

Sale of Shire Hall, Cambridge

To: Assets and Procurement Committee

Meeting Date: 17th July 2024

From: Executive Director: Finance and Resources

Electoral division(s): Castle

Key decision: Yes

Forward Plan ref: 2024/047

Executive Summary: Shire Hall in Cambridge was remarketed for disposal on the 2nd February 2024. This attracted 15 bids and a short list of 4 were interviewed by a panel of officers and advisors.

A freehold unconditional bid from Bidder A is recommended for acceptance. The Council will enter a period of exclusivity with Bidder A after which they will be required to exchange contracts.

During the exclusivity period Bidder A will be expected to carry out legal and property due diligence, discuss their proposals with Greater Cambridge Shared Planning and agree contracts ready to exchange when the exclusivity period ends.

If they are not able to exchange contracts during this period, the matter will return to Committee to agree next steps, which would include consideration of the other shortlisted bids discussed in this report.

Recommendation:


- a) Note the contents of the report.
- b) To enter into an exclusivity agreement with Bidder A until 9th October 2024 with the intention of exchanging contracts by this date.
- c) Delegate to the Executive Director of Finance and Resources, in consultation with the Chair and Vice Chair of the Committee, to exchange contracts on the terms as substantially drafted in the draft confidential Heads of Terms (Appendix 1) and plan (Appendix 7) and maintaining this bid remains the best consideration;
- d) If contracts are not exchanged by 9th October 2024, unless there are reasonable grounds (as determined by the Executive Director of Finance and Resources, in consultation with the Chair and Vice Chair of the Committee) to grant a short (no greater than 4 weeks) extension, then negotiations with Bidder A will end. If negotiations end with Bidder A the Committee will then be asked to agree the next steps, including the option of which of the other shortlisted bids in this report to enter into an exclusivity agreement with, if they remain

willing, and the timescale to negotiate terms and exchange contracts with them.

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1. Creating a greener, fairer and more caring Cambridgeshire

1.1 Report authors should evaluate the proposal(s) in light of their alignment with the following seven ambitions  [Strategic Framework 2023-28](#).

1.2 This report relates to the Council's following ambitions:

Ambition 6 - Places and communities prosper because they have a resilient and inclusive economy, access to good quality public services and social justice is prioritised.

2. Background

2.1 Following a Full Council decision to relocate the Council's headquarters from Shire Hall, Cambridge in May 2018, the site was marketed by BNP Paribas Real Estate in autumn 2018. There was significant interest with more than 30 proposals received covering a wide range of potential uses and financial structures.

2.2 Draft Heads of Terms were approved in late 2019, and negotiations on the detailed terms and contracts commenced with Brookgate based on an income strip model for the development of a hotel. Subsequently a detailed review and update of the Shire Hall proposals and progress was presented to Strategy & Resources Committee in July 2021, with the Brookgate scheme re-confirmed.

2.3 Due to the significant economic impact of the pandemic, in particular material and labour cost inflation and supply chain uncertainty, updated terms were approved by the Council's Strategy & Resources Committee in January 2022. In January 2023, a further update and amendment to terms was approved following the impact of the Government's emergency budget of October 2022 that drove a rapid rise in interest rates and gilt yields. 50-year gilt rates had risen from around 1.16% at the start of detailed negotiations (November 2019) to a much higher level (October 2023) of 4.56% (UKDMO data), impacting both finance costs and development values for the scheme. Similarly, overall construction costs increased by 24% from Heads of Terms approval in November 2019 until September 2023 (ONS COPI data).

2.4 An update report was presented to the July 2023 Strategy & Resources Committee providing a comprehensive update on the then ongoing negotiations with Brookgate for the redevelopment of the Shire Hall site. Despite ongoing economic uncertainty slowing progress, legal negotiations were in their final stages with only a few significant outstanding points of contention. Committee approved a deadline for the completion of negotiations and signing of contracts.

2.5 Shortly before the deadline set by the Strategy & Resources Committee for signing (14th August 2023) Brookgate contacted the Council to advise that following consideration by their Board, they were unable to proceed on the agreed terms. Legal papers were withdrawn shortly afterwards.

2.6 On the 23rd November 2023 Assets & Procurement Committee noted the withdrawal of the Brookgate bid and approved the remarketing of the Shire Hall site. BNP Paribas Real Estate were reappointed to remarket the site, and Pinsent Masons to provide legal advice.

- 2.7 The site was relaunched onto the market on the 2nd February 2024. (See marketing particulars and brochure in **Appendix 2**). Previously the marketing exercise included within scope the Castle Mound; the Civil War Earthworks (both Scheduled Ancient Monuments) and the Shire Hall lawn. This time the Castle Mound, Civil War Earthworks, 42 Castle Street and Shire Hall lawn were excluded from the disposal. The opportunity was advertised widely, online, in the press and directly by BNP Paribas Real Estate using their database of potential developers and to previous bidders. More than 160 individuals were given access to the site information on the Pinsent Masons secure portal and over 30 groups of bidders visited the Shire Hall site itself to carry out guided inspections. Contact was made with Greater Cambridge Shared Planning who allocated a planning officer to deal with enquiries from bidders.
- 2.8 The closing date for proposals was 18th April 2024 and a total of 15 bids were received. The bids proposed a range of potential uses of the site including hotels and extended stay apartments, retirement living, student, co-living, residential apartments, offices, and business space, amongst other uses as well as a mixture of freehold and leasehold options. The bid proforma is attached at **Appendix 3**. The evaluation took into consideration the financial offer, deposit, proposal, conditional/unconditional offers, tenure, funding, due diligence, overage and security on deferred consideration, approvals, timescales, CCC cost undertaking, experience, resources, economic, social, and environmental impact. The terms of the initial bids received on 18th April are summarised in more detail at **Appendix 4 (Confidential)**.
- 2.9 An initial long list of seven bidders was taken forward to seek further clarification. **Appendix 5 (Confidential)**. A short list of five bidders was arrived at with two bidders not making the shortlist again due to a significant difference in best consideration. The five shortlisted bidders were invited to provide best and final bids and then attend an interview. One bidder withdrew during this process and the remaining four bidders were interviewed by CCC officers and a representative from BNP Paribas Real Estate on the 16th and 17th of May 2024.
- 2.10 From a consideration of the shortlist Bidder A submitted the highest bid for a hotel development. The bid is unconditional subject to a progressive pre planning application process. Bidder A compares well with other bids related to other non-financial factors. Due diligence was carried out as to the funding of all bids, including Bidder A who provided evidence of its funding partner. This identified all bids were assessed as strong and deliverable.
- 2.11 The Council is required to have particular focus on achieving best consideration in disposing of its assets, and as such Bidder A is the recommended option. However, in learning the lessons from previous proposals if this preferred bidder is approved by Committee, it is proposed that a time limited exclusivity agreement will be entered into. During this period the Council will only deal with that bidder, and they will be expected to carry out further due diligence during this limited time. That may involve investigation of title, undertaking surveys, discussing with Greater Cambridge Shared Planning team what development is acceptable on the Shire Hall site, and negotiating legal terms with the County Council.
- 2.12 Pinsent Masons, the Council's solicitors, have said they will take 1-3 weeks to prepare the legal pack for the successful bidder. However, we note that Greater Cambridge Shared Planning have said they would be unlikely to be able to consider a planning Pre-App

application before September.

2.13 Further discussion of the short-listed bids is given in **Appendix 6 (Confidential)**.

3. Alternative Options Considered

3.1 Set out here consideration of the alternative options that have been considered in formulating the recommendations contained in the report against the following:

Options	Benefits and outcomes	Challenges and risks	Financial implications
Option 1: Do nothing	None	The building has been decommissioned and would require investment to maintain, or significant costs to bring back into use.	There are holding costs such as business rates and security. Reopening would require significant investment as heating and air conditioning have been decommissioned.
Option 2 – Do not accept Bidder A as preferred bidder and negotiate with one of the other bidders.	This is the highest bid, and the proposal is unconditional bid with short time to exchanged realising a capital receipt in 2024/25. The bid also creates new employment opportunities and carbon reduction for the site.	Bidder A is the best consideration bid and to award to another bidder may result in a legal challenge and delay in any disposal / receipts.	Reduced capital receipt and potential delay due to any challenge.
Option 3 – Proceed with Bidder A	As set out in option2, this is the highest bid while also satisfying non-financial criteria. Short time period proposed to exchange and complete	Any bid may be reduced during exclusivity period. A tight exchange and completion timetable can always be difficult to achieve.	Highest bid.

4. Conclusion and reasons for recommendations

4.1 Option 3 is recommended. Entering an exclusivity period with Bidder A who offers the

highest capital receipt, is unconditional on obtaining planning consent and proposes a short period to exchange and completion and represents the best consideration. The bid also offers good non-financial benefits.

4.2 If Bidder A does not meet the proposed timescale to exchange contracts Committee will be asked to reconsider the other three short listed bids.

5. Significant Implications

5.1 Finance Implications

Financial implications are set out in the report and detail held in confidential appendices.

The recommended bid is a sale of freehold, this differs from the previous income strip proposal approved in 2019. However, only one offer was submitted this time based on an income strip structure and this bid was subsequently withdrawn.

From the competitive process it is clear first that the economic conditions post the pandemic and Chancellor's mini budget of October 2022 have meant no development on similar structure to the one previously proposed is available currently. As such any comparisons between the previous decision and the one proposed in this report are not meaningful due to these change in factors.

As noted, one option for the Committee is to not accept any bids and hold on to the site until some point in the future when an income strip deal could be considered again. However, analysis of forecasts by organisations such as IFS, suggest this will be five years plus away and then there is no certainty, during which time the Council will incur significant costs in maintaining the site, as well as the negative impact of having the site vacant to both the local community and economy.

Whilst two of the shortlisted bidders also put forward leasehold bids (one putting both a freehold and leasehold) these were not the best consideration. As such a freehold option generates the highest receipt allowing the Council to offset current / future revenue costs of borrowing.

5.2 Legal Implications

The preferred bid meets best consideration regulations. Legal advice on this has been included in advice for members at **Appendix 8** (Confidential).

5.3 Risk Implications

The main risks are:

- the selected bid, whilst currently the highest offer, could be reduced and be open to challenge. This has been mitigated by due diligence during the bidding process. If this were to occur and the deal were no longer best consideration, then the decision would be brought back to Committee.
- There is a delay in exchange. Whilst this is a risk Bidder A is confident of a shorter timescale than the period of exclusivity granted here, and officers will manage this process to drive exchange or bring back alternative options to Committee.

5.4 Equality and Diversity Implications

There are no negative implications for equality and diversity. A completed and approved Equality Impact assessment (EqIA) can be requested with the reference CCC625752554.

5.5 Climate Change and Environment Implications (Key decisions only)

This will result in the disposal of an energy inefficient property. Bidders have been selected on amongst other things their climate change and environmental proposals.