

PERTH AND KINROSS COUNCIL**11 December 2013****PERTH CITY HALL****Report by D Burke, Depute Chief Executive**

This report advises the Council of the outcome of the re-marketing of the City Hall. It also recommends that the Council reject the proposal submitted by Perth City Market Trust. It should be noted that this was the only submission made.

BACKGROUND / MAIN ISSUES

- 1.1 The Council approved an application for planning consent on 16 November 2011 for the creation of a new City Square. The Council also recommended approval of an application for listed building consent for demolition of the City Hall. This application was referred to Historic Scotland as the listed building is in Council ownership, and Scottish Ministers determine applications in these circumstances.
- 1.2 On 2 May 2012, Historic Scotland refused listed building consent on behalf of the Scottish Ministers. This refusal was on the basis that the proposal was contrary to the Scottish Historic Environment Policy (SHEP). Specifically because there was a perceived lack of evidence that:
 - the anticipated benefits for Perth could only be delivered by the demolition of the building and that similar benefits could not be achieved through its retention and conversion; and
 - there was no alternative to demolition following a period of marketing to potential restoring purchasers at a price reflecting its location and condition for a reasonable period.
- 1.3 Historic Scotland, therefore, concluded that the Council had not yet explored all the options that could allow for the re-use of the building or the preservation of elements of special interest. Historic Scotland also noted that not enough evidence had been provided to prove that the demolition of Perth City Hall was essential to deliver the significant benefits predicted.
- 1.4 As this decision could not be appealed, the Council agreed on 27 June 2012 to take action through marketing of the building to demonstrate the viability and wider economic benefits of any proposals, together with details of funding. This course of action would demonstrate whether or not there was any viable use for the building, and whether or not this was consistent with the Council's broader economic development aspirations for the city. Historic Scotland offered to work with the Council throughout the process.

- 1.5 Historic Scotland confirmed that that its principal concern was that there may be options for re-use of the building that had not been fully explored and which might provide the economic regeneration benefits that the Council was seeking for the city centre. The agency was also concerned that the Council's assessment that alternative uses would be unviable without significant public subsidy was based on assumptions made by the Council's consultants, rather than by a direct approach to the market.
- 1.6 Following discussion with Historic Scotland, it was agreed that the building be marketed in a 2 stage process. This was to allow prospective developers to come forward with outline proposals in 3 months and thereafter allow a period of 9 months to demonstrate the commercial and structural viability, and sustainability, of any proposals through a robust and funded business model.
- 1.7 Historic Scotland assisted Council officers to prepare marketing material and offered to advise subsequently on the viability of any proposals on receipt of offers. Jones Lang LaSalle was appointed by the Council to market the building by seeking initial expressions of interest; preparing guidance for assessment of detailed proposals; and assessing any subsequent detailed offers received.
- 1.8 Historic Scotland also agreed that any offers would require to be assessed within the legislative framework provided by the Disposal of Land by Local Authorities (Scotland) Regulations 2010; and specifically against the following criteria:

Proposed Heads of Term

- 1.9 Detailed submissions should include Heads of Terms for a commercial lease of the property and should include details of any suspensive conditions (title, survey etc.) which will form part of the missives of lease.

Proposed Use and Design

- 1.10 Detailed drawings should outline how the City Hall would be converted for the proposed use and demonstrate that account has been taken of the architectural and historic interest of the building. These should indicate the impact which the proposed use and conversion would have on the setting of St John's Kirk and the way in which the proposed use and conversion would relate to, and use, the surrounding public realm. It would be beneficial, given the public interest in the building, if there was evidence of community support for the proposal.

Commercial Viability

- 1.11 A development appraisal would be required which should include key information to allow the commercial viability of the proposal to be assessed. This should include lease terms; redevelopment costs including contingency allowance; finance rates; professional fees; project redevelopment timescales and market evidence of interest in the proposed end use which could include expressions of interest or pre-lets.

Funding

- 1.12 Details of how the project would be funded, and the availability of such funds.

Economic Benefits

- 1.13 An economic viability statement would be required to demonstrate the benefits that the proposal will bring to the economy of Perth and Kinross in relation to resident and visitor expenditure, visitor numbers, and dwell time. Information should be provided to indicate the community support for the proposed use derived from it where a community enterprise was proposed.

Assessment Criteria

- 1.14 The following matrix was to be used to score proposals out of 100:
- Commercial Terms /10
 - Proposed Use and Design /25
 - Commercial Viability /25
 - Funding /20
 - Economic Benefit /20
- 1.15 Stage 1 commenced in August 2012, comprising of an open marketing campaign for 3 months to allow prospective parties to come forward with high level expressions of interest. The opportunity was widely marketed to ensure the opportunity received the widest possible exposure. Marketing initiatives included:
- On site banners
 - Mailshot to JLL's developer database
 - Press advertising – The Herald, The Scotsman and the Courier
 - Website listings
 - Press releases
- 1.16 The Stage 2 Closing Date for Detailed Submissions was 31 October 2013 with only one offer received from the Perth City Market Trust (PCMT).
- 1.17 Bidders were, therefore, given 15 months to research, prepare and submit detailed commercially and structurally viable bids.

Stage 1 – Initial Offers

- 1.18 The Stage 1 Closing Date was 28 November 2012 when parties were invited to submit outline development proposals. Information requested included the identity of the proposed bidder (and background to key parties if the bidder was a consortium), and a brief outline of their development proposal including the proposed uses. Expressions of interest were received from the following parties:

- Perth City Market Trust (PCMT);
- Heritage Solutions (Scotland) Ltd;
- Perth City Centre Partnership;
- Whiteburn Projects; and
- Corryard Developments Ltd.

Stage 2 – Detailed Submissions

- 1.19 Stage 2 of the marketing process commenced in January 2013. All parties who complied with the Stage 1 criteria were invited to participate and progress to Detailed Submissions. 4 parties were invited to progress, with 1 residential developer failing to comply with the requirement to enter into a lease with the Council rather than an outright sale. The assessment process and information requirements, agreed by the Council in conjunction with Historic Scotland, were communicated by Jones Lang LaSalle to all 4 parties at the launch of Stage 2.

PCMT Submission

- 1.20 One bid was received at the closing date of 12 Noon on 31 October 2013. The PCMT Stage 2 Detailed Submission was delivered electronically from Simpson and Brown architects at 10.54am. This did not include the various appendices, nor did it include the legal offer.
- 1.21 A hard copy of the Stage 2 Detailed Submission incorporating a CD containing appendices (proposed scheme drawings, business plan, expenditure and funding etc), accompanied by the full legal offer from Lindsay’s Solicitors, was delivered via courier to Jones Lang LaSalle’s Glasgow office at 12.12pm.
- 1.22 Jones Lang LaSalle advised the Council of the late offer status however in the absence of any other offer and to ensure every avenue was fully explored, the Council agreed to assess the bid.

Assessment of PCMT Submission Against Agreed Criteria

- 1.23 Council officers met with Historic Scotland and Jones Lang LaSalle on 8 November 2013. At this meeting it was agreed that the submission did not adhere to the Stage 2 requirements. Jones Lang LaSalle was, however, instructed to assess the submission relative to the information that was provided and a full copy of their assessment is attached at Appendix 1.
- 1.24 Jones Lang LaSalle has assessed the offer in relation to the agreed criteria and their conclusion is that:

“the deliverability of their concept in terms of the proposed commercial terms, business case and funding arrangements are, in our opinion, lacking in detail and raise significant concerns regarding the ability of PCMT to deliver the project. Through our assessment PCMT have not provided us with sufficient information or evidence to substantiate their claim that they could successfully

redevelop the City Hall as described in their proposal. Therefore, Jones Lang LaSalle are unable to support PCMT's proposal to redevelop Perth City Hall on the basis of a 125 year lease and conclude that through this marketing initiative we have been unable to identify a deliverable, alternative use for this property".

- 1.25 Their assessment against the criteria is outlined in the Recommendations Section of Appendix 1 (pages 19-20) and summarised as follows:

Commercial Terms

- 1.26 Jones Lang LaSalle does not consider the PCMT bid constitutes what could be regarded as commercial Heads of Terms. There is uncertainty regarding the terms of the commencement and operation of the lease. A model style of a Royal Incorporation of Chartered Surveyors (RICS) small business retail lease was attached as evidence in relation to management of sub tenancy Heads of Terms. The operation and management of frequent short term occupation of space could prove burdensome in relation to administration and controlling quality of tenants and offer. There is no indication of how the Trust proposes to manage the building or secure the space around it, as indicated in their bid. This space does not appear to have been included in the Heads of Terms and does not reflect that this is currently managed and operated by the Council and Perth Farmers Market.
- 1.27 Overall Jones Lang LaSalle believes that the Heads of Terms as submitted by the PCMT cannot be regarded as representing best value to the Council.

Score 0/10

Proposed Use and Design

- 1.28 The submission indicates that the City Hall would be converted to accommodate a tourist information and visitor office at the entrance, Market Hall on the ground floor for speciality retailer and food vendors along with function space in the Lesser City Hall; a Skills Hub with small business units to support local enterprise on the first floor; and a gallery and roof top restaurant on the third floor. The drawings that have been submitted outline how the City Hall would be converted for the proposed use and demonstrate along with a supporting conservation statement that account has been taken of the architectural and historic interest of the building. There is more limited information in respect of design in relation to the impact on St John's Kirk and the way in which the proposed use and conversion would relate to the surrounding public realm particularly in respect of ground level issues that require to be addressed and service access. The proposal does however make reference to how the proposed use could complement St John's Kirk in respect of space for functions. There is no evidence of local community support for the use and design or of any formal discussions with the proposed end users of the building.

Score 18/25

Commercial Viability

- 1.29 Jones Lang LaSalle advises that a development appraisal has not been provided to allow the commercial viability of the proposal to be fully assessed against identified criteria as per the request for submission of offers. There is limited detail and inconsistency in respect of lease terms and anticipated values are in excess of current market rates; the proposal is almost wholly reliant on public sector support and subsidy until any income is generated; and there is no evidence of market interest in the proposed end uses in relation to interest or pre-lets.
- 1.30 PCMT forecast the property as generating an annual income of £701,755 per annum, this equating to £50.35 per sq.ft. on the net lettable area. Jones Lang LaSalle's analysis suggests that this is highly optimistic in the context of commercial rents achievable and the likelihood of rental voids, short term lets and poor covenants. The development cost of the project is estimated at £7.6m and Jones Lang LaSalle's analysis of PCMT's figures would suggest their proposals reflect a yield (expected return on the investment) of approximately 8.1%, again highly optimistic. For a development of this nature Jones Lang LaSalle advises that the market would normally anticipate a much higher yield to reflect the risk to the investor and required yields of between 15% and 20% would be more realistic. Applying a yield of 17.5% would suggest the completed development as having a capital value of approximately £3.4m. This reflects poorly against the development cost of £7.6m. The shortfall between development cost (£7.6m) and eventual market value (£3.4m) would suggest a potential public subsidy requirement in excess of £3m to make the investment opportunity attractive to the commercial investment market.

Score 2/25

Commercial Funding

- 1.31 A range of some 35 potential funding sources are listed in the bid. Jones Lang LaSalle advises that there are errors in relation to the potential source and extent of funding available, no evidence of the availability of funds or of any discussion with grant funding bodies provided to allow funding of the proposal to be fully assessed against identified criteria as per the request for submission of offers. In particular, the level of assistance from European Structural Fund (ERDF) and Big Lottery Fund appear inconsistent with eligibility criteria of these awards. The timescale for securing funding and the resources to make applications are not identified but past experience suggests that it could take up to two years to secure some of the identified funding sources with no certainty in relation to the outcome of such bids, given increasing demand and competition.

Score 2/20

Economic Benefits

- 1.32 Jones Lang LaSalle advises that an economic viability statement has not been provided to demonstrate the benefits that the proposal will bring to the economy of Perth and Kinross in relation to resident and visitor expenditure, visitor numbers, and dwell time. Therefore Jones Lang LaSalle could not fully assess the economic impact of the proposal against identified criteria as requested in the submission criteria. Comments and analysis of the current performance and potential opportunities for growth of the food and drink sector nationally are included but there is no assessment of this within a local context or reference to more recent national and local studies on the sector's growth. No evidence or surveys have been undertaken in relation to potential resident and visitor market catchment, spend or dwell time. Evidence of support has been provided in respect of comments from national market bodies; and a statement and letter of objection to the proposed City Square has been included as evidence of support from the Prince's Regeneration Trust. However this does not relate directly to the content of the submission. JLL advises there is no evidence of local community support or support from Visit Scotland and local interested parties, most notably Perth Farmer's Park or Tayside Food and Drink Forum.

Score 5/20

- 1.33 The total score is assessed by Jones Lang LaSalle as being **27/100**.

2. PROPOSALS

- 2.1 Jones Lang LaSalle's analysis concludes that the marketing exercise, the submission received, and the assessment provided, confirm that there is no market solution and that alternative uses would be unviable without significant public subsidy supporting previous assessments undertaken by the Council. The previous assessment of options by the Council indicated that only conversion for cultural use of the building had the potential to generate a social and economic benefit, but that this would require initial and ongoing public subsidy.
- 2.2 In addition, the Council needs to consider the submission by PCMT in relation to the proposed design and use of the building through the planning process in the context of the policies contained within the Local Development Plan. Historic Scotland would then have to consider these on behalf of Scottish Ministers in relation to their impact on the architectural and historic interest of the building, given their role as the determining body in respect of listed building application process as a consequence of the Council's ownership.
- 2.3 Regardless of any consideration through the planning process, the Council is also required to fulfil its statutory duties under Best Value as set out in Section 1 of the local Government in Scotland Act 2003; and to comply with the requirements of the Disposal of Land by Local Authorities (Scotland) Regulations 2010 in relation to consideration of the submission by PCMT. This would allow the Council either to accept the offer enabling PCMT to acquire an interest in the building and undertake its conversion, subject to agreement through the planning process, or to reject the offer and re-consider alternatives.

- 2.4 The assessment of PCMT's submission by Jones Lang LaSalle indicates that there is insufficient evidence to demonstrate a case that the Council could dispose of the property to secure best value due to the lack of information providing evidence to confirm potential social, economic and environmental benefits. Furthermore the offer does not demonstrate best consideration due to the lack of information in relation to heads of terms, rent and development values that would be generated through the proposed development.
- 2.5 The Council previously indicated that it was not, on the basis of best value, prepared to put resources into the conversion of the building but rather invest in its demolition and the creation of a city square. An extant planning consent exists for this proposal but the Council would need to re-submit an application for listed building consent for demolition of the building. The Council would also be required to justify this against SHEP policy criteria in respect of re-marketing of the building, demonstrating there was no viable re-use and that greatest social and economic benefits would be created by the creation of a city square
- 2.6 It is proposed on the basis of the above that the Council reject the submission by PCMT and instruct the Executive Director (Environment) to resubmit an application for demolition of the building for determination by Scottish Ministers.

3. RECOMMENDATIONS

- 3.1 In summary following a 15 month period of marketing and time for the development of bids, only one submission was received. This submission reflects ambitions to grow the retail sale of local food produce as part of a mixed use development incorporating space for additional community enterprises and cultural use through conversion of the building. However, the conclusion to be drawn from Jones Lang LaSalle's analysis of the bid is that there is no clarity in relation to the legal offer, no evidence of support or commitment from any of those targeted to occupy space, nor any evidence of dialogue or support from any of the potential funding partners.
- 3.2 It is therefore recommended the Council:
- (i) Note the advice received by Jones Lang LaSalle in respect of offer submitted by Perth City Market Trust.
 - (ii) Reject the offer by Perth City Market Trust on the basis of insufficient supporting information in respect of the Heads of Term, commercial viability, funding and economic benefits as required in relation to the submission criteria.
 - (iii) Instruct the Executive Director (Environment) to resubmit an application for demolition of the building for determination by Scottish Ministers.

Author

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Approved

Name	Designation	Date
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1. IMPLICATIONS, ASSESSMENTS, CONSULTATION AND COMMUNICATION

Strategic Implications	Yes / None
Community Plan / Single Outcome Agreement	YES
Corporate Plan	YES
Resource Implications	
Financial	YES
Workforce	YES
Asset Management (land, property, IST)	YES
Assessments	
Equality Impact Assessment	YES
Strategic Environmental Assessment	YES
Sustainability (community, economic, environmental)	YES
Legal and Governance	YES
Risk	YES
Consultation	
Internal	YES
External	YES
Communication	
Communications Plan	YES

1. Strategic Implications

Community Plan / Single Outcome Agreement

- 1.1 The rejection of the offer and recommendations will have no impact on the delivery of the Perth and Kinross Community Plan aim for a vibrant and successful area as existing commitments and potential alternative investment in the city centre are provided for.

Corporate Plan

- 1.2 The Council's Corporate Plan 2013 – 2018 lays out five outcome focussed strategic objectives which provide clear strategic direction, inform decisions at a corporate and service level and shape resources allocation. They are as follows:
- i) Giving every child the best start in life
 - ii) Developing educated, responsible and informed citizens
 - iii) Promoting a prosperous, inclusive and sustainable economy
 - iv) Supporting people to lead independent, healthy and active lives
 - v) Creating a safe and sustainable place for future generations.

1.3 This report relates to iii) above.

2. Resource Implications

Financial

Revenue

2.1 The Head of Finance has been consulted in the preparation of this report. The recommendation requires the provision of revenue resources in relation to the submission of a revised application for listed building consent but this can be accommodated within the Environment Service revenue budget. Existing revenue for building maintenance will be required until there is any agreement on the future of the building

Capital

2.2 There are no immediate capital implications arising from the recommendation of the report but the Council would need to utilise approved capital budget allocations for investment in the city centre should it secure consent for the development of a city square.

Asset Management (land, property, IT)

2.3 The Corporate Asset Management Team have been consulted and have indicated agreement with the proposals.

2.4 This proposal should have a positive impact on land assets, reducing current repairs and maintenance on the site and providing for future income derived from operation of the space and best value to the local economy.

3. Assessments

Equality Impact Assessment

3.1 Under the Equality Act 2010, the Council is required to eliminate discrimination, advance equality of opportunity, and foster good relations between equality groups. Carrying out Equality Impact Assessments for plans and policies allows the Council to demonstrate that it is meeting these duties.

3.2 This section should reflect that the proposals have been considered under the Corporate Equalities Impact Assessment process (EqIA) with the following outcome:

(i) Assessed as **not relevant** for the purposes of EqIA

Strategic Environmental Assessment

- 3.3 The Environmental Assessment (Scotland) Act 2005 places a duty on the Council to identify and assess the environmental consequences of its proposals and no further action is required as it does not qualify as a PPS as defined by the Act and is therefore exempt.

Sustainability

- 3.4 Under the provisions of the Local Government in Scotland Act 2003 the Council has to discharge its duties in a way which contributes to the achievement of sustainable development. In terms of the Climate Change Act, the Council has a general duty to demonstrate its commitment to sustainability and the community, environmental and economic impacts of its actions.

Legal and Governance

- 3.5 Officers from Legal Services have participated in officer working groups and in meetings with Historic Scotland.
- 3.6 Legal Services have advised throughout on the legal implications of the proposal, including the requirements of the Disposal Regulations referred to in this Report and the duty to achieve Best Value.

Risk

- 3.7 The main risks to the Council relates to potential challenge from PCMT regarding the decision to reject their offer, reputational risk from media coverage and public comment and failure to secure consent to progress the creation of a city square.
- 3.8 In the event of any challenge the Council will need to defend its decision based on the evidence provided via its agents and legal duties in respect of best value. A communications strategy is required to manage public relations responses.

4. Consultation

Internal

- 4.1 The Executive Director (Education & Children's Services), the Head of Finance and the Head of Legal Services have been consulted in the preparation of this report.

External

- 4.2 Historic Scotland have been consulted in relation to JLLs advice to the council which informs the content of this report.

5. Communications

- 5.1 A communications strategy is being developed and external consultants appointed to engage with the media.

2. BACKGROUND PAPERS

The following background papers, as defined by Section 50D of the Local Government (Scotland) Act 1973 (and not containing confidential or exempt information) were relied on to a material extent in preparing the above Report:

- (i) Perth & Kinross Council, Perth City Hall, 16 June 2010 (10/340)
- (ii) Development Control Committee, 16 November 2011 ((11/01082/FLL);
- (iii) Development Control Committee, 16 November 2011 (11/ 01083/LBC)
- (iv) Historic Scotland letter of 9 May 2012 and Report of Handling

3. APPENDICES

Appendix 1 -Assessment of Bid Received, Jones Lang La Salle, November 2013



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Stage 2 Closing Date: Detailed Submissions
Assessment of Bid Received

November 2013

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1 Introduction

Jones Lang LaSalle (JLL) are appointed by Perth and Kinross Council (PKC) as Property and Marketing Advisors for Perth City Hall.

Instructed in Summer 2012, our remit was to openly market the City Hall (on a long lease hold basis) , testing the market to establish whether there is a commercial organisation who can produce a credible and financially deliverable business case to take on the redevelopment of this strategically important asset.

A comprehensive two stage marketing process has been undertaken, and detailed submissions were invited at the Stage 2 Closing Date on 31st October 2013. As outlined in this report, one submission was received from Perth City Market Trust (PCMT) at the Closing Date.

The purpose of this paper is to review the submission received and provide guidance to PKC on the appropriateness and deliverability of the proposal, based on the information received at the closing date.

The report is set out as follows:

Section 2 provides a summary of the marketing process which has been undertaken. An overview is provided on the agreed Assessment Criteria which was issued to parties prior to the Stage 2 Closing Date.

Section 3 outlines the bid received at closing date, and makes reference to the other parties who decided to withdraw interest prior the Stage 2 Closing Date.

Section 4 examines the Commercial Terms presented within the PCMT proposal.

Section 5 considers PCMT's Proposed Use and Design of the building

Section 6 assesses the Commercial Funding associated with the PCMT bid

Section 7 examines the Commercial Viability of the PCMT proposal

Section 8 provides commentary on the Economic Benefits associated with PCMT's proposed use; and

Section 9 concludes with the JLL recommendations to PKC

2 Marketing Process

2.1 Summary of Marketing Process

Marketing of the property comprised of 2 stages:

2.1.1 Stage 1 – Open Marketing Campaign and expressions of interest

Stage 1 commenced on 28th August 2012, comprising of an open marketing campaign for a period of time to allow prospective parties to come forward with high level expressions of interest. The opportunity was marketed on the open market with a range of initiatives to ensure the opportunity received the widest possible market exposure. Initiatives included:

- Market brochure;
- On site marketing banners;
- Mailshot to JLL developer database;
- Press Advertising – The Herald, The Scotsman and the Courier;
- Website listings;
- Press Releases;

The Stage 1 Closing Date was held on 28th November 2013 when parties were invited to submit outline development proposals. Information requested included the identity of the proposed bidder (and background to key parties if the bidder is a consortium), and a brief outline of their proposed development proposal including intended uses.

Expressions of interest were received from the following parties:

- Perth City Market Trust;
- Heritage Solutions (Scotland) Ltd;
- Perth City Centre Partnership;
- Whiteburn Projects; and
- Corryard Developments Ltd.

Appendix 1 provides a summary schedule of all expressions of interest received, including proposed uses.

2.1.2 Stage 2 – Detailed Submissions

Stage 2 of the marketing process commenced on 31st January 2013. All parties who submitted outline development proposals at Stage 1 were invited to participate and progress to Detailed Submissions. The assessment process was agreed by PKC in conjunction with Historic Scotland, and JLL conveyed information requirements to all parties at the launch of Stage 2.

As per standard closing date procedures, correspondence from JLL stated *“PKC reserves the right not to accept the highest or indeed any offer received in respect of this property”*.

The Stage 2 Closing Date for Detailed Submissions took place on 31st October 2013.

2.2 Stage 2 Assessment Criteria

The following Assessment Criteria was agreed with PKC in order to score proposals received. All parties were informed of the Assessment Criteria and weighting:

Criteria	Score out of 100
Commercial Terms	/10
Proposed Use and Design	/25
Commercial Viability	/25
Funding	/20
Economic Benefit	/20

The purpose of the scoring criteria was to form a basis for the assessment of offers, allowing submissions to be evaluated and compared against each other.

3 Stage 2 Detailed Submission: Bid Received

The Stage 2 Closing Date for Detailed Submissions took place on 31st October 2013.

Out of the 4 parties who were invited to participate in the Stage 2 process, only one party, PCMT participated in the Stage 2 Closing, with the remaining parties each withdrawing their interest prior to the closing date.

3.1 Withdrawn Interests

- **Corryard Developments** - Confirmed in writing 20th February and 18th February – only interested in heritable purchase, with no ability to enter into a long lease.
- **Whiteburn Developments** - Confirmed via email 30th October – too many other opportunities at present therefore unable to incur time on the City Hall.
- **Heritage Solutions** - Confirmed verbally via phone call 10.14am 31st October to JLL. Heritage Solutions advised that a draft response had been drafted however due to the scale of the proposal, and number of stakeholders involved, the submission was not ready in final form for submission.
- **Perth City Centre Campaign** – No further correspondence received from PCCT during Stage 2 marketing.

3.2 PCMT Submission

The PCMT 'Stage 2 Detailed Submission' was received electronically from Simpson and Brown architects at 10.54am. This did not include the various appendices, nor did it include the legal offer.

Thereafter, at 12.12pm (after the closing date at 12 noon) a hard copy of the 'Stage 2 Detailed Submission' incorporating a CD containing appendices (proposed scheme drawings, business plan, expenditure and funding etc.), accompanied by the full legal offer from Lindsay's Solicitors, was delivered via Courier to JLL offices at 12.12pm.

JLL advised PKC of the late offer status, and upon confirmation from the Council, advised PCMT that PKC would examine the offer received within the requested information requirements and assessment criteria previously outlined.

3.3 PCMT Background

PCMT is constituted as a company limited by guarantee. We are being advised that charitable status is being sought. PCMT's objectives include:

- Conservation of the Category B-listed Perth City Hall and its conversion into a Market Hall
- The promotion of Perth as a centre for the marketing of locally-produced food and quality produce from across Scotland
- The economic regeneration and the conservation of other historic buildings in Perth City Centre.

PCMT intends that the proposed market should be operated and managed by a non-charitable trading subsidiary company.

PCMT has gained support of the Prince's Regeneration Trust (PRT) and the Prince's Foundation, and this support is evident throughout the PCMT Submission.

The proposal is to convert the City Hall into Perth City market – a 'Market Hall in a Market Square'. This follows an established European Model, with UK examples of this type of market including Bury, Leeds, Swansea, Belfast and Cork.

The proposal is to initially operate the Market Hall 3 days per week.

4 Commercial Terms

4.1 JLL Stage 2 Information Requirements

Bidders were required to include Heads of Terms for a commercial lease of the property and were requested to include details of any suspensive conditions (title, survey. etc.) which will form part of the missives of the lease.

4.2 PCMT Submission

The proposed high level commercial terms are provided by PCMT's legal advisors, Lindsays. A summary of terms received is provided below:

Tenant: Perth City Market Trust

Subjects: Perth City Hall

DOE: To be confirmed

Missives: Offer subject to binding missives.

General Proposal: Assumption that PCMT will seek the involvement of PKC to enable the viability of the proposal.

Lease Term: 125 years

Longstop date for certification of practical completion: 3 years from DOE

Suspensive Conditions: Full Planning consent, Listed Building Consent, and "any other matters which may arise in the course of negotiations" such as environmental works and management, basis of assessment for business rates etc.

Ground Lease:

A certified statement of account (outlining the total annual rental income received) will be presented by PCMT upon expiry of the third year and sixth year (presumed to be 3 & 6 years respectively following completion).

The difference between that figure and the corresponding figure from the third year will be calculated and one quarter of that uplift will be considered the ground rent payable per annum over the ensuing three years.

This process of accounting and consolidation will be repeated at the end of the ninth and twelfth years and so forth at three-yearly intervals.

4.3 Assessment

The lease Heads of Terms submitted at the Stage 2 Closing Date by PCMT requires further clarification and negotiation. PCMT are proposing to enter into a 125 year lease with PKC assuming an initial rental income of £1 for validity of the lease. The primary suspensive conditions are noted as being the approval of Planning Permission and Listed Building Consent ; however, the offer notes that it may make other matters suspensive as other matters arise. This may or may not include:-

- Environmental works and management; and
- The assessment of business rates.

PCMT are offering a rental income after year 6 based on 25% of the difference between the net income of Perth City Hall in Year 6 and Year 3. The net income is noted as being less of management fees and service costs. These costs are not specified. In the event that the Year 6 rent is less than Year 3 the income will be negative and it is not clear how they would deal with such a scenario. It is presumed it would be held at £1.

Notwithstanding this uncertainty, there is no supporting information to substantiate what rental income PKC might expect to earn from entering into this 125 year lease other than a £1, if asked. PCMT note in their submission that we (PKC and JLL) should factor in the economic value of the project. However, this is also unspecified in the submission.

The Business Case which supports the submission contains a market overview of food and drink occupiers who could be interested in this type of space. However, having reviewed this part of the submission we find that the assessment of the food and drink sector is largely generic to Scotland rather than specific to Perth and the City Hall.

Reference is made to the Farmers Market in Section 4.2 which is quoted as being the type of interest that could be “scaled up”. Reference is made to being able to accommodate a market twice the size of the existing market in Section 4.2 of the Business Case. However, we note that there is no evidence of support from the Farmers Market despite other organisations lending their support.

The lease Heads of Terms attached in the PCMT submission do not constitute what we would normally expect at a closing date and is more an invitation to enter into a negotiation. This requires further information and clarification before we would be in a position to make a recommendation on whether this represented best value to PKC or not.

5 Proposed Use & Design

5.1 JLL Stage 2 Information Requirements

Bidders were required to provide detailed drawings to outline how the City Hall would be converted for the proposed use and demonstrate that account has been taken of the architectural and historic interest of the building, the impact which the proposed use and conversion would have on the setting of St John's Kirk, and the way in which the proposed use and conversion would relate to the surrounding public realm.

Bidders were also advised that it would be beneficial, given the public interest in the building, if they could provide evidence of community support for their proposal.

5.2 Submission

5.2.1 PCMT's Vision

PCMT's vision is to create 'A Market Hall in a Market Square', a resource and a destination for local people, shoppers, visitors and entrepreneurs alike as the basis of a new Market Quarter in the City Centre. The concept is that following alterations to the building, the Perth City Market will become a unique "inside / outside" environment, permeable to visitors from all the surrounding streets. There will be easy passage from the enclosed internal hall to the surrounding streets, where open air stalls will also be encouraged.

5.2.2 Proposed Uses

The submission provides detailed description and breakdown of uses which would be proposed within the interior of the City Hall. In summary proposals include:

Ground Floor:

Entrance Hall - The entrance hall will provide the main approach to the market, accommodating a tourist information office and visitor centre.

The Market Hall – This main 'hall area' will comprise the proposed market stalls (food retail). To ensure flexible use of space, this area may also accommodate other types of events including music, theatre and community facilities.

East and West Rows – Four larger market units will be created on the north and south facades of the building.

Lesser Hall - The Lesser Hall will accommodate various functions and events, including dances, antique & collectors' fairs, food events and wedding receptions. The hall will be accessible both from the main Market Hall and from a new formal entrance opposite St John's Kirk.

Upper Floors:

Two upper floors overlooking the central Market Hall will be created at the original gallery and roof levels.

First Floor level– Set over the existing gallery, this area will provide new gallery and exhibition space and allowing access to a number of small business units within the existing corridors.

Second Floor level – The second floor will accommodate a new gallery, café and rooftop restaurant with access to the roof terraces and views over the city.

5.2.3 Proposed Building Alterations

Simpson & Brown Conservation Architects have provided detailed, comprehensive drawings which illustrate the alterations which would be proposed to the building to facilitate the proposed vision.

Proposals seek to lower the existing suspended ground floor to the level of the surrounding streets and to form an internal pavement through the ground floor. It is also proposed to create multiple openings and doorways to the exterior, making it permeable, welcome and open to the streets on all sides.

The proposal also envisages the reduction of the level of the pavement between the City Hall and St John's Kirk up to the level of the Kirk entrance, allowing the Kirk's original proportions to be seen and creating stronger links between the two buildings.

A comprehensive Conservation Statement is contained within the Submission and demonstrates the analysis of the individual elements of the building. In depth detail is provided with a historical overview, setting of urban context and assessment of cultural significance of the property.

5.3 Assessment

The Perth Central Area Local Plan encourages the restoration and sympathetic conversion of Listed Buildings consistent with national guidance contained in Scottish Historic Environment Policy. The City Hall is situated in an area zoned for retailing and restaurant uses. However the Development Plan also identifies the City Hall as a Proposal site (P15. St John's Square) whereby it states:

“Consideration will be given to the creation of a major new civic space through the removal and relocation of the City Halls in addition to pedestrian and environmental improvement in St John's Place, South St, St John's Place and King Edward Street”.

The uses proposed by PCMT, outlined in section 5.2 conforms with Development Plan Policy and demonstrates a full reuse of the listed building.

PCMT has demonstrated a proposal which would sympathetically deal with the conservation of a listed building, with no requirement to partially demolish any areas, nor does it comprise a façade retention scheme.

Given the nature of the proposed use practical issues of servicing the development and the impact this would have on the surrounding environment would need to be taken into consideration at an appropriate stage should this proposal be taken forward.

Given the subjective nature of design, it is inappropriate for JLL to comment in detail other than recognising the retention and reuse of this property. However, it should be noted that the Conservation Statement has been prepared with ongoing dialogue with Historic Scotland and the Conservation Team at PKC. JLL met with PCMT, Historic Scotland, and PKC during the Stage 2 process and it was apparent that the proposals (in principal) were met positively by Historic Scotland.

6 PCMT Commercial Funding

6.1 JLL Stage 2 Information Requirements

To enable an assessment of parties ability to finance proposals, bidding parties were requested to provide details of how they would propose to fund this project and confirmation that such funds were available.

6.2 Submission

The Submission confirms that the PCMT proposal is dependent upon substantial funding; however there is no evidence to confirm that funding is in place.

PCMT have advised that they consider the Trust to be an ideal candidate for grant funding, and note the prospects of securing such funding.

An overview of the potential funding sources is provided, along with grant application procedures, timescales and levels of funding which may be obtained from various sources.

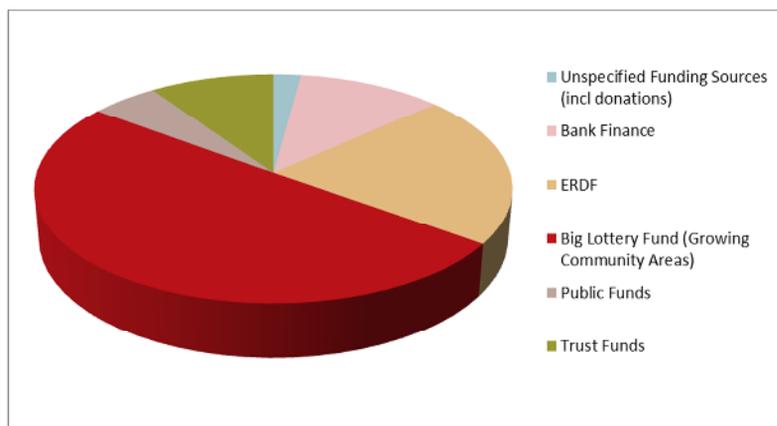
The following potential funding sources are examined within the submission:

- Heritage Lottery Fund;
- Heritage Lottery Partnerships ;
- European Structural Funds Programmes;
- Big Lottery;
- Historic Scotland;
- Trusts and Foundations;
- Crowd Funding;
- Community Shares;

PCMT has provided a breakdown of targeted funding sources and anticipated grant incomes from each source. Appendix 2 provides a copy of the funding projections proposed by PCMT in order to cover the total expenditure of the project. Note, there is no evidence that PCMT has secured, or obtained any level of commitment from any of the funding sources targeted.

6.3 Assessment

As noted above, Appendix 2 contains a breakdown on how the project will be funded if PCMT are given the opportunity to redevelop Perth City Hall. We have summarised the data within Appendix 2 in Figure 1 below.



As can be seen from this, PCMT have not raised any capital for this venture and the success of the project is dependent on a mix of funding sources including Lottery grant funds, European Structural Funds, bank finance, public funds, trust funds and an element which is unspecified.

Whilst a list of funding sources has been named, PCMT have not included any evidence or letters of support from these parties to say that this money would be available for this type of project. Furthermore, given the noted support from the Princes Regeneration Trust and the Princes Foundation, there is no evidence of any committed funding guarantees within the documentation (and the most recent evidence of direct correspondence from the Prince's Foundation – unrelated to funding – dates back to December 2011).

A funding target has been set at £7m; however this does not appear to include project contingency or running costs of PCMT.

Based upon the £7m target, the largest funding component (50%) of the required funds are to be raised through the Big Lottery Fund (Growing Community Assets).

The Big Lottery Fund Growing Community Assets contains guidance for these types of grants and in the first instance we note that in Scotland the funding size for these projects is given as a range of £10,000 - £1m. PCMT have not provided any information or evidence why they believe this project would merit such a significant departure from this range of funding.

The Technical Notes which accompany the application for this type of grant contains a supplementary note on "Land and Building Application Guidance" (for use in Scotland only) under the heading "Issues to Consider Before Making an Application" The Big Lottery Fund states in Section 1.1.5 "*with regard to Growing Community Assets the experience we have in funding asset development tells us that **community ownership** of an asset is likely to lead to the outcomes that we want to achieve. By having complete control of the assets through ownership **rather than the leasehold**, community have the power to make the changes that would benefit their community in the longer term*". Clearly in this case what is being offered is a lease of the property which in our view brings into question the suitability of this type of funding for such a project. A copy of this document is provided in Appendix 3.

Further funding assistance is anticipated from the European Structural Fund (ERDF). Funding for 2014 – 2020 is yet to be announced, therefore for the purposes of this assessment no certainty can be placed on securing funding from ERDF.

If we include the unspecified aspect of the funding source with the amount to be borrowed through a traditional bank loan then these equate to approximately 13% of the build project. We note that the cost of servicing this size of loan is not included in the Business Plan, which accompanies PCMT's submission.

Given our experience of working with clients who are trying to secure bank funding for commercial and residential led developments we do not believe, that as it is currently presented, a project of this nature would be commercially fundable. Would a funder be prepared to lend money with no real security of income from the leasehold interests and an inability to securitise the loan against the heritable interest of the City Hall?

These concerns raise significant doubts on the fundability of the project and PCMT have not in our opinion provided sufficient evidence that they could raise the level of funds they have targeted to complete the redevelopment of the project and achieve the objectives set within their business case.

7 PCMT Commercial Viability

7.1 JLL Stage 2 Information Requirements

To enable an assessment to be made, bidders were requested to provide the following information:

- Details of the assumptions used in their development appraisal. This would enable JLL to compile a shadow development appraisal to assess the commercial viability of each proposal;
- Lease terms to the proposed end user;
- Redevelopment costs including contingency allowance;
- Finance rates;
- Professional fees;
- Project redevelopment timescales.
- Market evidence for proposed end use. This could include expressions of interest or pre-lets.

7.2 Submission

7.2.1 Assumptions Provided

PCMT has provided a series of assumptions throughout their Submission. JLL have collated the key assumptions contained within their documentation:

- Floor areas: Gross Floor area 26,444 sq ft / Net lettable floor space 13,937 sq ft *The calculations on floorspace contained within the Submission document contradict figures used within the appraisals contained within the Business Plan (22,393 sq ft);
- Construction costs based on BCIS;
- Values as projected to 2015 (no reference to method of indexation used);
- Ground conditions “not normal” and have accommodated within the cost;
- Environmental improvement works to the streetscape are undertaken;
- No remedial decontamination is required;
- Aggregate professional fees on construction are assumed to be 13%;
- Town Planning and Survey Fees assumed;
- Demolition costs have been assumed to be nil on this option;
- Legal and agent fees on acquisition fixed at £15,000 and £25,000;
- No SDLT / Finance costs on acquisition are produced by a £0 land value;
- No statutory Local Authority fees *despite a figure of £15,000 noted within the Indicative Cost Summary contained within Appendix 1 of the PCMT Submission;
- Contingency 10%;
- No additional streetscape works other than those required for development;
- Interest has been included at 4.5% on the heritage deficit loan over a 5 year term;

7.2.2 Redevelopment Costs

PCMT confirm the total project budget £5,904,000 (with additional provision for Planning & Statutory fees of £15,000 and professional fees of £754,520). Total development costs, projected to 2015 are £7,007,196

An indicative cost estimate has been prepared by Cost Consultants, Morham and Brochie. This outlines the required works which are proposed, and provides summarised costs figures per are of building. No breakdown of cost calculations has been provided to illustrate how costs have been reached.

7.2.3 Lease terms with proposed user

PCMT has confirmed that it will grant a standard Full Repairing and Insuring (FRI) lease to Perth City Market Trading Ltd with a relaxed alienation clause that allows for sub-letting in part of the building.

Perth City Market Trading Ltd will then grant appropriate sub-leases to tenants on the following basis:

Market Stalls / Area G1 based on daily rates per stall with rates inclusive of heating, lighting, power and use of communal facilities.

Short Term Licenses / Area G7-G14 based on monthly license agreements whereby the license fee is a fixed cost based on rent and services.

Standard Retail Lease / 1 year + / Area G1-G6 based on the new RICS small business retail lease.

Standard Retail Lease / 5-10 years / Area S1-S4 based on a standard FRI commercial lease. PCMT would propose to base rent to be 75-80% of the full open market rent and the % over gross turnover (net of VAT).

Standard Serviced accommodation License / 1 year / Area F1-F10 based on 6 monthly license agreements whereby the license fee is a fixed cost based on rent and services.

PCMT has assumed the following Daily Rental Rates within the Business Plan calculations:

- Central Courtyard: Main Market £20/day;
- Central Courtyard: Farmers Market £35/day;
- Central Courtyard: Other Events £150/day;
- Lesser Hall: Saturday £500/day;
- Lesser Hall: Weekdays £100/day;
- Lesser Hall: Evenings £150/day ;

There is no evidence to demonstrate or justify the proposed rental levels, comparisons to other trading Market Halls, nor is there any evidence of support within the market place on the proposed rental levels.

The RICS Small Business Retail Lease Heads of Terms template is contained within the Submission. PCMT are proposing to utilise this as a framework for leases within the City Hall.

7.2.4 Project redevelopment timescales.

PCMT has allowed for a Provisional Programme of 3 years 7 months from sourcing funding to completion. Appendix 12 of the PCMT Submission sets out the following provisional programme for redevelopment:

Feb 2014 – April 2014 (3 months) Initial Funding sourced (but ongoing)

May 2014 – end July 2014 (3 months) Design Development

Aug 2014 – end 2014 (4 months) Technical Design

Jan 2015 – end April 2015 (4 months) Production Information

May 2015 – end Aug 2015 (4 months) Billing & Tender

Sept 2015 – end Nov 2016 (14 months) Mobilisation & construction

Dec 2016 – Dec 2017 (12 months including 3 months fit out) Fit out / End of Defects period / Completion

7.2.5 Market evidence for proposed end users

PCMT confirms that a consultation exercise is ongoing and is being co-ordinated by the Prince's Regeneration Trust in respect of market traders and potential occupiers. Appendix 9 lists the various organisations (11 to date) and producers (63 to date) who have provided support to the proposals.

The Submission does not provide detail on expressions of interest or any pre-lets which may have been achieved.

7.3 Assessment

In the invitation to participate in Stage 2 we requested that interested parties should submit information to allow us to assess the commercial viability of the proposal to ensure that the Council were receiving fair and reasonable terms for the lease as well as testing the appropriateness of the assumption's being used by individual parties.

PCMT have not submitted a development appraisal. However, we have extracted information from the PCMT submission to allow us to prepare out an appraisal:

- a) The property is transfer at nil value;
- b) The development is largely funded through third party grants and other donations; and,
- c) It is not a commercial development; hence profit margin will be zero.

We have taken the information provided by PKC in the submission and business plan and generated an appraisal which is contained in Appendix 4.

This appraisal contains PCMT's assumptions on:

- Built costs;

- Professional fees;
- Contingency;
- Net lettable area;
- Gross rental income;
- Profit margin – nil;
- Property transferred at nil value;
- Interest rates; and
- Legal and agency fees.

In order to complete the appraisal we have included our own assumptions on:

- Build period – assumed to be 2 years;
- Letting void – assumed to be 18 months;
- Rent free period – soon to be 12 months.

The output of this assessment takes us to the position where the property has been redeveloped, fully let and generating an annual income of £701,755 (source para 1.3 Financial Summary PCMT Business Plan).

The total income which PCMT are forecasting equates to £50.35 per sq ft when analysed against PCMT's net lettable area. Whilst acknowledging that there is little if any comparable data for this type of space within Perth we believe that this rate is highly optimistic in the context of wider commercial rents achievable within the City.

If the income quoted above was capitalised through a sale following the completion of the redevelopment then in order to meet the development costs PCMT would need to achieve a yield of 8.1%. Given the proposed nature and characteristics of the tenants who will be on short leases and have poor financial covenant this type of yield is highly optimistic.

We have taken advice from JLL's Capital Market team who are active within this market sector and throughout the UK. The nature of this proposal and the lack of security for such a large proportion of the income would have a significant raise the risk profile of this type of investment. It is our view that a more likely yield range would be in the region of 15 – 20%.

Through our appraisal if we apply a yield of 17.5% to the proposed annual income the capital value of the completed project would be £3.4m against the total development cost including the refinance of £7.6m.

This assessment brings significant doubt to the commercial viability of the proposal and assessed in this way.

8 PCMT Economic Benefit

8.1 JLL Stage 2 Information Requirements

Parties were requested to provide an economic viability statement which demonstrates the benefits that their proposals would bring to the economy of Perth and Kinross in relation to residential and visitor expenditure, visitor numbers, and dwell time.

8.2 Submission

PCMT's Submission emphasises the economic benefits that they consider the proposed development would bring to the Perthshire market.

The submission includes an outline of the key benefits which in summary include:

8.2.1 *The Role of Perth Heritage in the Visitor Economy / Social value of heritage*

- Motivating additional visits to Perth specifically to see the historic building
- Heritage can have an indirect impact by providing the context and setting for a wider range of destination experiences
- Towns and cities which have a character strongly influenced by heritage are more attractive destinations for a variety of general visits
- Reference to Scottish Government's policy guidance on the role of culture and heritage in achieving local and national outcomes

8.2.2 *Public Space and the value of the Public Realm*

- Potential for good public realm to create a number of economic and social benefits.

8.2.3 *Public Safety*

- PCMT consider a space that is well-lit and well-used throughout the day and the evening will, to a large extent, become self-policing.

8.2.4 *Markets and Events*

- Reference to the economic impact study of Perth Farmers' Market (operating one day per month) which calculated its direct annual impact to be £311,000 and its indirect impact of over £800,000. The study also identified a number of wider impacts which include: benefits to the local economy (both in employment and surrounding rural communities); attracting visitors; benefiting other retailers; and enhancing and diversifying choice in the town centre.

8.2.5 *Creation of Jobs and Training Opportunities*

- PCMT proposes to dedicate the majority of the Perth City Market 1st floor office space to occupants related directly and indirectly to delivering training and skills, by creating a Skills and Enterprise Hub.
- During the hours the 1st floor office space is not utilised by the Skills and Enterprise, PCMT anticipate the spaces will be in demand from other occupiers.
- Potential targeted clients for these units include Perthshire Chamber of Commerce; Adult Training companies; Jobcentre Plus – venue for their skills development events; local schools, colleges and

universities; Youth Link Scotland, Business Gateway, Sector-based work academies, Creative Scotland, and Citizens Advice (training and skills) etc.

8.2.6 *Local Produce / Businesses*

- Development would seek to contribute to making Perth the food capital of Scotland, building sustainable local businesses, and promoting local food offerings to customers.

8.2.7 *A Market Square: Events and Activities*

- Reference is made to the economic benefits resultant of Perth Concert Hall and Perth Theatre.
- City Hall could meet local demand for additional gallery, event and meeting spaces for community groups.
- Multi-purpose space in the lesser hall capable of hosting a mixed programme of events, exhibitions and performance appears to be the most appropriate cultural re-use option.

8.2.8 *Regeneration*

- The creation of a Market Quarter will help regenerate central Perth through a program of initiatives to develop new uses for empty retail units.

8.3 **Assessment**

JLL has reviewed the information provided by PCMT with regard to economic development. Whilst undoubtedly, the scheme which PCMT proposes would bring a number of benefits to the Perth economy (as stated within the submission), the information provided does not undertake an assessment to establish what would be created directly as a result of the City Hall redevelopment. The information contained is somewhat generic, and only provides a qualitative assessment rather than a quantitative assessment of the benefits.

There is no evidence of outcomes from any tailored discussions which may have taken place with key stakeholders, such as Visit Scotland, the Tayside Food and Drink Forum or the Perth Farmer's Market.

A more detailed Economic Assessment would have required to be undertaken, with information required to demonstrate residential and visitor expenditure, visitor numbers, and dwell time – to establish the benefits as a result of the proposed development.

9 Recommendations

This report has summarised the marketing process and initiatives which we have undertaken to find a commercial development solution to the redevelopment of Perth City Hall. We have taken an open and inclusive approach to trying to generate ideas for the property before inviting those parties to provide more detailed information which would allow us to complete a full viability assessment. At the Closing Date for Stage 2 we received 1 offer from the PCMT. This offer has been summarised and assessed within this report.

Interested parties were advised that the bids would be assessed against the following criteria:

Criteria	Score out of 100
Commercial Terms	/10
Proposed Use and Design	/25
Commercial Viability	/25
Funding	/20
Economic Benefit	/20

This criteria was designed to assess one bid against another to ascertain which proposal best met the Council's objectives for the sale and best value in the context of the Council's obligations under the Scottish Public Finance Manual. As we only received one bid it could be argued that there is no need to score PCMT's submission, however, we believe that we should complete this assessment and would score the individual criteria as follows:

- Commercial terms – 0/10
- Proposed use and design – 18/25
- Commercial viability – 2/25
- Funding – 2/20
- Economic Benefit – 5/20

- Overall Score = 27/100

As can be seen from this we acknowledge the effort to develop an imaginative idea for the reuse of City Hall and it is well presented by PCMT's architect Simpson and Brown, however, based on the information submitted at Stage 2 we have concerns about the project's deliverability.

The lease heads of terms require further clarification and negotiation before we could make any recommendation to PKC. The annual rent is £1, however, there is the opportunity to recover some upside in turnover through a formula. However, the information submitted is not robust enough to gauge what this could be and could not be relied upon as a financial offer for the benefit of a 125 lease.

PCMT propose to fund the development through a variety of sources which they have detailed in their submission. Whilst this information is helpful, PCMT have not provided any evidence from any of these parties that they would, in principle, support this initiative. 50% of their funding (£3.5m) is to come through the Big Lottery Fund (Growing Community Assets). On first inspection of the guidance notes for this grant we note that the Funding size is £10,000 - £1 million and a key criteria of the grant is to have outright ownership of the asset.

We recognise that the other funding sources could be plausible but do not accept that PCMT would be able to raise bank finance for this type of development with no means to securitise the loan (as they would only hold a leasehold interest on the Hall).

In summary, and based on the information provided, we have significant concerns with the funding assumptions within PCMT's submission.

In terms of the commercial viability of the project, the information submitted is largely generic to the food and drink sector in Scotland. We would have felt more convinced had there been wider community support from the Perth's Farmers Market including a letter of support endorsing the project. We also doubt the ability for the City Hall to generate sufficient rental income to support the claim in their business case that total income would amount to £701,755 per annum. Based on PCMT's own assessment of the net lettable area this equates to approximately £50 per sq ft. It is our view that it is highly optimistic to think this could be achieved throughout the whole building.

We have assessed the commercial viability of the project through a traditionally commercial development appraisal, albeit, we have assumed the property would be transferred at nil value and the profit margin would be nil. From this assessment we find that the value of the property once it was completed would be significantly less than the development costs incurred in the redevelopment.

An outline of the Economic Benefits has been provided, however the submission lacks outcomes of a full Economic Assessment which could have been undertaken to establish the direct benefits which could be achieved from the proposed City Hall redevelopment.

In conclusion, based on the information submitted by PCMT, we find some merit in the proposed use and design of the proposal. However, the deliverability of their concept in terms of the proposed commercial terms, business case and funding arrangements are, in our opinion, lacking in detail and raise significant concerns regarding the ability of PCMT to deliver the project. Through our assessment PCMT have not provided us with sufficient information or evidence to substantiate their claim that they could successfully redevelopment the City Hall as described in their proposal. Therefore, Jones Lang LaSalle are unable to support PCMT's proposal to redevelop Perth City Hall on the basis of a 125 year lease and conclude that through this marketing initiative we have been unable to identify a deliverable, alternative use for this property.

10 Appendices

Appendix 1 – Summary of Stage 1 Submissions Received

**SUMMARY SCHEDULE OF EXPRESSIONS OF INTEREST (28TH NOVEMBER 2012)
PERTH CITY HALL
ON BEHALF OF PERTH & KINROSS COUNCIL**

	Bidder	Bidder Team	Outline of Proposal	Summary of Expression of Interest
1	[REDACTED]	[REDACTED]	<p>Mixed tourism and exhibition space</p> <p>Tourist information centre - "what's on in Perth" in Western section</p> <p>Community space in lesser hall in Eastern section</p> <p>Centre – new build mixed use exhibition centre</p> <p>Top floor – art / media exhibition space</p>	Statement from [REDACTED] including architectural statement and indicative layout / elevation plans
2	[REDACTED]	[REDACTED]	Retention of the Western section for tourism related use and partial demolition to create civic square	[REDACTED] vision statement and indicative sketch proposals

**SUMMARY SCHEDULE OF EXPRESSIONS OF INTEREST (28TH NOVEMBER 2012)
PERTH CITY HALL
ON BEHALF OF PERTH & KINROSS COUNCIL**

	Bidder	Bidder Team	Outline of Proposal	Summary of Expression of Interest
3	[REDACTED]	No details provided	Mixed use development combining retail and leisure uses	Letter of interest accompanied with background information on [REDACTED] and associated redevelopment projects of listed buildings in city centre location
4	[REDACTED]	[REDACTED]	Residential	Expression of interest outlines details of their case for the redevelopment of City Hall for residential. Central to this proposal is the outright purchase of City Hall, not a long-lease hold interest.

**SUMMARY SCHEDULE OF EXPRESSIONS OF INTEREST (28TH NOVEMBER 2012)
PERTH CITY HALL
ON BEHALF OF PERTH & KINROSS COUNCIL**

	Bidder	Bidder Team	Outline of Proposal	Summary of Expression of Interest
5	[REDACTED]	[REDACTED]	Market space and associated facilities to let to retail	Detailed submission document prepared by [REDACTED] outlining the background and objectives of [REDACTED] and their vision for City Hall. This includes analysis of the property from a listed building perspective and details of their proposed conversion into a market place.

Appendix 2 – PCMT Proposed Funding Projections

Perth City Market Trust - Expenditure and Funding

	Approx fee plus surveys	Approval in principle to offer by PKC		Standstill or move forward at risk until planning granted	Stage E	Stage F	Stage G-H	Stage J-K	Stage L
		Initial Funding secured (but ongoing)	up to end Stage D Design Development		Technical Design	Production Information	Billing & Tender	Mobilisation & Construction	Fit out / End of Defects period / Completion
		3 months	3 months		4 months	4months	4months	14 months	12 months (inc 3 mths fit out)
Provisional Programme		Feb-April 2014	May - end July 2014	If no standstill Aug 2014- end 2014	Jan 2015- end April 2015	May 2015 - end Aug 2015	Sep 2015 - end Nov 2016	Dec 2016 - Dec 2017	
Total estimated percentage design team fees, council fees and preparatory works for each Stage	£914,499	25,000	249,674		217,033	151,348	58,172	184,017	29,256
Builderwork	£5,800,000							5,684,000	116,000
Inflation	£285,501							250,000.00	35,501
Subtotal	£7,000,000	25,000	249,674		217,033	151,348	58,171.68	6,118,017	180,757
Core Funds									
European Structural Funds eg (ERDF)	£1,500,000		53,501		46,507	32,432	12,465	1,316,361	38,734
Big Lottery Fund (Growing Community Assets)	£3,500,000		124,837		108,517	75,674	29,086	3,071,508	90,379
Historic Scotland (repairs grant)	£100,000				5,000		3,000	£92,000	
Perth and Kinross Council (proportion of repair costs) ???	£250,000					30,000		220,000	
	£5,350,000								
Public Funds									
Architectural Heritage Fund	£7,500		7,500						
Scottish Enterprise	£7,500		7,500						
	£15,000								
Trusts and Funds									
Examples only - :-									
Monument Trust	£80,000							80,000	
Pilgrim Trust	£100,000							100,000	
The HB Allen Charitable Trust	£30,000							30,000	
McCorquodale Charitable Trust	£40,000							40,000	
The Scotbelge Charitable Trust	£10,000							10,000	
Robertson Trust	£60,000							60,000	
Esmee Fairbairn Foundation's Food Strand	£60,000							60,000	
The A Team Foundation	£10,000							10,000	
The Ashdean Trust's Sustainable Regeneration Grant Scheme	£10,000							10,000	
Community Food Fund	£15,000							15,000	
The Common Good Fund - Perth ??????	£5,000							5,000	
The John Ellerman Foundation	£10,000							10,000	
The Lloyds TSB	£20,000							20,000	
Foundation for Scotland	£30,000							30,000	
The Hilton in the Community Foundation	£10,000							10,000	
The Cadogan Trust	£100,000							100,000	
Inspire Scotland Programme	£2,000							2,000	
Gannochy Trust	£40,000							40,000	
The Wolfson Foundation	£20,000							20,000	
Wellcome Trust	£20,000							20,000	
Other potential examples not listed	£28,000							28,000	
	£700,000								
Corporate Support									
Undisclosed company	£50,000							50,000	
	£50,000								
Private Donations									
Individual donations	£40,000		10,000				10,000	12,500	7,500
Friends group fund raising	£30,000							16,000	14,000
Crowd Funding (eg Spacehive)	£50,000							50,000	
	£120,000								
Bank Loan									
Triodos (or equivalent)	£700,000		71,335		57,010	13,242	3,620	534,793	20,000
	£700,000								
Other									
Unidentified source or fund or loan	£85,000							80,000	5,000
	£85,000								
TOTALS TARGET FUNDING / INCOME	£7,020,000	25,000	249,674		217,033	151,348	58,172	6,143,162	175,612

Appendix 3 – The Big Lottery Fund: Supplementary Guidance Note – Land & Building Application Guidance



Investing in Communities: Growing Community Assets

Supporting communities to take more control through ownership of assets

Area: Scotland
 Funding size: £10,000 - £1 million
 Application deadline: See programme details

What's it all about?



Investing in Communities: Growing Community Assets is designed to support communities to take more control and influence over their own future through ownership of assets. These are usually physical assets, such as land, buildings or equipment, but may also include other types of asset such as energy.

There are no deadlines and applications can be submitted at any time.

What are we looking for?

Who can apply?

What can you apply for?

Related Documents

-  [Investing in Communities Stage One Application Form \(PDF 757kB\)](#)
-  [Growing Community Assets Evaluation - September 2013 \(PDF 112kB\)](#)
-  [Investing in Communities: Growing Community Assets Guidance Notes \(PDF 308kB\)](#)
-  [Growing Community Assets Funding for publicly owned assets \(for GCA only\) \(PDF 200kB\)](#)
-  [Growing Community Assets Land and buildings guidance \(PDF 1009kB\)](#)
-  [Growing Community Assets Outcomes factsheet \(PDF 212kB\)](#)



[Growing Community Assets Draft capital grants terms and conditions \(PDF 782kB\)](#)



[Growing Community Assets Draft project development grants terms and conditions \(PDF 763kB\)](#)



[Growing Community Assets Draft revenue grants terms and conditions \(PDF 783kB\)](#)



[Investing in Communities: Options appraisals \(PDF 216kB\)](#)



[Good governance guide \(PDF 71kB\)](#)

Tags

Organisation Types

Voluntary or community organisation



BIG Advice Line 0845 4 10 20 30

 Awarding funds from
The National Lottery®



**INVESTING IN
COMMUNITIES**

**BIG
LOTTERY
FUND**

Land and buildings application guidance notes (for use in Scotland only)

Extra information we need for capital grant applications for projects which include:

- purchase of land and buildings
- improvement of land
- new build construction
- alteration, refurbishment or extension of buildings.

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Introduction

These guidance notes are for organisations that wish to make a capital grant application to the Big Lottery Fund for one or more of the following:

- buying land and buildings with or without alteration or refurbishment
- buying land on which a permanent building will be constructed
- buying equipment and fixtures and fittings linked to the land or building
- improving land, for example landscaping works, playgrounds etc.
- altering, refurbishing or extending a building you already own or lease
- constructing a new building.

Part one of these guidance notes explains the extra information we need to complete your application. This differs depending on the type of capital project or size of grant for which you are applying.

Part one also explains the specific legal requirements you will need to meet if you are awarded a capital grant.

Part two of these guidance notes provides general guidance on some of the key issues you should consider when developing and delivering your project. Appendix A includes a glossary of terms.

Part one – Big Lottery Fund requirements

1. Issues to consider before making an application

1.1 Security of tenure

1.1.1 If you are applying for capital grant for a project involving land and buildings you must have security of tenure (heritable or leasehold) of the land and buildings where the capital project will take place.

1.1.2 With the exception of the Growing Community Assets investment area the form of tenure we require you to hold depends on the total amount of capital grant we award your project.

- ▶ Grants up to and including £100,000: heritable OR a lease which cannot be brought to an end by the landlord for at least five years.
- ▶ Grants of £100,001 or more but less than £350,000: heritable OR an assignable lease of at least 10 years without a break clause.
- ▶ Grants of between £350,000 and £5 million (inclusive): heritable OR an assignable lease of at least 20 years without a break clause.

1.1.3 The minimum number of years remaining on the lease is calculated from either the date you buy the land and buildings or the date of the practical completion of the building work whichever is the largest.

1.1.4 Where a building is to be constructed on land that you will lease in the future, the landowner should grant you a development agreement with an agreement to lease attached. The development agreement will allow you to occupy the land during construction. The agreement to lease will commit you to lease the building once construction is completed.

1.1.5 With regard to Growing Community Assets the experience we have in funding asset development tells us that community ownership of an asset is likely to lead to the outcomes we want to achieve. By having complete control of the asset through ownership rather than leasehold, communities have the power to make the changes that will benefit their community in the long term.

1.2 Options appraisal

1.2.1 An options appraisal is a key part of the development process for all projects involving land and buildings (see section 4.3 for further guidance). To be considered for funding, you must send an options appraisal with your capital grant application. Further guidance on Options Appraisals is available on the Big Lottery Fund website at www.biglotteryfund.org.uk/Scotland

1.2.2 An options appraisal should give details of all the options you have explored, including leaving things as they are, and should cover the following areas:

- the needs that your project aims to meet
- the project's objectives, benefits and outcomes
- for each option considered:
 - an evaluation against your project's objectives benefits and outcomes and the needs it aims to meet
 - the estimated costs (capital and revenue costs)
 - an indication of the timetable for commencement of project delivery
 - a risk assessment
- your preferred option, and an explanation of why you recommend it.

1.3 Buying land and buildings

1.3.1 Your application should explain why buying land and buildings is appropriate for your organisation. Some of your reasons for buying might be:

- to provide long-term stability for your organisation
- to create a building of a specialist nature, for example a centre for people with multiple sensory deprivation
- that the property represents a good investment because the benefits of your project are likely to continue for a long time.

1.3.2 Your options appraisal needs to show you have considered all potential alternatives. It should also show why buying the land and buildings is your preferred solution.

1.3.3 When we consider your application we will focus on the outcomes for your project. We expect to see clear links between the delivery of these outcomes and your reasons for wanting to buy the land or buildings.

1.4 Planning consent

If you are applying for a capital grant for a project involving land and buildings and planning permission is required for your project, we expect you to have applied for and obtained planning permission, and any other necessary statutory consents, before submitting your grant application. You will also need to provide us with any information regarding onerous conditions in respect of planning permission.

2. What you need to send us

2.1 Applications for buying land and buildings and/or for building work

2.1.1 See Capital grant checklists one, two or three in Appendix D of this guidance. Each checklist explains the extra information you should send us with your application.

- ▶ Capital grant checklist one is for capital grant applications of up to and including £100,000.
- ▶ Capital grant checklist two is for capital grant applications of £100,001 or more but less than £350,000.
- ▶ Capital grant checklist three is for capital grant applications of £350,000 or more.

2.1.2 Make sure you sign and send us the correct completed checklist and the additional information we ask for with your application.

2.2 Applications for only buying land and buildings

2.2.1 See Capital grant checklist four in Appendix D of this guidance. The checklist explains the extra information you should send us with your application.

2.2.2 You should ensure that you send us the correct completed checklist and the additional information we ask for with your application.

2.2.3 If you apply for a grant for buying land and buildings, you should not enter into contracts until we have awarded you a grant. We will not make grant payments for costs you incur before we have awarded you a grant. We would not normally offer a grant where the proposed cost of buying the land and buildings is more than the open market value.

Appendix 4 – JLL Shadow Development Appraisal

APPRAISAL SUMMARY**LICENSED COPY**Perth City Hall
PCMT

Summary Appraisal for Phase 1

REVENUE

Rental Area Summary	ft ²	Rate ft ²	Gross MRV
Perth City Hall	13,937	£50.35	701,728

Investment Valuation

Perth City Hall				
Current Rent	701,728	YP @	8.1000%	12.3457
Re-Letting Void & Rent Free	(701,728)	YP 2yrs 6mths @	8.1000%	2.1843
		PV 5yrs @	8.1000%	0.6774

NET REALISATION **7,624,916**

OUTLAY

ACQUISITION COSTS

Agent Fee			25,000	
Legal Fee			15,000	
				40,000

CONSTRUCTION COSTS

Construction	ft ²	Rate ft ²	Cost	
Perth City Hall	26,444	£223.83	5,918,961	5,918,961
Contingency		10.00%	591,896	591,896

PROFESSIONAL FEES

Other Professionals			754,520	754,520
---------------------	--	--	---------	---------

FINANCE

Multiple Finance Rates Used (See Assumptions)				
Land			3,583	
Construction			303,210	
Total Finance Cost				306,792

TOTAL COSTS **7,612,169**PROFIT **12,747**

Performance Measures

Profit on Cost%	0.17%
Profit on GDV%	0.17%
Profit on NDV%	0.17%
Development Yield% (on Rent)	9.22%
Equivalent Yield% (Nominal)	8.10%
Equivalent Yield% (True)	8.50%
Gross Initial Yield%	9.20%
Net Initial Yield%	9.20%
IRR	4.36%
Rent Cover	0 yrs 0 mths
Profit Erosion (finance rate 4.500%)	0 yrs 0 mths

Perth City Hall
PCMT

8,663,308

(1,038,392)

7,624,916

APPRAISAL SUMMARY**LICENSED COPY**Perth City Hall
PCMT

Summary Appraisal for Phase 1

REVENUE

Rental Area Summary	ft²	Rate ft²	Gross MRV
Perth City Hall	13,937	£50.35	701,728

Investment Valuation**Perth City Hall**

Current Rent	701,728	YP @	17.5000%	5.7143
Re-Letting Void & Rent Free	(701,728)	YP 2yrs 6mths @	17.5000%	1.8960
		PV 5yrs @	17.5000%	0.4465

NET REALISATION**3,415,828****OUTLAY****ACQUISITION COSTS**

Agent Fee	25,000
Legal Fee	15,000
	40,000

CONSTRUCTION COSTS

Construction	ft²	Rate ft²	Cost
Perth City Hall	26,444	£223.83	5,918,961
Contingency		10.00%	591,896
			591,896

PROFESSIONAL FEES

Other Professionals	754,520
	754,520

FINANCE

Multiple Finance Rates Used (See Assumptions)			
Land		3,583	
Construction		303,210	
Total Finance Cost			306,792

TOTAL COSTS**7,612,169****PROFIT****(4,196,341)****Performance Measures**

Profit on Cost%	(55.13)%
Profit on GDV%	(122.85)%
Profit on NDV%	(122.85)%
Development Yield% (on Rent)	9.22%
Equivalent Yield% (Nominal)	17.50%
Equivalent Yield% (True)	19.61%
Gross Initial Yield%	20.54%
Net Initial Yield%	20.54%

IRR	N/A
Rent Cover	-5 yrs -12 mths
Profit Erosion (finance rate 4.500%)	N/A

APPRAISAL SUMMARY

LICENSED COPY

Perth City Hall
PCMT

4,009,874

(594,046)

3,415,828



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