

NEWCASTLE-UNDER-LYME BOROUGH COUNCIL
EXECUTIVE MANAGEMENT TEAM'S REPORT TO CABINET

10th December 2014

Report Title: Ryecroft Developer Nomination

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Portfolio: Economic Development, Town Centres, Business and Customer Service

Ward(s) affected: Town / All

Purpose of the Report

To consider the bids received from developers shortlisted to take forward the redevelopment of the Ryecroft site in Newcastle Town Centre and to nominate a preferred development partner to work up detailed proposals leading to a Development Agreement.

Recommendations

1. That, taking account of the commercially sensitive and confidential information contained in the Part 2 report, the selection of Developer A as preferred development partner for the Ryecroft scheme be agreed and the other two shortlisted bidders be formally notified of this decision and thanked for their interest and proposals.
2. That officers be instructed to enter into a Co-operation agreement' with Developer A, as described more fully in the body of the reports during which detailed scheme proposals can be progressed in conjunction with the negotiation of a development agreement.
3. That the relevant Portfolio Holder be authorised to sign the formal and full version of the Co-operation Agreement at the earliest opportunity.
4. That officers be authorised to continue working with County Council colleagues regarding preparation of the full business case for the re-provision of Civic Offices on the basis set out in the report.

Reasons for the above recommendations

1. To enable the preferred development partner (Developer A) to progress meaningful discussions with prospective occupiers, the two local authorities and other key stakeholders, to develop further its design ideas and to explore opportunities with contractors for refining scheme costs.

2. To provide Developer A with the confidence to invest their time and resources on developing their scheme further 'at risk'. In addition their nomination will also provide potential tenants with the confidence that they are being engaged by the selected development partner.
3. To ensure that Members have the necessary information to make an informed decision.
4. To enable effective modelling and costing of options to re-provide office accommodation.

1. Background and context

- 1.1 For some time the Council has been concerned about the trading performance of Newcastle Town centre resulting from the long term drift away from custom and spending in traditional town centres toward out of centre retail parks. To illustrate the point, the latest report on retail leakage prepared by the retail monitoring group CACI shows that over 28% of retail spending from Newcastle's catchment population now takes place in out of town retail parks, one of which alone, Festival Park, has now overtaken local spending in Newcastle Town Centre itself. (CACI Retail Leakage Report 2014). The Council's engaged retail consultants, Cushman and Wakefield, advise that

“In the absence of carefully planned inward investment, the town will struggle to return to previous levels and maintain healthy growth rates once market conditions improve. The situation is further exacerbated by the planned strengthening of competing centres and additional pressure imposed by emerging off-centre retail proposals.”

- 1.2 For this reason, and, as Members are aware, for some time now the Borough and County Councils have been working toward bringing forward a significant retail-led / mixed use development in the northern part of Newcastle town centre, known as 'Ryecroft'. The 'Ryecroft' site is centred on the Civic Offices site and the former Sainsbury's site along with a small proportion of adjoining land currently under third party ownership. Officers of the two Councils have been working closely with retail development consultants, Cushman & Wakefield (C&W) to this end and to reach this stage a good deal of preparatory work has been carried out to establish:-

- the optimal location in the town centre for such a scheme (prior to settling on the Ryecroft site),
- the optimal size of investment necessary in order to give the town the required 'shot in the arm' it needs to attract significantly greater patronage and spending,
- the broad content of such a scheme, given planning objectives, economic impact, likely demand, local catchment and commercial viability considerations, and
- the means by which any scheme might best link with the existing town centre and so enable the rest of the town centre to share in the benefit of increased numbers of people visiting the town.

- 1.3 Members will be aware that the County Council is also working closely with this Council in planning for and designing more cost effective replacement office accommodation which the two Councils will need in the event that the Ryecroft scheme goes ahead.
2. The Competitive Bidding Process
 - 2.1 Until the opportunity was put to the market to draw out firm developer interest, all the work undertaken so far could only serve as preparatory work to establish what the town needed and the role that the site might be able to play in meeting this. The UK retail market is dynamic (as we have seen with the recent turbulence in the trading performance of the 'big four' major supermarkets), so, to test developers' appetite for investing in Newcastle Town Centre, a competitive bidding process was drawn up. As a result of this, earlier this year, Cabinet approved the launch of a marketing campaign to attract developer interest in carrying out a retail-led mixed use development to an agreed brief. Three developers were shortlisted from this process and invited to work up an indicative scheme layout and design, with an indicative schedule of uses and unit sizes, target occupiers, a breakdown of estimated costs, values and rents and a financial offer.
 - 2.2 A summary of the three bids is contained in Part 2 of this report which, for reasons of commercial sensitivity, is not included in the public part of your agenda. The bid submitted by Developer A is deemed to provide the highest total financial consideration taking into account the probability and level of overage offered. This bid is recommended to you, and the key elements of the bid and outline scheme are set out in Part 2 of this report.
 - 2.3 In addition to putting forward the strongest financial offer, C&W's and your officers' evaluation of the shortlisted bids placed Developer A's scheme and offer above the other two for a combination of reasons. One of the bids received fell well below the Councils' expectations of financial return and would not have enabled the two authorities to fund the re-provision of new Civic Offices (thereby raising affordability / deliverability issues). The third bid was considered satisfactory in financial terms (although not as high as Developer A when considered by virtue of the total consideration likely to be achieved) but its form and layout was not sufficiently well integrated to the town centre and it was considered that this scheme would function as much as a *competing* centre to the town as a strengthening of the town centre's retail offer. Additionally the scheme was less comprehensive in terms of the land-use mix (thereby less likely to deliver added value to the town centre economy).
3. Financial considerations
 - 3.1 Part 2 of the report sets out Developer A's financial offer together with its proposal for overage. This is the Councils' share in any additional receipt which would arise if value assumptions realised are higher or cost assumptions lower than originally assumed. These figures would be subjected to a full 'open book' accounting to ensure that the two councils received their due share.
 - 3.2 The figures contained in Part 2 of the report do not represent the actual offer, however, they are indicative of the best judgement of what the Councils might

reasonably expect to receive throughout the lifespan of project by way of total consideration based upon current market assumptions. It is proposed that Developer A will now enter into more serious negotiations with occupiers (to agree leases and rental levels), with contractors (to review budget costings) and other stakeholders (e.g. to seek assurances on lettings) etc.

4. Next steps

- 4.1 Developer A is recommended as the preferred development partner and it is proposed, subject to Cabinet approval, to provide the developer with a six month exclusivity period by way of a 'Co-operation Agreement'. This would allow the developer to enter into discussions with prospective occupiers with the status and confidence of 'preferred developer' status. The developer will also be using this time to refine the design of its scheme and have more detailed discussions with contractors about the price of construction contracts. The combined effect of these should be that by the time the Councils are in a position to sign a Development Agreement with the developer, likely by next Summer, its financial appraisal (and resultant offer) will have been crystallised and the names of the occupiers will be known with greater certainty. For more information about the nature of such an agreement Members should refer to the confidential Appendix 2 attached to the Part 2 Report.

5. Timetable hereon in

If the additional third party land required to implement the end scheme can be acquired by private treaty (avoiding the need for CPO), and subject to Councils' approval at each stage, the estimated timetable for undertaking the scheme is estimated as follows:

- Developer A and the Councils sign Co-operation Agreement – Dec 2014/Jan 2015
- Developer A and the Councils sign Development Agreement - June 2015
- Planning application submitted - October 2015
- Planning permission granted - January 2016
- Start on site - mid 2016
- Completion of development – late 2018

6. The New Civic Hub

- 6.1 Plans for the proposed Civic Hub will be the subject of a separate and detailed report which should be available around mid-2015 to align with the completion of work on Ryecroft. Nevertheless it is important at this stage to highlight the fact that each of the three shortlisted developers had incorporated the site of the current Civic Offices in order to facilitate a comprehensive scheme. As Members are aware the Council's preparedness to vacate the said site is predicated upon having an affordable and otherwise satisfactory relocation option. It is intended that a full business case in this regard will be worked up in conjunction with the Ryecroft proposals such that they will both be available to consider by the time that the preferred developer has completed

all the necessary preliminary work and is in a position to sign a Development Agreement.

6.2 With regards to vacating the Civic Offices, the report to Council on 27.11.2013, made reference to the need to explore a range of options including one of relocation into other (vacant) freehold council owned offices. Since that time several of the properties under consideration have either been successfully let or agreed for sale. Thus it is no longer feasible to progress development of a business case in respect of this option. It is therefore considered appropriate to proceed with modelling a detailed business case in respect of two options:-

- Remain in the current Civic Offices undertaking essential works only to provide a weather-tight building with a reasonable life-span (i.e. do minimum) and;
- Vacate the Civic Offices and relocate into a new building, with this being constructed on the (preferred) site of the former St Giles & St Georges School, Barracks Road.

6.3 As part of the preliminary modelling, the borough council's spatial accommodation requirements have been reviewed following the recent relocation of staff for reasons of operational efficiency (Environmental & Landscape teams) to the Knutton depot. This review together with informed advice derived by our County Council partners in respect of their Staffordshire Place operational experience indicates there is opportunity to enhance space utilisation both in terms of the average occupational densities (space per person and numbers of workstations allocated), taking account of flexible and agile working patterns.

6.4 The effect of adopting more modest ratios is that the net internal office floor space requirement for the Borough Council would reduce (potentially significantly) with consequential construction cost savings derived along with reduced ongoing revenue costs.

7. Financial Implications

7.1 At this stage there would be no further significant financial implications arising from the substantive content of this report or its recommendations. It is intended that the next significant stage of the process will address the overall affordability and financial implications of the two projects (i.e. Ryecroft development and Civic Offices re-provision) taking account of both capital and revenue.

7.2 For the sake of completeness officers can report that the Council's budgetary allocations to support the project at this preliminary stage have been adequate. The £50k capital funding provision for the demolition / remediation works has been slightly underspent whilst the revenue contribution should be sufficient to meet the likely expenditure arising from preparation of the full business case for the re-provision of the Civic Offices.

8. Major Risks

8.1 The key step here being recommended for your approval is the nomination of a preferred developer and entering into an exclusivity agreement which identifies Developer A as the developer that the two Councils wish to now work with. This

does not, in itself, obligate the Councils to a contract with the said party or agree the scheme itself. The only notable risk associated with this step is that the Councils would be deciding to not pursue any further the interest from the other two parties. However, if the Ryecroft project is to move forward, this is a decision which must be taken at this juncture. Once Developer A is granted preferred developer status, Members should be able to see tangible progress on firming up the financial offer, the scheme design and the identification of occupiers.

- 8.2 Our jointly-commissioned consultants, C&W advise that the 'do nothing' approach would be prejudicial to the future vitality and viability of the town centre. The scheme proposals identified by Developer A will enable the town to provide new retail and leisure entrants and increase the overall footfall to reinvigorate the town centre. The full extent of any socio-economic impacts can be fully assessed as part of the next stage of the process.
- 8.3 The major risks relating to the Civic Offices re-provision relate to the construction/related costs and the apportionment of costs with potential partners. These will have been addressed as part of the full business plan preparation.

9. Earlier Cabinet Resolutions

- 9.1 Report to Council 28.07.2010, 'Freehold acquisition of land & property, no's 10 – 16 Liverpool Road, Newcastle (Sainsbury's)'
- 9.2 Report to Council 23.03.2011 – Strategic site acquisition and Town Centre Regeneration Partnership
- 9.3 Report to Council 29.06.2011 – 'The freehold acquisition of the former Sainsbury's site at 10-16 Liverpool Road, Newcastle.'
- 9.4 Report to Cabinet 14.03.2012 - Progress report regarding the Ryecroft scheme and appointment of Retail Specialist Consultants
- 9.5 Report to Full Council 27.11.2013

10. Background Documents

- 10.1 Confidential advice prepared by Cushman and Wakefield following stage 2 of the developer nomination process.
- 10.2 Part 2 report on this agenda and the appendices therewith.