

PERTH AND KINROSS COUNCIL**7 OCTOBER 2015****PERTH CITY HALL****Report by Depute Chief Executive
(Sustainability, Strategic and Entrepreneurial Development)**

This report provides an update on actions agreed following consideration of a report by the Executive Director (Environment) to the Council at its meeting on 1 July 2015. The report also updates members on the discussion held with Historic Scotland. It recommends to the Council that, having consulted the Head of Legal Services and the Head of Finance, the Depute Chief Executive be instructed to negotiate the detailed terms of a ground lease with Perth Market Place Limited for consideration by the Council and, subsequently, the Perth Common Good Fund Committee. Any such lease would only be recommended if the prospective lessee complies with proposed pre-conditions.

1. BACKGROUND / MAIN ISSUES

- 1.1 A report to Council on 1 July 2015 set out the background relating to the most recent marketing campaign to secure a new use for the City Hall (Report No. 15/294 refers). The report recommended that Perth Market Place Ltd should be considered as the preferred bidder recognising that both offers, on the basis of the submissions, were potentially deliverable and that the scores awarded to each reflected this.
- 1.2 The offer submitted by Perth Market Place Ltd was awarded a score of 75 and The Seventy Group offer scored 71. Both parties were invited to make a deputation to the Council to afford Members the opportunity to question each party on elements of their respective offers. Following this discussion, the members felt that a number of issues remained unanswered. The main concern in relation to the market hall proposal was an apparent change from being principally a fresh food market to a mixed use market; and in relation to the hotel proposal, members remained unconvinced about its viability due to competition from other proposed developments in the Perth area.
- 1.3 As a result, members agreed to instruct the Chief Executive to:
 - Engage further with Historic Scotland and other relevant agencies to address and highlight our concerns and to identify a realistic way forward to ensure that any decision that we take has the best possible impact on the economy of the city; and
 - Report back to the next meeting of the Council on 7 October 2015 which would also include further information on economic benefits of the two bids from Perth Market Place Ltd and the Seventy Property Group Ltd.

- 1.4 The Chief Executive, Depute Chief Executive and Head of Planning & Development met Historic Scotland's Chief Executive and Director of Heritage Management on 25 August 2015. Historic Scotland's position remains unchanged in as much as the principal objective, from the legislative perspective, is to attempt to secure a use for the listed building by offering it to the market for a period of time at a price that will encourage restoration. In this regard, Historic Scotland is comfortable that a long lease is an appropriate alternative to outright sale. The Chief Executive of Historic Scotland also reiterated at the meeting that the process cannot be allowed to perpetuate. However, Historic Scotland's view is that, in reaching a decision on the next course of action, the Council must be seen to have acted reasonably and that the process was not run differently compared with any other property transaction. Historic Scotland would, therefore, expect to see the current process continue until its conclusion. Subsequent to the meeting, Historic Scotland wrote to the Council and a copy is attached at Appendix 1. No other relevant agencies for the Chief Executive to engage with were identified by officers.
- 1.5 Since the Council Meeting on 1 July, officers have also sought to engage with both bidders to clarify elements of their offers that were exposed to scrutiny by members following their deputations. Specifically, Perth Market Place Ltd confirmed that the intention is to operate the facility as a food market. However, they would wish to sell a small supporting line of food-related items, such as cookware, and have agreed that this would be formally restricted in the lease. They also reconfirmed the venture was fully funded and would operate without public subsidy. As proposed in their offer, a ground lease would be granted to Perth Market Place Ltd who would sub-let to Geraud UK Ltd, a wholly owned subsidiary of Luxembourg registered Geraud SA. The funding is to be provided by the latter through shareholder investment. A new entity would be created to operate the market on a day to day basis.
- 1.6 The report to Council on 1 July 2015 summarised and scored the offers submitted by Perth Market Place Ltd and the Seventy Property Group. The scoring of funding arrangements was included within the criteria for assessment, and the Perth Market Place Ltd offer was awarded a higher score due to the firm funding commitment received from Geraud Markets (UK) Ltd. Following clarification that the funding arrangements, noted in section 1.5, for Perth Market Place Ltd would be provided through shareholder investment rather than conventional borrowing, the funding arrangements for both offers are broadly similar. Therefore, they are now considered to warrant equal scores in relation to that specific criterion, making the overall scores, as outlined in paragraph 1.2, even closer.
- 1.7 Further information was also requested from The Seventy Group. Unfortunately there has been a change in circumstances which significantly impacts upon The Seventy Group's bid. The solicitors who previously acted for the Group have confirmed that the additional information requested cannot be provided at this time. In the circumstances, the Council can only consider the offer based on the information currently available to it. Given the outstanding concerns that The Seventy Group have been unable to address, and the material change in their circumstances, officers can no longer provide any assurance as to the viability of this bid.

1.8 Members also requested further information about the economic impacts of the two proposed developments. Appendix 2 provides more detail. Economic benefits are assessed using a combination of qualitative evidence from similar projects elsewhere, and a quantitative calculation using standard economic multipliers based principally on construction expenditure, jobs created, and estimated visitor/guest expenditure. Estimated expenditure is a better indicator of economic benefit than footfall. Council economic development officers checked the information provided by each bidder for consistency and allocated a score accordingly. Because of the way economic modelling works, in general terms, the project with the largest capital expenditure that creates the most jobs and the lowest displacement of expenditure from elsewhere will always score more highly. Hence, the hotel proposal scored more highly than the market proposal. It is also important to note that economic benefit was one of 5 criteria used to assess deliverability and, overall, it remains the view of officers that the food market proposal is more deliverable than the hotel.

2. PROPOSAL

2.1 The normal approach when seeking to dispose of a property by way of sale or lease would be to accord preferred bidder status to one party to allow detailed negotiations to commence and the detail of the bid to be openly discussed between the Council and the prospective tenant. It is only during this stage of the process that the conditions of any lease can be drafted.

2.2 Therefore, it is proposed that preferred bidder status be given to Perth Market Place Ltd to allow the process to continue to the point where the draft terms and conditions of the lease can be presented to the Council for its consideration. If approved by the Council, the endorsement of the Perth Common Good Fund Committee would thereafter be sought. Members are advised that the Council must act reasonably in negotiating the terms of a lease.

2.3 Given continuing concerns about the specific funding and implementation arrangements, and to mitigate against the potential risk of failure to conclude a lease, it is proposed that Perth Market Place Ltd be required to provide supporting evidence of their ability to conclude the lease within an appropriate timescale. Perth Market Place Ltd will therefore be required to provide, within 3 months of the award of preferred bidder status:

- a) Confirmation from Geraud UK Ltd of their commitment to enter into a sub-let from Perth Market Place Ltd (paragraph 1.5 refers);
- b) Confirmation of the process for the establishment of the proposed new entity for operating the market on a day to day basis (paragraph 1.5 refers);
- c) The provision of suitable Letters of Intent from shareholders to establish levels of shareholder support for investment in the project (paragraph 1.6 refers); and
- d) A planning consent and building warrant timetable for works to the building and completion.

- 2.4 The Council would require all these pre-conditions to be satisfied before granting a long ground lease. The Head of Legal Services will seek to agree the terms of a draft ground lease with Perth Market Place Ltd's solicitors within 3 months of Perth Market Place Ltd being awarded preferred bidder status. In the event that officers are satisfied that the pre-conditions set out in 2.3 have been fulfilled, the draft ground lease would be presented for the consideration of the Council at its February meeting. Subsequently, a ground lease would only be granted upon completion of the works to the building in order to safeguard the Council's interest in the property. Members should also note that subsequent to a ground lease being granted to Perth Market Place Ltd, should Perth Market Place Ltd fail to comply with the principal lease terms, the Council will have standard rights to irritate the lease and take back possession of the building.

3. CONCLUSION AND RECOMMENDATIONS

- 3.1 As landlord, the Council must at all times act reasonably in preparing and negotiating a draft lease and, conversely, the prospective tenant must deliver what has been promised within an agreed timeframe. Members will have the opportunity to consider the proposed lease terms at a future meeting of the Council. In reaching its final decision, the Council will have the opportunity to scrutinise any perceived financial, operational and reputational risk.
- 3.2 In this respect, there remains a risk that the negotiations may fail and, for whatever reason, the transaction cannot be concluded. It is the advice of officers that at that point, and only at that point, could consideration be given once again to any alternative to re-use. This is also the view of Historic Scotland.
- 3.3 Therefore, taking all of the above into consideration, it is recommended that the Council:
- a) Confirms Perth Market Place Ltd as the preferred bidder for Perth City Hall to operate it as a food market as specified in paragraph 1.5 above.
 - b) Instructs the Depute Chief Executive, in consultation with the Head of Legal Services, to negotiate the terms of a draft ground lease.
 - c) Instructs the Head of Planning & Development to ensure the pre-conditions set out in paragraph 2.3 above are met before a further report is submitted to the Council recommending that they consider the terms of a draft ground lease.
 - d) Instructs the Depute Chief Executive to update the Council on progress at its meeting in February and if the pre-conditions have been met, at the same time report on the proposed terms of the ground lease.
 - e) Instructs the Depute Chief Executive, if Council approve the proposed terms, to thereafter refer the lease terms to the Perth Common Good Committee for its endorsement.

Author

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Approved

Name	Designation	Date
Jim Valentine	Depute Chief Executive	28 September 2015

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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	None
Asset Management (land, property, IST)	Yes
Assessments	
Equality Impact Assessment	
Strategic Environmental Assessment	
Sustainability (community, economic, environmental)	
Legal and Governance	Yes
Risk	Yes
Consultation	
Internal	
External	Yes
Communication	
Communications Plan	Yes

1. Strategic Implications

Community Plan / Single Outcome Agreement

1.1 The proposals relate to the delivery of the Perth and Kinross Community Plan/Single Outcome Agreement in terms of the following priorities:

(iii) Promoting a prosperous, inclusive and sustainable economy

Corporate Plan

1.2 The proposals relate to the achievement of the Council's Corporate Plan Priorities:

(iii) Promoting a prosperous, inclusive and sustainable economy

2. Resource Implications

Financial

2.1 The recommended proposal will generate an annual base rent following a two year rent free period from date of entry to the Perth Common Good Fund of £20,000 plus RPI increases at 5 yearly intervals and a potential additional rent representing 7.5% on turnover generated by the Market Hall above the base rent.

- 2.2 A financial assessment will be provided to support the recommendation emerging from the negotiation of the terms of lease for the City Hall.

Workforce

- 2.3 There are considered to be no workforce implications arising from the proposal.

Asset Management (land, property, IT)

- 2.4 The proposals will allow the Council to fully meet its duties in relation to securing best value in the management and potential disposal of its property assets.

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.
- 3.4 No further action is required as it does not qualify as a PPS as defined by the Act and is therefore exempt.

Sustainability

- 3.5 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

- 3.6 The Head of Legal Services, the Head of Finance and the Head of Democratic Services have been consulted and confirmed the proposals are compliant with Council's scheme of Administration and duties in relation to the disposal of property.

Risk

- 3.7 The key risks associated with the proposals relate to the potential disposal of the property by way of lease where appropriate terms are recommended to mitigate risk in relation to the delivery of any development.

4. Consultation

External

- 4.1 Historic Scotland has been consulted..

5. Communication

- 5.1 Given national and local public interest in the City Hall, a revised communications plan using all forms of communications media has been developed to fully explain the Council's decision and next steps in the process.

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

- Report to Council 11 December 2013
- Report to Development Management Committee 14 May 2014: Report 14/00297/FLL
- Report to Development Management Committee 14 May 2014: Report 14/00298/LBC
- Report to Council 25 June 2014: Report 14/301
- Report to Council 1 July 2015: Report 15/294

3. APPENDICES

Appendix 1: Letter to the Chief Executive from Historic Scotland

Appendix 2: Details of stated economic benefits of both offers

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2 September 2015

Dear Bernadette

Perth City Hall : meeting with Perth & Kinross Council 25 August 2015

As agreed, I am writing to follow up our helpful discussion on 25 August.

You confirmed that officer recommendation to the Council meeting of 1 July had identified two bids which in the view of officials appeared potentially viable and therefore worth exploring fully. You informed us, however, that under scrutiny at the Council meeting members were unconvinced of the viability of either bid. Consequently, the Council deferred a decision to the next meeting in October in order that the issues raised then can be clarified. We agree that the process should continue until its conclusion

We discussed the various scenarios that could still arise, including that of the Council being minded to again seek demolition. It was agreed that the overarching 'test' of any such application would be reasonableness; ie, it would be for the Council as applicant to demonstrate it had acted reasonably within the terms of the Scottish Historic Environment Policy ['SHEP'] tests.

We explained that should an application be made after 1 October the functions currently carried out by Historic Scotland will have transferred to Historic Environment Scotland ['HES']. Under the new arrangements, HES would be a consultee. This means that were HES minded to object to an application, the case would be notified to Scottish Government to consider call-in. Ministers would however have the right to call-in an application in any case even if HES were not to object.

We noted at the meeting your position regarding the marketing as a long leasehold (125 years) rather than freehold and we are aware that commercial property is commonly held on such a basis. Our interest is in finding a sustainable long term future for historic buildings irrespective of who owns them



IAN WALFORD

Perth City Grand Hotel Proposal

Summary of Economic Benefit Statements

Construction Phase Impacts

An estimate of construction costs is provided which includes building redevelopment, hotel fit out, professional services, and which states that this could generate £2.4 million GVA (Gross Value Added) for the Scottish economy of which £1.3 million would be retained within Perth and Kinross.

During this phase, it is estimated there would be 50 temporary construction jobs created. The methodology for arriving at these figures is to apply GVA and employment multipliers for the building construction sector. It is claimed that the construction of the hotel could also generate a small number of construction apprentices.

Operational Phase Impacts

An outline of the anticipated impacts from the hotel once it is fully operational is provided (by year 4). It is estimated that 80 new f/t and p/t jobs will be employed in the hotel itself. A small number of these jobs would be skilled and better paid positions.

11,600 tourist beds per annum would be taken, which equates to 3,100 overnight visitors per annum. It is estimated that £70,000 non domestic rates would be payable to PKC. £4m per annum in accommodation and food and drink related expenditure would be achieved within the hotel. The hotel would also spend £3.1m on supplies, of which £1.6m of this expenditure will comprise food and drink.

Other local business elsewhere in Perth & Kinross would benefit from the hotel by a further £1.7m per annum, and it is anticipated that the hotel would also support another 140 additional jobs across Scotland, virtually all of which would be located within Perth & Kinross.

Employee spending: It is estimated that expenditure by hotel staff could generate £0.4m GVA for the Scottish economy (£0.2m GVA within Perth and Kinross).

Once completed, the Perth City Grand Hotel will be the only 5* hotel in Perth city and one of only 3 5* hotels in Perth & Kinross. It is the contention that the hotel will provide a very different experience from the other local hotels so it is claimed that there will be little displacement of existing demand (estimated at 10%). At national level, displacement is forecast to be low at 25%.

Therefore the assessed overall net GVA impact of the hotel is assessed as £0.9m per annum.

Wider Impacts

It is forecast that tourism in Perth & Kinross would be increased through:

- Tourists staying in the hotel spending money elsewhere in Perth and Kinross.
- Non-resident conference delegates attending corporate events in Perth attracted to the city.
- Guests attending wedding functions and staying elsewhere in Perth.
- Expenditure associated with weddings hosted at the hotel that occurs elsewhere.

It is estimated that corporate events held at the hotel could generate approximately £0.8m per annum of expenditure elsewhere in the city.

It is contended that the hotel would improve the city centre environment, as a result of the hotel being situated in such a prominent location, and there would be a spin-off effect from corporate events, weddings, and increased numbers of high income tourists. The report also makes reference to the non-quantifiable benefits to the local economy anticipated from the development including the potential to add to the attractiveness of Perth as a destination for leisure and conference purposes, support for the local food and drink sector, training opportunities etc.

In summary, the total economic impacts from the hotel once fully operational are estimated at £3.1m net additional GVA to the Scottish economy each year of which around £2.6m could be retained within Perth and Kinross.

Conclusion

Overall, there is a comprehensive assessment of the potential economic impact of the hotel. It is acknowledged that certain estimates and assumptions have had to be made in calculations across the stages of the hotel's development and these are stated clearly with sources referenced, particularly in terms of GVA (Gross Value Added) which is an estimate of the value of outputs less the value of the inputs used.

Perth Market Place Proposal

Summary of Economic Benefit Statements

Construction Phase Impacts

The report includes an estimate of the economic impact of the Market Place proposal during the construction phase, and in so doing it draws on a report by the UK Contractors Group 2011. The submitted report notes that for every £1 spent on construction input, £2.84 in total economic activity is generated, based on direct (£1), indirect (£1.09) and induced impacts (£0.75).

The submission highlights an estimated £2.64 million investment in the construction phase of the project which would generate a total economic activity of approximately £7.5 million across Scotland. This section contends further that the main benefit of the investment stays in the local economy, with over 90 pence in every £1 being retained locally. It is estimated that the number of direct jobs created during the construction phase would be 42. However, this section of the submission does not provide further detail - there is neither a calculation to estimate the net GVA impact of this expenditure or an outline of the methodology used to calculate this figure of the number of jobs created.

Operational Phase Impacts

Information has been provided on projected footfall / numbers of visits to the Market Place. Based on analysis of other markets, it is estimated that a total footfall figure of per annum would be achieved once the market was fully operational (after 2 – 3 years), broken down as follows:

- Visits by core catchment population 500,000 per annum
- Visits by outer catchment approximately 1 million per annum
- Seasonal and tourism use 250,000 per annum

It should be noted that these figures represent all visits and not unique visitors. However, there is no estimate of direct expenditure from visits and from this an estimate of the gross expenditure figure generated. Using available data on average day visitor expenditure it should have been possible to estimate the expenditure per person on a day visit away from home and attribute this to the development of the Market Place.

Wider Impacts

The report draws on research into other markets in the UK and highlights that the impact of markets on surrounding retailers has a positive effect, with turnover generally up 25 – 30% (National Association of British Market Authorities, High Street UK2020 project). The report also highlights that for every £1 spent in the market they tend to generate expenditure of £1.75 outside the market. However, in

the absence of an estimated average expenditure figure per person per visit, it is not possible to estimate an impact on the wider economy based on this data.

Conclusion

Overall, the report makes extensive reference to research studies and reports into the positive impacts of markets economically, socially and environmentally in the UK and internationally, as well as case studies for markets in Bolton and Nuneaton, to make the case for the Perth market. While this is certainly helpful in providing context, background and comparisons for markets, there is a relatively small amount of information/ data projections specific to the Market Place proposition, and from which quantitative estimates of the economic impacts at construction can be made.