an international specialist insurance and reinsurance company who are

expanding their UK operation and are looking to locate their HQ in York. This decision follows a detailed analysis by Hiscox of a number of leading English cities. Their decision to locate in York reflects a close match between the Hiscox brand and the unique cultural social and economic advantages that York possesses. They are very keen to be located in the city centre but there are limited options for the high quality office space that they need. The Hungate site represents the only suitable new build site at the heart of the city centre that provides a location commensurate with their expectations.

7. Hiscox are expanding their worldwide operation and intend to move their UK domestic insurance function to York. The job functions to be performed are likely to comprise underwriters, operations staff, technology specialists, sales and call centre staff. Their initial requirement is for 24,000 sq feet of office space to house 300 staff, the vast majority of which will be new jobs to the city. They also want the potential to increase this capacity to accommodate a further 200 jobs within the next few years.
8. Following detailed investigation of the site, including early discussions with the planning department, we have now received a formal offer for the site from Hiscox's development partner. The Hungate site is larger than required for the Hiscox development and in order to make the whole site commercially viable the proposal submitted includes a 3 \* hotel. It also includes a potential option to expand the office development. If this space for expansion is not needed, the remaining space could be used for a small residential development. The offer is subject to planning permission being granted.
9. Given the developing discussions over the summer the Council has not marketed the site but has received a number of expressions of interest in the site for hotel development. In order to give Members a clear view of the potential maximum value and alternative uses of the site, interested parties were asked to submit offers and this process has culminated in two further bids for the site.

### **Analysis of bids**

10. The bids have been evaluated on both the capital value of the bid and the broader economic impact they will have on the city as a whole. This is based upon a calculation of Gross Value Added (GVA) which is a measure in economics of the value of goods and services produced in an area, industry or sector of an economy. A full analysis of the capital values and GVA impacts of all three bids is set out in confidential Annex 2.

## Bid A

11. Value : This is the lowest capital value bid. It is for a 150 bed 3\* hotel with an identified operator. The three star hotel will meet both an immediate market demand for bed space in the city given the key role of tourism as an economic driver, but also will support the ambition of the city to promote itself as a destination for business tourism in particular. The addition of a hotel of a relatively high quality will make a contribution to the city's overall offer for business tourism and wider tourism. It will provide 100 jobs with £1.32m additional GVA impact per annum by 2015, rising to £1.85m by 2026. Because of the nature of the hotel industry and the skills associated with the industry, the skills of positions created are considered highly transferable and staff likely to move to new jobs as opportunities are made available. As such, the development of new hotel jobs can cause what is called displacement – although the development would offer positive *gross* jobs impact, the *net* jobs impact can be significantly less than the new posts created. Because of the impact of displacement, the net jobs impact is likely to be 51 FTEs.

## Bid B

12. Value : This is the median capital bid. It is for a mixed use high quality office/262 bed 3\* hotel development which will provide employment initially for 400 people (300 jobs with Hiscox and 100 with the hotel though with the same proviso about hotel jobs as above) with potential for expansion to create a further 200 insurance jobs, should Hiscox decide to expand. Of the 300 Hiscox jobs, the expectation is that 80% of these will be new recruits, rather than relocated jobs. This would represent the largest creation of jobs in York since CPP moved here in 2000.
13. The location of 300-500 people with moderate to significant disposable income being located within the city centre would bring a significant boost to the retail and leisure economy. The location of high-end insurance jobs will have a positive impact on the wider supply chain of business surrounding the site with a boost to demand for professional and other services. These so-called “supply chain impacts” can be quantified, and are measured as indirect jobs. Further, as the investment brings both high-skilled and lower-skilled jobs to the city, the investment offers a unique opportunity for residents across the socioeconomic spectrum.
14. The Hiscox development will bring significant, high value employment and GVA impacts to the city. The total impact of the proposal is likely to be £21.70m per annum GVA impact by 2015 rising to £26.78m per annum GVA impact by 2026. Further, the combined investments could lead to a net additional 44 jobs through supply chain impacts.

15. Should Hiscox then decide to expand to 500 jobs as has been indicated as a possibility, the impact could rise to a further 64 indirect jobs, and a further additional GVA impact of £15.19m per annum by 2026.
16. The proposed three star hotel will meet both an immediate market demand for bed space in the city given the key role of tourism as an economic driver, but also will support the ambition of the city to promote itself as a destination for business tourism in particular. The addition of a hotel of a relatively high quality will make a contribution to the city's overall offer for business tourism and wider tourism

### **Bid C**

17. Value :- This is the highest capital value bid. It proposes the development of a 102,420 ft<sup>2</sup> high quality apart-hotel with 176 apartments, offering 60 staff positions and a small 5-10,000ft retail development. This proposal offers 60 direct jobs, but again because of the higher likelihood of displacement, the net jobs impact is likely to be 31 FTEs. This proposal would produce £718,000 per annum GVA impact by 2026.
18. The comparative economic impacts of all 3 bids are set out below

Offer	Use	GVA £'000	Posts created
A	Hotel	1,550	100
B	Office and Hotel	41,970	600
C	Aparthotel & Retail	718	60

### **Other Options**

19. Given the interest expressed in the site to date the Council has the option to actively market the site to drive out the highest possible capital receipt. This exercise would take at least 3 months and there is therefore a risk that Hiscox may go elsewhere and we would lose the opportunity to attract new jobs into the city.
20. The Council could also retain the landholding until property values increase – though this might in the long term create a larger capital receipt there are short term revenue costs of increased borrowing to offset the delay of a capital receipt and it would put a blight on that section of the Hungate site which is so important to the city.

## **Financial Implications**

21. When the land assembly for the prospective Council HQ was undertaken, a nominal value of £3.55m was identified which represented the potential value of the site with planning approval at that time (a high point for property values). At 2 subsequent cabinet meetings Members approved a total of £227k of archaeological investigation and clearance work at the Hungate site to be paid for by the enhancement to the future value of the receipt to be realised. It was noted that if the capital receipt was not realised at an amount to cover the expenditure, potential additional borrowing may be required, subject to a review of the overall capital programme. In total this means that the capital programme assumes a capital receipt of £3.77m for the Hungate site. The £3.77m has already been spent, and is in the short term being financed from short term borrowing.
22. The financing cost of the total current borrowing (the £3.77m) is currently being met from the Councils treasury management budget, prior to the receipt being received. In receiving a lower capital receipt than assumed, there is no immediate additional cost, given the borrowing has in effect already taken place. The capital receipt will actually improve the Councils overall debt position in the short term.
23. There is however a long term cost in not receiving the amount assumed in the capital programme for this land. The extent to which the receipt is below £3.77m will represent the additional level of long term borrowing that will be required, as compared with if the full value assumed in the capital programme had been achieved. . This will result in a revenue cost of approx £90,000 per £1m additional borrowing, in the long term. The capital programme funding will need accordingly to be changed, with prudential borrowing replacing the shortfall in capital receipt. The detailed analysis of the additional costs associated with all 3 bids are set out in Annex 2.
24. If we were to hold on to the site in the long term there would still be short term financial implications as the short term borrowing would continue to be required.

## **Evaluation of Bids**

25. All three offers are attached as confidential Annex 2. An up to date independent valuation of the land has been undertaken. This reflects the significant drop in land values that has taken place over the last 4 years. The variation in value of the bids reflects the differing land uses with hotel use generally leading to higher capital values.

26. Bids B and C both achieve the independent valuation but there is less certainty to the achievability of the higher Bid C as we have not been party to the detailed appraisal. Option B, whilst not the highest capital receipt, delivers by far the largest economic benefit to the city as a whole and creates ten times the number of jobs as Bid C. On that basis is recommended for acceptance.

## **Consultation**

27. Extensive consultation on the overall Hungate Development Brief was undertaken in 1999 and at the beginning of 2005.

## **Corporate Priorities**

28. This proposal will help deliver the Council priority to Create Jobs and Grow the Economy. It is also consistent with the Core capabilities set out in the Council Plan which indicate our intention to use our assets to deliver broader strategic outcomes for the city. If the expansion of the office space does not go ahead then the small level of residential provision also supports the Council's intention to increase the supply of housing in the city to meet demand.

## **Other implications**

- 29.
- a. Human Resources (HR) – None
  - b. Equalities - None
  - c. Legal –  
The Council has an obligation under section 123 of the Local Government Act 1972 not to sell land for less than the best consideration reasonably obtainable without the consent of the Secretary of State. In addition European rules in relation to state aid require land to be sold at market value unless an exemption exists allowing aid to be granted. The Council will therefore need to be satisfied that these obligations are complied with. These considerations are detailed in Annex 4.
  - d. Crime and Disorder - None
  - e. Information Technology None
  - f. Property – Contained within the report

## **Risk Management**

30. If we place the site on the open market to explore the potential for a larger capital receipt there is a significant risk that we will lose the interest of a major inward investor and the additional jobs and GVA that this would bring.

31. If we choose not to sell the Hungate site at this time we will need to refinance the capital programme to accommodate the late capital receipt. We will also lose the opportunity to bring new jobs to the city.

## Recommendations

32. Cabinet are asked to:

- a) Recommend to Council that negotiations are commenced for the sale of the Hungate site to the Hiscox development partner, Bidder 2.

Reason: To promote the economic well being of the City by ensuring the creation of between 400-600 new jobs and realising a capital receipt to fund the capital programme.

- b) That Council delegate authority to the Director of Customer and Business Support Services the power to finalise an agreement for the sale of the land to Bidder at a commercial market value being not less than the figure set out in Annex 2.

Reason: To ensure the effective delivery of the capital programme

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Wards Affected: List wards or tick box to indicate all				
				All
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## **Background Papers:**

### **Annexes**

Annex 1 – Site plan

### **Confidential Annexes**

Annex 2 – Summary of offers for the purchase of the site

Annex 3 - Independent valuers report of the Hungate site – available on-line only

Annex 4 – legal considerations