

NEWCASTLE-UNDER-LYME BOROUGH COUNCIL

**EXECUTIVE MANAGEMENT TEAM'S
REPORT TO**

Economy Environment and Place Scrutiny Committee
16 March 2023

Report Title: Future High Street Fund and Town Deal Update

Submitted by: Executive Director Development and Growth

Portfolios: Finance, Town Centres and Growth

Ward(s) affected: Town

Purpose of the Report

To provide an update on progress on key projects within the Future High Street (FHSF) and Town Deal Funded Programme, these being the new Castle Multi Storey Car Park on Ryecroft and the redevelopment of York Place Shopping Centre.

Recommendation

That

1. That Members note the potential benefits of the proposals, the progress made and risks associated with delivery a major regeneration programme for Newcastle town centre.

Reasons

To provide an opportunity for scrutiny of the budgets and funding for the key developments in the FHSF and Town Deal programme of regeneration.

1. **Background**

- 1.1 As Members will be aware through the regular updates provided at Scrutiny the Borough Council has received over £50m of Government funding through the Future High Street and Town Deal programmes of grant funding. This represents a significant opportunity for the Council to drive investment in the Borough with a focus on economic regeneration benefits. This is a significant opportunity to tackle sometimes long standing and difficult issues with a degree of funding that would not otherwise be available to the Council.
- 1.2 A series of interventions across both Newcastle and Kidsgrove are currently underway – over 15 individual projects in total, excluding the Advanced Town Deal Projects that were completed in 2021. Delivery of these projects is both directly by the Council itself and also with a range of delivery partners who are likewise investing substantial amounts in driving forward the opportunity presented.
- 1.3 This report will focus on:-
 - the redevelopment of York Place Shopping Centre
 - The new Castle Multi Storey Car Park on Ryecroft

1.4 The strategic case for these projects has been set out respectively in the Future High Street Funding bid or Newcastle Town Deal Investment Plan. The focus of the interventions is to drive significant regenerative benefit in Newcastle town centre with a series of linked interventions addressing those areas that have great opportunity to uplift the appearance and economic performance of the town centre. A draft masterplan for the Ryecroft area has been produced to support its redevelopment.

2. **Progress to Date and Issues**

2.1 Demolition and Redevelopment of York Place

Redevelopment of York Place was included in the Future High Streets Fund Bid as it is an aging property that was struggling to retain tenants and had a developing issue with anti-social behaviour in Astley Walk. Following Council acquisition of the site in February 2022 Willmott Dixon were appointed as Design and Build contractor to redesign the site, submit a planning application, demolish the building and redevelop the site.

Willmott Dixon have worked with the Council on designs for York Place resulting in a planning application being submitted in December 2022. It should be noted that as York Place is in the Town Centre Conservation Area demolition will not be permitted unless there is a proposal for its replacement.

The proposed buildings will provide a mix of uses including commercial office space and active retail and food and beverage uses on the ground floor, with the market ultimately determining the precise mix. The development is arranged over two blocks with connectivity between Merrial Street and Ironmarket and a small public square between the two buildings providing the opportunity for animation through outdoor dining and small-scale performances. The new development has been designed to achieve Net Zero Carbon In Operation status through a series of measures embedded within the substructure, superstructure as well as solar panels, ground source and air source heat pumps.

A planning application has been submitted for the scheme to allow for the demolition of the existing building, funded by FHSF grant. The work for this needs to progress at pace to ensure spend by the FHSF deadline of March 2024 and to avoid the impact of holding costs, such as empty property rates if the building were to stand empty.

The Council is exploring the best option for taking forward the redevelopment phase of the project. This is aimed at getting the best deal for the redevelopment and a procurement exercise is being prepared to seek a partner for this. A procurement specialist is supporting this approach. Early soft market testing has provided feedback of what the market will need from the Council as partner. To date this feedback is giving the Council confidence in its ability to be an active and positive partner.

There are positive indications for the 'pre-letting' of space once developed and the Council will seek to have some pre-lets in place prior to a construction contract being awarded, giving both the Council and any perspective partner confidence in future income levels from the development.

The existing tenants have all been consulted with over the past year and we have assisted several relocate to, as were, empty retail units in the Lancaster Building, Castle Walk units and several units along the High Street. There have been a few hurdles we have had to cross in getting all retailers on board and relocated but the vast majority of the tenants have understood the need and agree that the centre is due for redevelopment and have actively worked with the Council to sort the relocation and the financial support that was available to them. We are

confident that all tenants will have relocated out of the building by June 2023 in time for the demolition to commence.

2.2 York Place Capital budgets/funding

York Place has allocation of £3,015,218 of FHSF to fund purchase of the existing complex (now complete), relocation costs for the existing tenants (in progress) and demolition of the existing complex. FHSF grant must be spent by the end of March 2026.

The Council is seeking a Joint Venture partner to progress the redevelopment. Redevelopment of the site will be funded from Council borrowing, Subject to Government approval, there is potential for an amount of Newcastle Town Deal funds to be contributed, subject to a particular use in one of the ground floor units.

The principal cost of delivering the scheme as submitted for planning permission stands at c.£20m. This includes build and demolition costs, costs associated with achieving a Net Zero Carbon development as well as provision for sunk costs and Section 106 contributions.

Based on development costs of c£20m and a current PWLB annuity borrowing rate of 4.94% over a loan period of 40 years, the development generates a surplus of c.£2,778,000 over the 40 year period, an in year surplus is generated from year 19 onwards, offsetting borrowing costs of £1,156,000 per annum. A value engineering exercise on the scheme, and/or waiting for construction material inflation to cease, in order to ensure that a £18m scheme is deliverable will show an in year surplus from year 14 onwards. The Council's borrowing may reduce subject to the nature of any JV entered into.

2.3 Castle Car Park on Ryecroft

A key enabler of the regeneration of the town centre, and of the Ryecroft and Midway sites in particular is the development of a new multi-story carpark which would include a step change in quality of provision, including installation of electric vehicle charging points at a scale to meet anticipated future demand. The cleared Ryecroft site offers this opportunity and the proposed car park is acting as an anchor development to support the proposed hotel development and also the significant investment planned by Aspire Housing on the site of the former Civic Offices building.

The car park will provide a total of 453 car spaces of which 16 are accessible, 6 are accessible with EV charging, 392 are standard spaces and 39 are standard spaces with EV charging. There will be 19 motorcycle bays and a cycle hub located within the new car park

Following a procurement exercise in late 2021. Morgan Sindall was appointed as design and build contractor for the new car park. The design has gone through a number of iterations through the RIBA Stages with the final design comprising of aluminium powder coated mesh screen facades which incorporate the Newcastle-under-Lyme castle emblem. A planning application was submitted in early March 2023.

2.4 Castle Multi storey car park Capital budgets/funding

£3.5 million of Future High Street Funding is allocated to Castle Car Park. An amount of which has been used to arrive at planning submission, with the balance to be used for the build phase. The Council has also committed capital funds for the project which it will seek to partly offset through receipts from the sale of the Midway site (assumed £1 million) plus proceeds from the rationalisation of car parking provision within the town. (£1 million assumed).

The Stage 3 Cost Plan (Q4 2022) for the car park calculated a principal cost for the development of £12,362,059.22 including build costs, preliminaries, fees, risk, contingency, insurances and developer overheads and profits. As we are now into work stage 4 costs will be redefined following discussions with the supply chain and overall cost inflation and a further cost plan will be issued in April 2023, it is anticipated that this will be value engineered to a cost of £11,600,000.

Based on a PWLB annuity borrowing rate of 4.94% over a 40 year loan period, and assuming a loan of £6.1m (for illustrative purposes) with remaining costs being met from FHSF and the rationalisation of other car park provision there would be a net cost of £2,215,286 over the 40 year period after taking account of new income from the development.

It is anticipated that this net cost will be offset by surpluses forecast to be generated on the subsequent Hotel development. Income includes new parking permits and increased usage resulting from the adjacent developments – the hotel with an estimated 27,000 room nights taken each year (based on 60% occupancy which will increase to over 80%) and the new Aspire Housing developments. It is also expected that the car park fees for the new facility will reflect the quality of the offer represented by the new facility.

All of the above will assist in the financial viability of the site. As the key initial development on the Ryecroft site the car park is required to kick start each of the subsequent developments – without this the rest of the Ryecroft developments are at risk of failure, in particular the hotel.

3. **Proposal**

1 That Members note the potential benefits of the proposals, the progress made and risks associated with delivery a major regeneration programme for Newcastle town centre.

4. **Reasons for Proposed Solution**

4.1 To secure substantial regeneration and economic development benefits for the town centre.

4.2 To maximise the benefit of Government grant funding for Newcastle town centre and lever in additional investment from other delivery partners and investors.

4.3 To uplift the appearance and functionality of significant areas of the town centre.

5. **Options Considered**

5.1 Do nothing - The Council could opt not to use the Government grant funding offered to it. This would result in a substantial loss of investment in the town centre and result in either the sites remaining as a blight on the town centre for a substantial number of years, significant investment by the Council to bring forward the sites on its own or the attraction of private sector development at a challenging time for the construction industry.

5.2 Partial delivery – this would deliver only one or two of the proposed projects. However as a number of the projects are linked this would severely limit the beneficial impact and ability to lever in additional investment to the town centre.

5.3 Deliver the projects as proposed – This will maximise the benefit of Government grant monies for the benefit of the town, lever in additional investment, support the functionality and economic health of the town centre and produce future income streams for the Council through car park receipts, business rates and property rental. This is the recommended option.

6. **Legal and Statutory Implications**

- 6.1 Section 2(1) of the Local Government Act 2000 permits local authorities to do anything they consider likely to promote or improve the economic, social and environmental well-being of their area.
- 6.2 The Council will be required to commit to a number of contractual relationships in delivery of the programme of projects. These are reported separately to Cabinet at the appropriate time.
- 6.3 The Council has to comply with the conditions of Government grant funding in the delivery of the projects, ensuring good governance and compliance with public sector duties in its management of the funds.

7. **Equality Impact Assessment**

- 7.1 The projects are intended to deliver benefits to a wide range of town centre users.

8. **Financial and Resource Implications**

- 8.1 The public borrowing rate used below is at 8 March 2023 for illustrative purposes, this is subject to change on a daily basis and could have a significant impact on the financial viability if increases in interest rates are forthcoming, or may result in considerably less costs in the instances of lower rates being obtained when borrowing is required.
- 8.2 Rigorous financial challenge and monitoring of the projects expenditure will be required in both the interim and during subsequent construction phases. Financial monitoring will be reported as part of the scrutiny process, will be submitted to the Capital, Assets and Commercial Investment Review Group for further monitor and review and will also form part of the quarterly financial report to Cabinet.

9. **Major Risks**

9.1 Inflation in construction costs

A number of external factors are affecting construction cost inflation and it is likely that these factors will continue to have influence over the next few years. The potential consequence of this is that projects need to be phased or scaled to reflect cost and market confidence. The project team are responding to this in several ways. At the procurement stage potential contractors are being asked about supply chain management to ensure that they have robust processes in place. Cost management is a part of our project management processes and the Council has appointed a firm of Quantity Surveyors to support delivery of major projects and examine construction contractor cost proposals. Value engineering is undertaken at key stages of project delivery and information is fed back to DLUHC as a part of information returns so that they can report to central Government on this issue. The Council is also exploring whether a joint venture partnership approach will bring value in delivering certain key projects.

9.2 Interest rate increases to fund development costs

Changes in interest rates can impact the attractiveness of Council borrowing to enable delivery of the projects. The consequence of this is that the project may not reach the Council's desired payback period resulting in viability challenges which would need to be dynamically addressed. Many of the controls listed in 9.1 above apply as controls for this element of risk. Through

proper project management processes, cost control and supply chain management the project team is endeavouring to reduce the capital requirement needed to be committed by the Council. The team also explores options for other sources of funding, such as joint venture or use of grant funding in a way that delivers complimentary project elements without contravening funding body requirements. Where grant funding monies are being used there is a cut-off for defrayal however for Council funded elements a delay in delivery until a more favourable interest rate is available may ultimately be an option that has to be considered although this would delay delivery of positive economic benefits from the project and the Council would need to be confident that it could still deliver contracted outputs in the required timescale.

9.3 Failure to deliver and removal of Govt funding

Grant funding awarded to the Council has a definitive deadline for defrayal and outputs to be achieved as a result of the spend occurring. Should the Council be unable to deliver in time and deliver the required outputs then there is a risk that funding would be withdrawn or reclaimed leading to a loss of investment in the Borough. In addition to the processes set out in 9.1 and 9.2 above, one part of the Council's robust project governance processes is regular engagement with DLUHC as our key funder, this is in addition to more formal monitoring and evaluation and assurance processes that need to be followed. By proactively managing this relationship the Council is able to engage at an early stage where project variations may need to be notified.

9.4 Business case assumptions not realised – income targets not achieved

Business cases that are developed to attract funding are developed using the MHCLG 5 case standard which ensures that a robust project proposal is produced to attract funding. The business case model includes scenario testing of 'do nothing' 'do something', variations on the 'do something' option before arriving as the desired project proposal. Sensitivity testing is applied as a part of this process to ensure the best possible proposal is made to achieve development and income targets are met.

9.5 Planning considerations / requirements add costs to developments

Planning considerations have the potential to add to the cost of development. The project team and its contracted suppliers are proactively engaging with the planning process at an early stage to ensure that planning requirements are factored into the end design, mitigating the need to re-work projects and ensuring a good standard of design responds to such considerations.

10. **UN Sustainable Development Goals (UNSDG)**

10.1 Newcastle town centre is a highly accessible location, encouraging greater use of its land and assets enhances its role as a centre for services, leisure, retail and living and its connection to local residents. Further these projects are intended to enable the redevelopment or re-use of derelict land, an underused retail complex that is in a poor state of repair and currently blocks good connectivity between the Ryecroft site and Ironmarket / High Street. The new car park will upgrade EV charging facilities in the town centre and provide enhanced cycle storage, both of which are more sustainable forms of transport than fossil fuelled vehicles. New buildings will have sustainable features as a part of their development. The projects are intended to bring with it sustainability improvements, regeneration and economic benefits, in that respect, the project supports the realisation of the following UNSDG objectives:-



11. **Key Decision Information**

11.1 This report provides an update on progress relating to the development of regeneration projects in Newcastle Town Centre

11.2 Future High Street Fund required the Council to administer a grant to the value of £11.4 million.

12. **Earlier Cabinet/Committee Resolutions**

12.1 March 2022, Cabinet, Contract award to Wilmott Dixon for the York Place contract.

12.2 December 2021 Cabinet purchase of York Place Newcastle under Lyme.

12.3 December 2021 contract award to Morgan Sindall for Castle Multi Story Car Park

12.4 April 2021 Cabinet accepting FHSF Grant monies and grant conditions

12.5 September 2020, Cabinet concerning delivery of accelerated Town Deal projects for Newcastle Town Deal

12.6 July 2020, Cabinet concerning approval for submission of a Future High Street Fund bid into MHCLG (now DLUHC).

12.7 December 2019, Economy Environment & Place Overview and Scrutiny Committee Town Centre Funding Update (information item).

12.8 October 2019, Cabinet concerning development of the second stage FHSF bid and procurement of consultancy support.

13. **List of Appendices**

13.1 None

14. **Background Papers**

- York Place planning application ref: [22/01079/DEM3](#)
- Castle Car Park planning application (available once validated)
- Ryecroft indicative masterplan
- Future High Street Fund bid