

## ABERDEEN CITY COUNCIL

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COMMITTEE	COUNCIL
DATE	04 April 2012
DIRECTOR	Gordon McIntosh, Enterprise, Planning & Infrastructure
TITLE OF REPORT	AECC Development Project
REPORT NUMBER	EPI/12/090

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### 1 PURPOSE OF REPORT

This report has been produced to inform Council of progress in relation to the future development of property assets in and around the AECC.

The report also seeks approval for the establishment of a budget line to cover costs associated with progressing options for maximising value from council and/or AECC property assets in and around the AECC.

### 2 RECOMMENDATION(S)

Council are requested to:

- i) Note the contents of the report
- ii) Allocate a budget of up to £120,000 from funds currently allocated to City Development to cover external legal, financial and other costs associated with the procurement of a development partner, via competitive dialogue, to progress options for maximising value from council and/or AECC property assets in and around the AECC.

### 3 FINANCIAL IMPLICATIONS

- 3.1 The Council previously delegated a budget to the Director of Enterprise, Planning & Infrastructure for the establishment of a City Development Company. This project is currently on hold due to adverse market conditions and the need to re-assess the Council asset disposals policy, as part of the 5 year Priority Based Business Planning process.

- 3.2 There is currently £1.35 million held as allocated reserves associated with City Development and expenditure relating to this is allocated to the appropriate budget code. It is proposed that expenditure associated with the £120,000 budget referred to in recommendation ii) also be allocated to this code. It may cost less than this, but we have no way of knowing exactly how much this will cost until we tender for this necessary external legal and financial assistance.
- 3.3 In relation to the transfer of assets from AECC to ACC there are financial issues that require to be resolved and these are currently being progressed by the ACC Finance team.

#### 4 OTHER IMPLICATIONS

- 4.1 The AECC makes a significant contribution to the local economy and is a major leisure venue for the North East. Transferring assets back into Council control will relieve AECC of the responsibilities associated with developing and maximising the value of these assets and will facilitate future development of the AECC and surrounding land<sup>1</sup>. As such the proposed actions will help secure the substantial economic and social benefits generated by AECC.

#### 5 BACKGROUND/MAIN ISSUES

- 5.1 Report EPI/10/220 to the August 2010 Council meeting, agreed not to support Aberdeen Exhibition and Conference Centre Ltd's (AECC's) planned hotel development, due to the unacceptably high risks associated with the proposed operational and financial structure of the proposals presented to the Council.
- 5.2 Council also agreed to provide additional grant funding to AECC, to pay historic professional fees associated with the production of plans, proposals and related legal, financial, investment and technical documentation connected with the development of a new four star hotel on land adjacent to the AECC.
- 5.3 Finally, Council agreed that officials should continue with their efforts to;
- Convert current short-term loans to preference shares in accordance with previous decisions taken by the Council in February 2010.
  - Deliver a four star hotel development adjacent to the AECC, to enhance the AECC's future business potential.

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<sup>1</sup> AECC nevertheless wish to maintain input into the development process at all stages as it clearly impacts on their ability to deliver their business plan and meet their contractual obligations to clients

- Realise the value from land adjacent to the AECC by investigating the possibility of creating a large-scale development proposal, in partnership with private sector developers
  - Find an alternative mechanism for removing AECC's debt burden.
- 5.4 Following the above decision, Officials submitted a subsequent report to 9th November 2010 Council meeting (EPI/10/264) and, as a result of this, it was agreed that officials should negotiate with AECC Ltd to:
- Achieve the reversion of all existing leases relating to land currently leased to the AECC, and the transfer of ownership of all AECC owned buildings and assets, from the AECC to the Council<sup>2</sup>.
  - Agree a "buyout" fee (based on the market value of the leases), which would immediately be used to repay an equal amount of the AECC's current outstanding debt to the Council
  - Agree a contract, of sufficient value, to enable AECC Ltd to manage, operate and develop the business of the AECC, subject to suitable performance targets being met.
  - Agree terms for a full repair and maintenance lease over the buildings and assets currently owned by the AECC to run concurrently with the management and operating contract above.
- 5.5 Following the above negotiations, it was anticipated that officials would:
- i.) Prepare and submit a report to both Enterprise Planning & Infrastructure (EP&I) and Finance & Resources (F&R) Committee outlining options and terms for reverting all existing leases relating to land currently leased to the AECC, and transferring ownership of all currently owned buildings and assets, from AECC Ltd to the Council.
  - ii.) Undertake a procurement exercise, using the appropriate process, to identify suitable development and investment partners interested in establishing a joint venture development company to assume responsibility for the future development of all Council owned land and buildings in and around the AECC. This development would be undertaken on the basis of a pre-agreed 20-30 year development plan, which includes the construction of a four star hotel, and which takes full account of the future business development needs of the AECC. Consideration would be given to the creation of a Local Asset Backed Vehicle (LABV) to help fund this development.
  - iii.) Negotiate the possible inclusion of the AECC buildings, the proposed new hotel and all of other Council owned land in and around the AECC, in any potential LABV<sup>3</sup>.

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<sup>2</sup> At their last Board meeting, AECC Board discussed the option of transferring some assets that the AECC Board regard as having scope for development, without impacting on the AECC's day to day operation. A consensus on the need to transfer all assets has therefore yet to be reached.

- iv.) Prepare and submit a report to both EP&I and Finance & Resources Committee outlining the proposed;
  - Terms for creating the proposed joint venture development company
  - Terms for creating a LABV,
  - Assets to be included in the LABV and the terms relating to their inclusion,
  - Long-term development plan for Council owned land and buildings in and around the AECC
  - Relationship, if any, between the joint venture development company and the City Development Company
- v.) Ensure that the proposed management services contract given to AECC Ltd is of sufficient value to replace the current AECC annual revenue grant.

5.6 During the course of November 2010, an Audit and Risk report was produced to review the management of the aborted hotel project and the governance arrangements for AECC. This report was presented to full council on 15th December and a follow up report presented to Audit and Risk Committee on 29 March 2011.

5.7 Progress in relation to key action points relating to AECC has been regularly reported to Committee in various update reports, the last of which (EPI/11/071) was presented to EP&I Committee on 15 March 2011. This Committee agreed that Bulletin Reports would thereafter be submitted on a quarterly basis. The last bulletin report was produced for EP&I meeting on 13 September 2011 since, due to an oversight, no Bulletin Report was produced for the most recent EP&I Committee Meeting on 31 January 2012.

5.8 Progress in respect of the key action points identified in previous Council Papers is outlined in the following table.

Required Action as at November 2010	Progress to 13 September 2011	Current Situation as at 29 February 2012
Establish an appropriate governance framework for AECC which; <ol style="list-style-type: none"> <li>1. defines the Board composition,</li> <li>2. clarifies roles and responsibilities and establishes a clear</li> </ol>	<ul style="list-style-type: none"> <li>o AECC Board had agreed their Business Plan, which sets out the company's operational plan for the next three years.</li> <li>o Implementation of this plan to form the basis of</li> </ul>	<ul style="list-style-type: none"> <li>o A proposed draft SLA has been produced and is with Legal and Democratic Services for comment and revision. It then</li> </ul>

<sup>3</sup> See footnote 2 above.

<p>schedule of decisions reserved for Board approval or a scheme of delegation</p> <p>3. adopts appropriate performance monitoring and reporting arrangements</p> <p>4. includes a robust and sustainable strategy and financial plan</p>	<p>an operating and Service Level Agreement (SLA) between the Council and AECC Ltd.</p> <ul style="list-style-type: none"> <li>○ A draft SLA had been submitted to AECC for discussion.</li> <li>○ It was anticipated that this SLA would be agreed as soon as there is clarity concerning AECC's responsibilities in terms of the land and assets they need to deliver their business plan.</li> <li>○ Performance and monitoring to be carried out against the activities, actions and outputs within the business plan, in accordance with the terms of the proposed SLA.</li> </ul>	<p>needs to be agreed by the AECC Board.</p> <ul style="list-style-type: none"> <li>○ Regular monthly management meetings are already being held to address performance related issues identified in the proposed draft SLA.</li> </ul>
<p>Establish standing financial instructions and implement appropriate management financial controls and procedures, including risk management procedures and improved month-end financial controls. A risk register should be produced and reported quarterly to the AECC Board and ACC.</p>	<ul style="list-style-type: none"> <li>○ The AECC are complying with this requirement.</li> </ul>	<ul style="list-style-type: none"> <li>○ Regular meetings are held between AECC Executives and Senior Officers in advance of each AECC Board meeting, to review performance against plan.</li> <li>○ AECC risk register is monitored by AECC Board</li> <li>○ ACC Senior Officers are provided with AECC Board papers and attend Board meetings</li> </ul>
<p>Produce a Business Plan that defines clear criteria against which performance can be measured by the AECC</p>	<ul style="list-style-type: none"> <li>○ A Business Plan was agreed by the AECC Board</li> <li>○ Lines of responsibility and accountability to be</li> </ul>	<ul style="list-style-type: none"> <li>○ A proposed draft SLA, which requires AECC to deliver services according to their business</li> </ul>

<p>Board or the Council. The lines of responsibility and accountability between the ACC and AECC for the setting of strategic priorities and monitoring of financial and operating performance for the AECC need to be formally agreed.</p>	<p>formally agreed within the proposed SLA</p>	<p>plan has been produced and is with Legal and Democratic Services for comment and revision. It then needs to be agreed by the AECC Board.</p>
<p>Reconfirm and clarify the strategic priorities for the AECC and the reporting and accountability lines between the AECC and ACC</p>	<ul style="list-style-type: none"> <li>○ A letter had been sent to AECC by the Director Enterprise, Planning and Infrastructure setting out the AECC's strategic priorities and expected accountability lines. This required the AECC to regard maximization of operating profit/reduction of operating losses as being their primary priority.</li> <li>○ These priorities to be re-emphasized within the proposed SLA</li> </ul>	<ul style="list-style-type: none"> <li>○ The proposed draft SLA reinforces these priorities</li> </ul>
<p>Implement robust tendering and procurement procedures when procuring goods or services, to ensure AECC is achieving best value for money</p>	<ul style="list-style-type: none"> <li>○ Revised tendering procedures had been put in place by the Board of AECC Ltd.</li> </ul>	<ul style="list-style-type: none"> <li>○ Revised tendering procedures are in operation</li> </ul>
<p>Revise the Articles of Association for AECC to reflect current legislation and best practice</p>	<ul style="list-style-type: none"> <li>○ These revised Articles are to be placed before the Board at a meeting this month and will be referred to Council for the resolution to be approved.</li> </ul>	<ul style="list-style-type: none"> <li>○ Following Council approval of the resolution, this task will be completed.</li> </ul>
<p>Incorporate a formal review process into the annual work programme for the AECC Board and Council committee cycle.</p>	<ul style="list-style-type: none"> <li>○ This will be agreed as part of the performance monitoring procedures to be included in the proposed SLA agreement</li> </ul>	<ul style="list-style-type: none"> <li>○ Incorporated within the proposed draft SLA</li> </ul>

<p>Clarify the level of authority that the AECC Board has and what decisions require ratification by ACC</p>	<ul style="list-style-type: none"> <li>○ To be clearly set out in the proposed SLA</li> </ul>	<ul style="list-style-type: none"> <li>○ Incorporated within the proposed draft SLA</li> </ul>
<p>Establish procedures whereby an appropriate ACC official, who is not a director of AECC, has an oversight role regarding AECC. This individual should attend regular AECC meetings and have a clearly defined remit as to their responsibilities for monitoring AECC</p>	<ul style="list-style-type: none"> <li>○ The Council's project Director for Economic and Business development had assumed this role.</li> <li>○ A clear remit had still to be agreed as part of the proposed draft SLA.</li> </ul>	<ul style="list-style-type: none"> <li>○ Project Director attends regular monitoring meetings involving CEO and Finance Director of AECC, plus AECC Chairman and ACC's Director of EP&amp;I</li> </ul>
<p>Agree, with AECC, the form, content and frequency of reporting needed by the Council and the basis of circulation of such reports</p>	<ul style="list-style-type: none"> <li>○ This to be determined as part of the proposed draft SLA.</li> </ul>	<ul style="list-style-type: none"> <li>○ Incorporated in the proposed draft SLA</li> </ul>
<p>Ensure that all AECC Board members are subject to a formal appointment process and an annual performance appraisal. Consideration should also be given to the co-opting of non executive directors from the independent business sector to enhance and strengthen the skills and experience of the Board</p>	<ul style="list-style-type: none"> <li>○ AECC Ltd. has recently appointed 2 new private sector Board members, following an open and transparent recruitment process.</li> <li>○ AECC Ltd is currently considering how Board members can best be subjected to performance monitoring. Most likely, each Director will need to stand for formal re-election, after a reasonable period of time.</li> </ul>	<ul style="list-style-type: none"> <li>○ This has been incorporated into the AECC's Memo and Arts.</li> </ul>
<p>Support AECC in their efforts to replace three of their current councilor Board members with three new, non-councilor Board members (to be appointed following external advertisement)</p>	<ul style="list-style-type: none"> <li>○ Two new non-Councilor Directors and a non-Councilor Chairman have been appointed. AECC Ltd. can still appoint a third non-Councilor Director. However, the Board</li> </ul>	<ul style="list-style-type: none"> <li>○ A third Director has since been appointed, so AECC now have five non-exec directors on their Board, as planned. (AECC Board now</li> </ul>

<p>and appoint a non-councilor chairperson, as agreed by Council in February 2010.</p>	<p>could only identify two suitable Directors during the recent recruitment process and felt it was therefore best to indefinitely postpone the appointment of a third Director.</p>	<p>comprises 5 Non execs, 5 Councilor Directors and 2 Executive Directors)</p>
<p>Convert current short-term loans to preference shares in accordance with previous decisions taken by the Council in February 2010.</p>	<ul style="list-style-type: none"> <li>○ ACC Finance and Legal Teams have almost completed the necessary arrangements to comply with this Council decision.</li> </ul>	<ul style="list-style-type: none"> <li>○ ACC Finance have confirmed that this has been approved by them, but the documentation (i.e. issue of new preferential shares and revised loan agreements etc) still needs to be finalised.</li> </ul>
<p>Undertake a procurement exercise, using the appropriate process, to identify suitable development and investment partners interested in establishing a joint venture development company to assume responsibility for the future development of all Council owned land and buildings in and around the AECC. This development would be undertaken on the basis of a pre-agreed 20-30 year development plan, which includes the construction of a four star hotel, and which takes full account of the future business development needs of the AECC. Consideration would be given to the creation of a Local Asset Backed Vehicle (LABV) to help</p>	<ul style="list-style-type: none"> <li>○ A draft pre-qualification questionnaire (PQQ) was produced and submitted to Council's procurement team in December 2010. Since then, numerous discussions have been held between officials to finalise this PQQ.</li> <li>○ Officials are currently exploring options for using external consultants to support this process, with the costs being met by EP&amp;I.</li> </ul>	<ul style="list-style-type: none"> <li>○ No ACC internal resources were available and no budget is currently available to support external costs associated with this procurement process. The PPQ cannot be issued until a budget can be found, or internal resources become available.</li> <li>○ In the meantime EP&amp;I officials have started discussions with AECC regarding the preparation of a development brief for the future development of AECC controlled assets. A brief outline of the parameters of this brief is attached as</li> </ul>



fund this development.		Appendix 2
<p>Prepare and submit a report to both Enterprise Planning &amp; Infrastructure (EP&amp;I) and Finance &amp; Resources (F&amp;R) Committee outlining options and terms for reverting all existing leases relating to land currently leased to the AECC, and transferring ownership of all currently owned buildings and assets, from AECC Ltd to the Council.</p>	<ul style="list-style-type: none"> <li>○ Arrangements for reverting existing leases and transferring control of AECC buildings and assets to ACC are currently the subject of discussion between our Asset management Team and Finance Team.</li> <li>○ It is taking longer than anticipated to agree a process for achieving this objective that takes full account of AECC's complicated financial situation, the value of the assets and the impact of any proposed transfer of assets on AECC's and ACC's respective balance sheets.</li> <li>○ ACC Finance officials are currently working to find an appropriate mechanism for achieving the recommendations previously adopted by Council.</li> </ul>	<ul style="list-style-type: none"> <li>○ ACC Finance Team is working through the impact and treatment to enable the transfer of current AECC assets into ACC control.</li> </ul>
<p>Negotiate the possible inclusion of the AECC buildings, the proposed new hotel and all of other Council owned land in and around the AECC, in any potential LABV.</p>	<ul style="list-style-type: none"> <li>○ This will be subject to the: <ul style="list-style-type: none"> <li>- transfer of assets to ACC</li> <li>- creation of a proposed JV with a development partner</li> <li>- the JV company's need to use asset backed finance as a funding mechanism</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>○ The position with regard to these points has not changed.</li> </ul>
<p>Prepare and submit a report to both EP&amp;I and Finance &amp; Resources</p>	<ul style="list-style-type: none"> <li>○ This can only be prepared once: <ul style="list-style-type: none"> <li>- a development partner</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>○ The position with regard to these points has not</li> </ul>

<p>Committee outlining the proposed;</p> <ul style="list-style-type: none"> <li>• Terms for creating the proposed joint venture development company</li> <li>• Terms for creating a LABV,</li> <li>• Assets to be included in the LABV and the terms relating to their inclusion,</li> <li>• Long-term development plan for Council owned land and buildings in and around the AECC</li> <li>• Relationship, if any, between the joint venture development company and the City Development Company</li> </ul>	<p>has been selected.</p> <ul style="list-style-type: none"> <li>- all AECC assets are controlled by ACC and available for use as a possible contribution to any JV between ACC and the selected development partner.</li> <li>- a view has been taken with regard to the feasibility of using AECC assets to create a local asset backed vehicle to help fund the JV's development activities</li> <li>- the final arrangements for creating a City Development Company are known</li> </ul>	<p>changed.</p>
<p>Ensure that the proposed management services contract given to AECC Ltd is of sufficient value to replace the current AECC annual revenue grant.</p>	<ul style="list-style-type: none"> <li>○ The Service Level Agreement (SLA) currently being discussed with AECC will likely need to be negotiated on the basis of continuing the existing level of annual revenue grant for 2011/12 and possibly also for 2012/13. Thereafter, the nature of this SLA will need to change to reflect proposed changed responsibilities in relation to the ownership, use and maintenance of assets needed to support the delivery of AECC's services.</li> </ul>	<ul style="list-style-type: none"> <li>○ A proposed draft SLA has been agreed on the basis of continuing the existing revenue grant support and is with Legal and Democratic Services for comment and revision.</li> </ul>

5.9 In summary,

- i.) AECC is complying with all the governance issues highlighted in last year's Audit and Risk report.
- ii.) AECC and ACC officials have negotiated a proposed draft Service Level Agreement, based on the provision of a continued revenue grant, which encapsulates all Audit Report requirements in relation to the ongoing management and oversight of AECC's operational performance. This is currently with ACC Legal and Democratic Services for comment and revisal. It then needs to be agreed by the AECC Board.
- iii.) Proposals for appointing a development partner to help realise value through the development of land and assets in and around AECC were initiated in December 2010, by our Economic and Business Development Service, with the preparation of a Pre-Qualification Questionnaire. However, the procurement of a development partner could not proceed until a) a budget had been secured to cover the cost of external legal and financial support needed to assist in this process, and b) a potential mechanism had been agreed for the transfer of assets needed to implement any joint development proposal.
- iv.) ACC's planning Team are currently preparing a development brief that will now be included in any procurement documentation and, since it is now clear that there are insufficient internal resources to support the proposed procurement process, Council are being asked to approve a budget for external legal and financial advice as part of this paper.
- v.) ACC's Finance Team are currently considering a number of options for transferring control of assets from AECC Ltd to ACC, commensurate with a desire to minimise any adverse impact upon AECC and ACC balance sheets or future revenue streams. However, a definitive mechanism for achieving this goal has yet to be identified.
- vi.) ACC officials monitor the performance AECC Ltd through regular attendance of EP&I's Corporate Director at AECC Board Meetings and through regular management meetings between Senior AECC Management, ACC's Project Director, Economic and Business Development and EP&I's Corporate Director
- vii.) AECC's Managing Director has prepared a brief presentation on AECC's operational performance to date, which is attached as Appendix 1 to this report

## 6 IMPACT

6.1 The project contributes significantly and directly to the achievement of five SOA National Outcomes:

- 1 We live in a Scotland that is the most attractive place for doing business in Europe
- 2 We realise our full economic potential with more and better employment opportunities for our people;
- 10 We live in well-designed, sustainable places where we are able to access the amenities and services we need;
- 12 We value and enjoy our built and natural environment and enhance it for future generations;
- 13 We take pride in a strong, fair and inclusive national identity

6.2 Vibrant, Dynamic and Forward Looking emphasises the fact that the future prosperity of our city depends on ensuring that Aberdeen becomes an even more attractive place in which to do business and so ensure that high quality employment opportunities exist for citizens.

6.3 It then goes on to highlight how this aim will be achieved by continuing to promote Aberdeen as the Energy capital of Europe and seek to lead in the field of renewable energy.

6.4 The AECC is a key element of the business infrastructure needed to promote Aberdeen as the Energy capital of Europe. Therefore the provision of continued support to maintain this asset, and enable it to develop and do an even better job, is essential.

6.5 The AECC is also, however, located on a site that has the potential to realize greater value to the Council by pursuing a sensible long-term development plan, in partnership with developers and investors that have the skills and expertise to do this in a cost-effective manner. This paper seeks to present an update on progress towards this goal.

6.6 No Equality Impact Assessment has been carried out in connection with this paper.

## 7 BACKGROUND PAPERS

EP&I Committee Bulletin Report, 13 September 2011

EP&I Committee Update Report EPI/11/071, 15 March 2011

EP&I Committee Update Report EPI/11/048, 18 January 2011

EP&I Committee Report EPI/10/264, 9<sup>th</sup> November 2010

8 REPORT AUTHOR DETAILS

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## Appendix 2

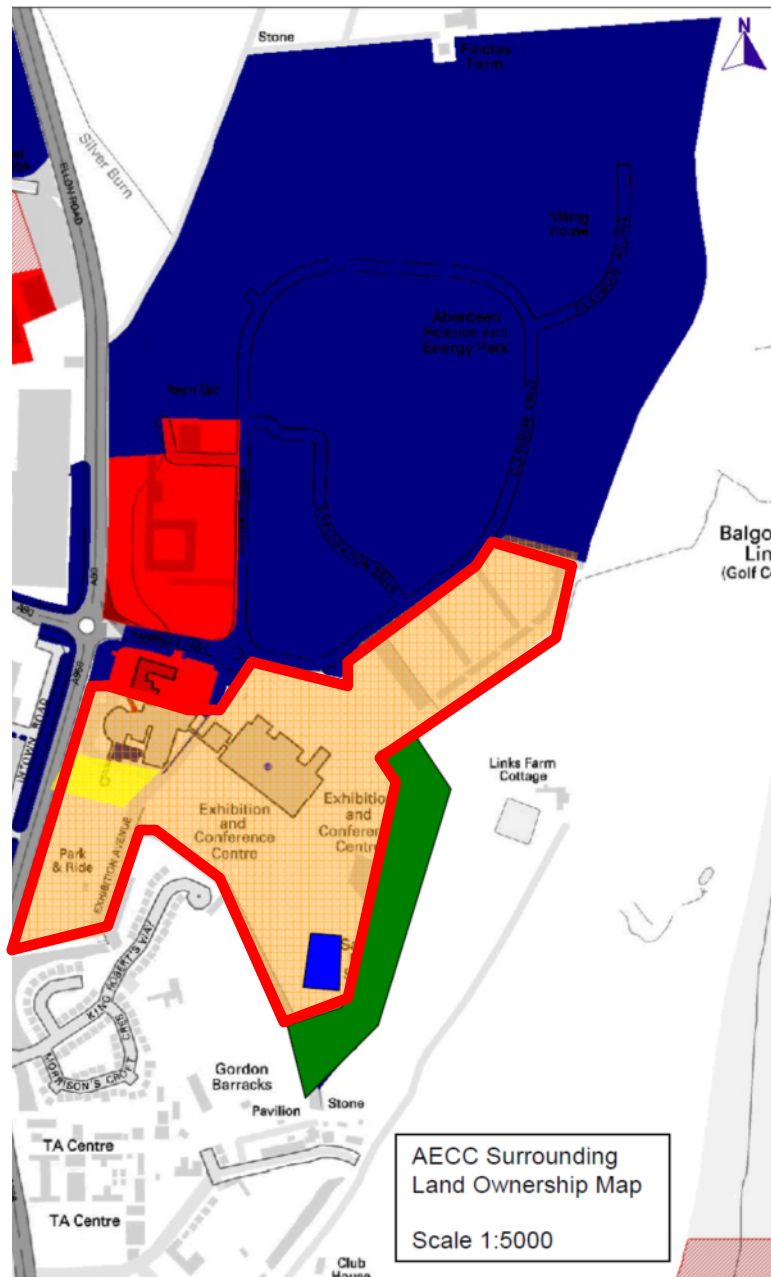
### **Outline Parameters for Development Brief**

The development brief aims to set out a spatial framework for the way in which the Aberdeen Exhibition and Conference Centre (AECC) site – as defined by the red-line area on Map 1 below – could be developed in the future.

The brief will:

1. Provide high level strategic guidance for the site, with recommendations for development capacity, transportation, access and the development design for future planning phases.
2. Be prepared in accordance national, regional and local planning policies, the Aberdeen Master Planning Process: A Guide for Developers (July 2010) and other relevant urban design guidance.
3. Provide guidance on:
  - site organisation - taking account of the need to deliver the Offshore Europe exhibition (see previous 2011 venue layout in Map 2 below)
  - appropriate land use
  - access and connectivity
  - sense of arrival and movement hierarchy
  - public realm
  - architecture and design
  - transportation, including public transport and car parking
  - landscape framework
  - future capacity for major events (All Energy, Oil Exhibition etc)
  - strategic relationship to other venues
  - concert venue
  - phasing
  - delivery
4. Inform the production of a detailed development framework for the AECC site which would be the subject of public consultation with a view to adoption as supplementary guidance to the Aberdeen Local Development Plan.
5. Be completed by the end of April 2012.

# MAP 1 - AECC DEVELOPMENT SITE AND SURROUNDING LAND OWNERSHIP MAP



- Land previously sold by Aberdeen City Council to business owners
- Land owned by Aberdeen City Council and currently leased to AECC
- Land owned by Aberdeen City Council and currently leased to private businesses (long term ground leases)
- Land owned by Aberdeen City Council and currently leased to a single private business (lease expires in 2016)
- Land owned by Aberdeen City Council and designated as green belt
- Area currently identified as a new hotel development site (planning consent already granted)
- Development Site Area



## MAP 2 - OFFSHORE EUROPE 2011 VENUE LAYOUT

