



Report to: Policy and Resources Committee, 9th February 2021

Report of: Corporate Director – Place and Head of Property and Asset Management

Subject: TOWN CENTRE REGENERATION - ACQUISITION OF STRATEGIC ASSETS

1. Recommendation

That the Committee:

- 1.1 Approves the acquisition of the freehold interest in the Corn Exchange 8/9 Crown Passage on the terms set out in the private report in support of the Council's Future High Street Fund proposals;**
- 1.2 Approves the acquisition of the various property leasehold interests in nos 54, 55 and 56 Foregate Street on the terms set out in the private report in support of The Arches project;**
- 1.3 Delegates authority to the Corporate Director Place, the Corporate Director Finance and Resources and the Deputy Director Governance in consultation with the Chair and Vice Chairs of the Committee to conclude negotiations and enter into all necessary legal agreements to complete the proposed acquisitions.**

2. Background

- 2.1 This report seeks authority to acquire certain assets in the City Centre which support the Council's Future High Streets Fund project and the Arches project. The specific terms of these acquisitions are commercially sensitive and are set out in the exempt report elsewhere on the agenda. The reasons for these acquisitions are set out below.

3. Future High Streets Fund

- 3.1 Members will be aware that the Council's submission to the Future High Streets Fund (FHSF) has been successful and that £17.98m of Government grant funding has been awarded in support of its proposals which will be complemented by £11m of the Council's and other partners' own funding.
- 3.2 The FHSF programme focuses on interventions in the Northern Gateway to the City and seeks to create an urban neighbourhood with a diverse leisure, cultural and residential offering. In doing so, the programme will help to rebalance economic activity, strengthen the links between different parts of the City and fill gaps in current provision. The programme will also support Worcester's recovery from Covid-

19 through increasing the diversification of the city centre and rebalancing the economic profile of the area.

- 3.3 Building on the City Centre Masterplan and targeting the area around Angel Street, Angel Place, the Cross and Trinity House a number of interventions are proposed some of which require strategic property acquisitions to ensure delivery as detailed below.

The Corn Exchange, 8/9 Crown Passage

- 3.4 This report seeks authority to complete the acquisition of the freehold of the Corn Exchange. In the Future High Streets Fund bid this is part of Intervention 1: Scala Theatre and Corn Exchange. The stated objective is: To create a new performance arts venue, offering theatre, music and other events in the former Scala Theatre and Corn Exchange, which will serve as a key attractor in the Northern Gateway area and meet unmet demand.
- 3.5 The purpose of this intervention is to provide a new destination and attraction for the City focussing on performing arts. This will be delivered through the acquisition of the locally listed Scala Theatre, much of which is vacant, and the adjacent vacant Corn Exchange building, which is a Grade 2 Listed building. The creation of the new performance venue will be procured directly by Worcester City Council, working with a delivery partner (development manager), and will secure the future of these prominent buildings. The buildings heritage designations offer the potential to work positively with Historic England to secure high quality re-use.
- 3.6 Negotiations for the acquisition of the Corn Exchange building and the former Scala Theatre started last year. Terms have now been agreed for the acquisition of the Corn Exchange building and these are set out in the report in the private agenda for approval.
- 3.7 Negotiations continue with the owner of the Scala building who is also the controlling interest in the amusement arcade business which occupies the premises. Any agreement of terms will be brought to this Committee for approval in due course.

4. Cultural Development Fund – The Arches

- 4.1 In February 2019 the Department of Culture Media and Sport awarded a grant of £3m administered through the Arts Council towards the Arches project with a further £1.6m to be secured through local contributions. The Arches project aims to regenerate the railway arches from Foregate Street down to the river and create a cultural destination, enhancing the existing creative offer of the city and delivering new festivals and creative industries into the city. The physical regeneration aspects of the project, managed through the project's infrastructure workstream, have been divided into 3 phases:
- Phase 1 – Refurbishment of 5 arches which are subject to an existing lease to the University of Worcester at the rear of the Hive, to offer lettings spaces to creative industries and a performance space, together with associated public realm to open up a pedestrian and cycle route.

- Phase 2 – Refurbishment of 2 arches along Netherton Court to provide further accommodation with associated public realm to open up a pedestrian and cycle route.
- Phase 3 - Demolition of 56 Foregate Street and public realm improvements to open up the proposed pedestrian and cycle route from the City Centre to the River Severn.

54-56 Foregate Street

- 4.2 The implementation of Phase 3 of the infrastructure works will require the acquisition of the leasehold interests in 56 Foregate Street (shown edged in red on the attached plan) in order to demolish the building on the site and achieve the project objective of creating a pedestrian and cycle route into Foregate Street.
- 4.3 The four principal interests involved are the Freeholder (Network Rail), the Head Lessee (The Arch Co), the Head SubLessee (Darvist Ltd) and its tenant in actual occupation of no 56. The freehold interest will obviously remain with Network Rail and the Head Lessee (Arch Co) will retain their leasehold interest. The Council will need to obtain the consent of Network Rail and Arch Co to any subsequent works including the proposed demolition of 56 Foregate Street.
- 4.4 This Committee agreed the following at its meeting in July 2020:-
- a) Authorises the acquisition by the Council of all the necessary leasehold interests and other property rights in 56 Foregate Street in order to be able to implement phase 3 of capital work on the Arches Project, subject to the acquisition costs being fully met from the Arches project budget;
 - b) Delegates authority to the Corporate Director, Finance and Resources, the Corporate Director, Place and the Deputy Director, Governance to complete the legal agreements for the property matter;
 - c) Approves the principle of using Compulsory Purchase powers for the acquisition of the 56 Foregate Street property interests, in the event that this becomes necessary and subject to receiving a further detailed report requesting formal authorisation to the making of a Compulsory Purchase Order.
- 4.5 Following this, terms have been agreed for compensation payable for the acquisition of the tenant's interest in 56 Foregate Street on the basis of the full extinguishment of its hot food takeaway business and this should be completed very shortly.
- 4.6 Negotiations have continued with the owner of the property company Darvist Ltd which is the Head Sub-Lessee. In addition to no 56, the property company's lease includes nos 55 and 54 Foregate Street on the other side of the viaduct as well as three railway arches in between, as shown edged in bold on the attached plan.
- 4.7 Officers are recommending that the Council acquires the whole of the lease rather than an assignment of part only relating to no 56 Foregate Street and a price has been provisionally agreed with the Head Sub-Lessee subject to Committee approval and due diligence. Further details of the proposal are set out in the private report.

5. Preferred Option

- 5.1 The preferred option is for the Council to acquire the legal interests in the properties identified in this report.

6. Alternative Options Considered

- 6.1 Corn Exchange 8/9 Crown Passage - The Council could alternatively delay acquisition or leave it to its delivery partner to secure the necessary interests. However, it is unlikely that there would be significant interest in partnering with the Council if progress has not been made in securing the key strategic assets required for the delivery of the FHSF proposals. Any delay will prejudice the Council's ability to deliver within the FHSF project timescales.
- 6.2 54,55,56 Foregate Street - The Council could seek to take an assignment of part of the lease just relating to no 56 Foregate Street which needs to be demolished. However, this would mean that it would lose the opportunity to manage other parties including the occupants of nos 54 and 55 who have access rights and permissions to park on the land which becomes the through route between Foregate Street and Farrier Street. The Council would also miss out on the opportunity to fit out and manage the viaduct arches newly exposed by the demolition in a manner best suited to the scheme objectives.

7. Implications

7.1 Financial and Budgetary Implications

The acquisition of the key strategic property assets for the FHSF project will be funded by Future High Streets Fund grant.

The Council will use its own resources to fund the acquisition of nos 54, 55 and 56 Foregate Street. Borrowing will be supported by the rental income.

The financial and budgetary implications are explained in more detail in the private report.

7.2 Legal and Governance Implications

The Council has powers under s120 Local Government Act 1972 to acquire land for the purpose of any of its functions or for the benefit, improvement or development of its area . In addition, the Council has a power of general competence under s1-4 Localism Act 2011 to do anything an individual can do, subject to any statutory prohibitions which may be in place. The Council must nevertheless act reasonably in the exercise of these powers, having regard to its overall fiduciary duty.

The Council intends to fund these acquisitions from the Cultural Development Fund and Future High Streets Fund respectively. The Council must ensure that the terms of these funding agreements are complied with, including that grant outputs are delivered, or else there is a risk that grant funding could be clawed back.

HM Treasury has recently updated its rules on the use of Public Works Loan Board funding for the purpose of income generation, property investment and potential development. If PWLB funding is required to support the further development of

these assets, once acquired, then the Council must have regard to the Treasury rules. Any decisions to increase borrowing and make investments must be compatible with the Council's general fiduciary duties in respect of the stewardship of public funds, and specifically the Council must have regard to the Prudential Code and Treasury Management Limits, issued periodically by CIPFA.

In respect of the proposed property acquisitions, full legal due diligence will be undertaken prior to the exchange of contracts so that the rights and liabilities relating to each property are understood.

7.3 Risk Implications

There are a number of risks inherent in all property redevelopment. Until detailed survey information is available and end uses identified, potential costs of redevelopment cannot be relied on. The Council would seek to mitigate these risks by working with experienced developer partners.

Detailed proposals for development of these sites would be subject to further approval by Members through the Council's governance processes.

7.4 Corporate/Policy Implications

These property acquisitions to deliver the FHSF and Cultural Development Fund programmes support key regeneration priorities for the Council also outlined in the City centre masterplan aspirations.

7.5 Equality Implications

No significant implications have been identified in this report

7.6 Human Resources Implications

No significant implications have been identified in this report

7.7 Health and Safety Implications

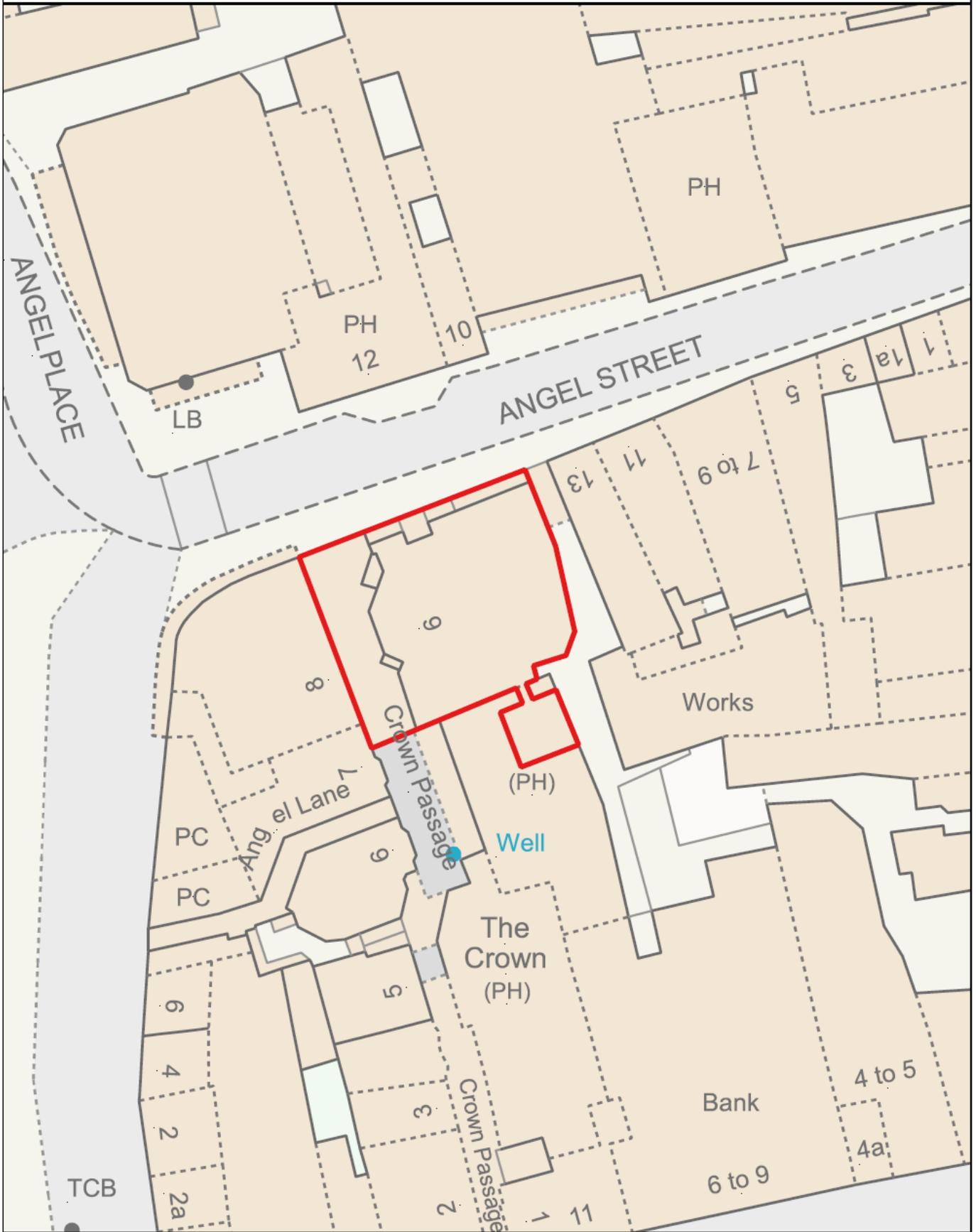
No significant implications have been identified in this report.

7.8 Social, Environmental and Economic Implications

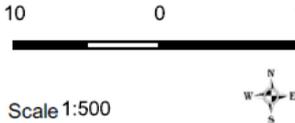
The recommendations in this report will support the Council's regeneration aims for this part of the city centre.

Ward(s): Cathedral
Contact Officer: Kevin Moore Head of Property and Asset Management
01902 722251 kevin.moore@worcester.gov.uk
Background Papers: None

Nos 8-9 Crown Passage Worcester Shown for identification purposes only

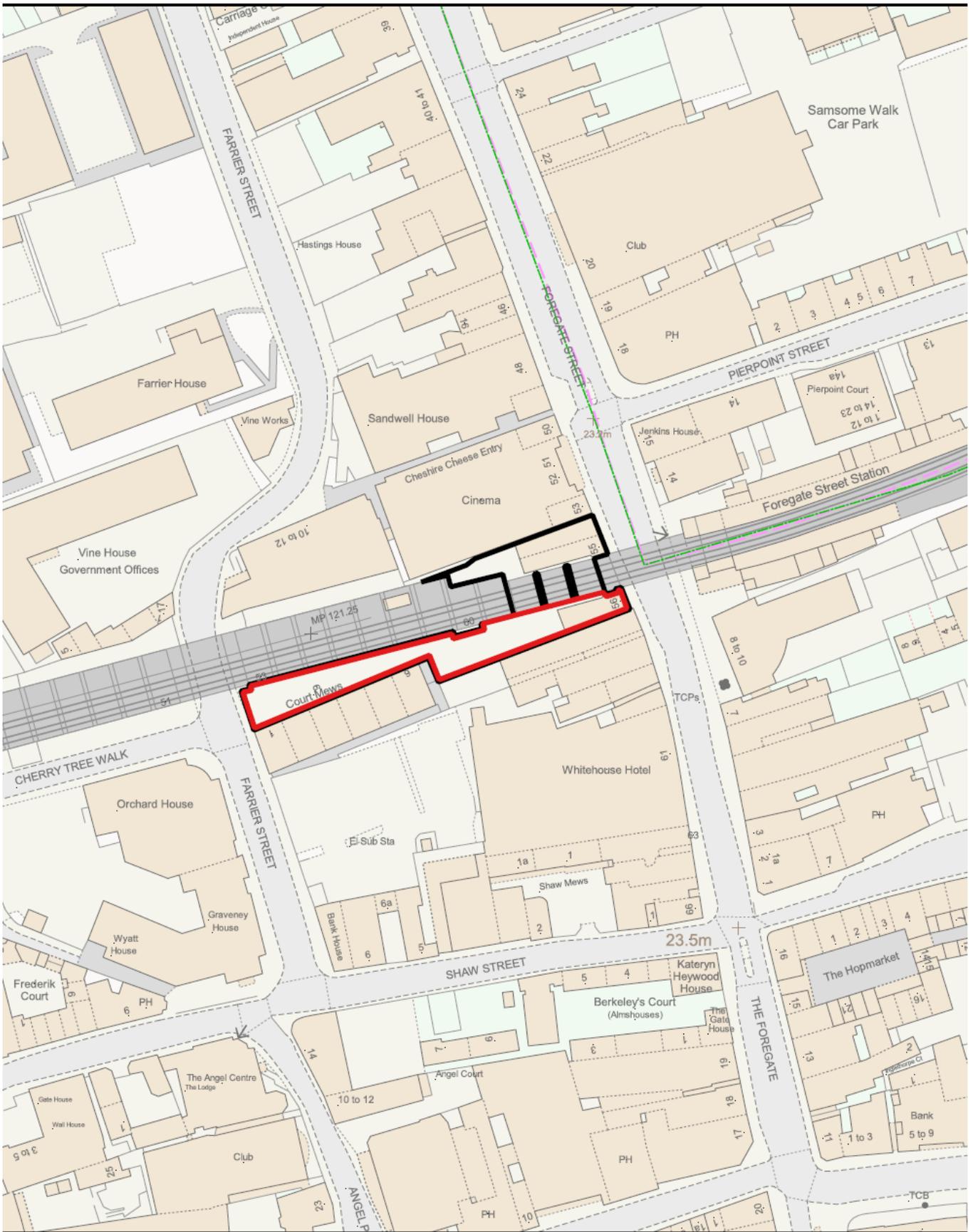


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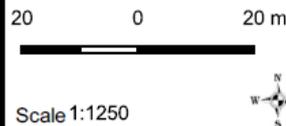


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Nos 54,55 and 56 Foregate Street Worcester Shown for identification purposes only



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