

NEWCASTLE-UNDER-LYME BOROUGH COUNCIL

CORPORATE LEADERSHIP TEAM'S
REPORT TO

Cabinet
19 September 2023

Report Title: Procurement of a Joint Venture Development Partner and the appointment of Capital and Centric for Key Regeneration Projects

Submitted by: Deputy Chief Executive

Portfolios: Finance, Town Centres and Growth, **and One Council, People and Partnerships**

Ward(s) affected: Town

Purpose of the Report

To provide Cabinet an update and to note the progress made with the appointment of Capital and Centric for key regeneration projects in Newcastle Town Centre as a result of the work undertaken recently to procure a Joint Venture Development Partner.

Recommendation

Key Decision: Yes

That Cabinet:-

- 1. Notes the progress made to date with the procurement exercise for the Joint Venture Development Delivery Partner redevelopment plans for key town centre sites;**
- 2. Note the benefits of the Capital and Centric operating model as set out in Paragraph 2.14-2.21 of this report;**
- 3. Agree to the procurement through a direct award under the Pagabo Development Management Framework of Capital and Centric to develop plans and development business cases for the York Place and Midway Car Park sites, at a cost not exceeding £256,500;**
- 4. Authorise the Deputy Chief Executive, in consultation with the Portfolio Holder for Finance, Town Centres and Growth, and Portfolio Holder for One Council, People and Partnerships to progress discussions with third parties for the sale or lease of a portion of the York Place site;**
- 5. Authorise the Deputy Chief Executive, in consultation with the Portfolio Holder for Finance, Town Centres and Growth, and Portfolio for One Council, People and Partnerships to undertake the necessary preparatory work for the closure of the Midway Carpark in autumn 2024.**

Reasons

The Council has been developing plans for several key sites across the Town Centre of Newcastle-under-Lyme as part of the Future High Street Fund and Town Deal Fund.

This report enables progress to be made across these sites.

1. **Background**

1.1 As reported to previous Cabinets, the Council has secured Future High Street Fund and Town Deal Fund for the redevelopment of several key regeneration sites across the Town Centre. Work has been continuing in the development of the schemes for the past couple of years, and the current position regarding each is as follows:

- Castle Car Park (Ryecroft)– Planning consent was secured in June 2023 and a contract for delivery has been let to Morgan Sindall. Construction will commence in September 2023.
- New Hotel (Ryecroft) - A procurement exercise is ongoing for the brand that the hotel will operate under. This in turn will inform procurement of a design and build contractor to provide initial cost and design advice on. These are due to be reported at a future Cabinet for agreement on next steps.
- York Place – The Council purchased this site in March 2022 and secured planning consent in June 2023 for the demolition of the current building and rebuilding of a mixed-use development. Demolition works are due to commence in October 2023, funded from the Future High Street Fund.

1.2 In order to identify advantageous delivery models which could leverage external finance and expertise, a procurement exercise was undertaken in the spring of 2023 to gauge market interest in a joint venture partnership to develop out Key town centre sites. This is detailed later in this report.

2 **Update**

York Place – Update on Current position

2.1 The York Place complex was purchased by the Council March 2022 and in April 2022 Willmott Dixon were appointed as Design and Build Contractors through the Pagabo Framework to develop the design and costs for the replacement of York Place, including the demolition of the existing building. We have a process in place where the project is broken down into RICS Stages and at each stage we can choose whether or not to place an order for the next stage. These stages are:

- To prepare designs and secure planning consent for the demolition of the existing building and construction of the replacement. This stage has been completed, with the Council securing planning consent in June 2023 This has been funded from the Future High Street Fund.
- Let contract for demolition of the existing buildings - The planning consent for demolition was granted in June 2023 alongside the permission for the replacement development. The contract for demolition has not been progressed, although funding from the Future High Streets Fund is allocated for this element of the project.
- The next stage would have been to get full construction drawings and costings finalised and to commence construction of the new development once the demolition works are complete in spring 2024. This has not been commissioned and we are not now planning to undertake the work in this manner.

Midway – Update on Current Position

2.2 The Midway Car Park site will be unlocked for development once the new Castle Car Park becomes operational. Funds are allocated in the Town Deal for its demolition, and the site is earmarked for residential development. The next steps for this development are to develop deliverable plans for the site, and also to arrange for its decommissioning as a car park once the new facility on Ryecroft, Castle Car Park, is open.

Joint Venture Development Delivery Partner Exercise

2.3 In developing the York Place scheme in particular, but the town centre sites in general, the Council has been acutely aware of the need to strike an appropriate balance between commercial risk and commercial return, particularly in the light of current interest rate and inflation rates. Over the last eighteen months whilst these have been in development we have seen construction costs increase sharply. Alongside this we have seen the cost of borrowing increase by several percentage points over the same period. There are early signs that early next year and into 2024 these effects could start to ease, but there remains considerable uncertainty.

2.4 Whilst the immediate local commercial interest in York Place is positive, the Council has taken the opportunity to explore other delivery options which might enable the scheme to be brought forward more quickly or reduce the risk burden on the Council. The Council has been out to tender to gauge interest from the market for a joint venture development delivery partner to see what assistance we could get from the market to deliver schemes such as York Place and Midway. Specifically, the tender invited responses which would bring a level of engagement and innovation that the Council would benefit from in terms of access to alternative means of borrowing, shared risk taking, innovative or established routes to end users, and market intelligence for such developments (what does the market need / want / will embrace).

2.5 We have had three interesting returns from well renowned contractors / developers. Which are summarised below:

- Submission A – a national contractor, with extensive experience of constructing and the delivery of similar projects, who wished to be our preferred contractor to build out our schemes, without the need to procure further phases of our regeneration programme. They proposed to provide pre contact advice on the development of the regeneration project plans
- Submission B - a national contractor, with extensive experience of constructing and the delivery of similar projects, who wished to be our preferred contractor to build out our schemes, without the need to procure further phases of our regeneration programme. They proposed to provide pre contact advice on the development of the regeneration project plans
- Submission C – a national development professional services group who partner with third parties, construction companies and developers to shape and deliver regeneration projects. They indicated that they would be happy to partner with either of the companies who submitted interest (as noted above).

2.6 In reviewing the submissions it is unclear what would be provided over and above the procurement / construction route that the Council has used in the three past projects – Kidsgrove Sports Centre, Civic Building Demolition and the forthcoming new Castle Car Park. Specifically, the submissions are all structured such that all the

critical risks sit with the Council, eg the end users, programme and cost. Whilst this is usual for a straightforward construction project, it adds no value to a more complex regeneration project such as those with which the Council is now engaged.

- 2.7 Analysis of the three submissions indicate that the procurement of a development delivery partner through this route will merely provide a 'lock in' for one contractor for our programme of projects in the future, and a profit share mechanism that would reduce the Council's revenue potential, without any 'extra' benefits which would offset these potential downsides. This is adding another layer of costs to the projects – these could be used to contribute to potential construction inflationary pressures instead.
- 2.8 Had the procurement resulted in innovative solutions, then the 6-12 months required to progress to establish a Joint Venture would be worthwhile, notwithstanding potentially another year of construction cost inflation.
- 2.9 There is no legal obligation to progress with the development partner procurement exercise if we don't feel that the market is providing anything over and above that which we are delivering ourselves directly.
- 2.10 In addition to the three submissions received, the procurement exercise has drawn the Council's attention to opportunities which exist within Pagabo Framework, which the Council has used previously.

Pagabo Framework

- 2.11 The Pagabo Procurement Framework is built up of OJEU compliant series of frameworks which allow access to both construction and professional services, without the need to go out with 'open procurement' exercises, as the procurement has already been undertaken prior to the framework being made available to local authorities and others. There are a number of such frameworks which allow easy access and save time and costs of lengthy procurement exercises. The Council has used this framework on several schemes to date.
- 2.12 One of the "lots" within the Pagabo framework enables the appointment of Development Partners. The Council has taken the opportunity to engage with one of the companies on that framework which has a particular reputation for place making developments to discuss potential collaborations on our regeneration projects – Capital & Centric, who are an innovative and socially minded development company – see section 2.14 to 2.21 below for further details.
- 2.13 Capital and Centric) are on the Pagabo framework, Lot 3, which allows a direct award to a contractor / developer. This framework is an OJEU compliant framework with all contractors and developers having gone through a procurement exercise to gain entry to the framework and the Lot they have bid for. As the Council's direct procurement exercise, where an open call was issued to the market for a Joint Venture Development Delivery Partner, did not produce the results or participation that it had hoped for (we understand that the market is extremely busy with pipeline and current tender works at the moment), the opportunity to engage directly with Capital and Centric is attractive due to their market presence, their track record, and their national profile, which can all add real value to the plans that the Council has for its town centre regeneration.

Capital and Centric

- 2.14 Capital and Centric are property developers based in Manchester and responsible for some of the most innovative and exciting new developments in Manchester City, as well as developments under way in Stockport and Stoke-on-Trent. A particular characteristic of Capital & Centric (C&C) is that once construction and fit out of a development has been completed, they continue to manage the development, as owners, to ensure it remains successful in terms of end user experience and satisfaction.
- 2.15 The Capital and Centric approach, whereby they retain ownership and management of developments once completed has a significant positive impact for the Council in terms of both financial and operational risk:
- The model requires only short-term financing by the Council, rather than long term borrowing. This reduces interest costs from c.40 years to 2-3 years; the model also removed the need for the Council to fund Minimum Revenue Provision (MRP), which is in effect the “capital repayment” element of PWLB borrowing as the asset would transfer ownership once complete;
 - The model shifts the ongoing risk of maintaining occupancy of the finished development away from the Council and onto the operator;
- 2.16 We have received a proposal from Capital and Centric to take a lead role in the development of York Place and Midway. As outlined above, one of the keys stages in the development of a regeneration project is to define project costs such that a credible business case can be developed. Capital and Centric have submitted a proposal to develop a RIBA Stage 1 proposal for each of the sites, developing plans and business cases for further approval for assisting with us to complete York Place, develop plans for Midway Car Park.
- 2.17 The proposal covers work which the Council would need to commission individually if it chose not to go down this route, such as preparing the design and indicative costings for redevelopment of Midway.
- 2.18 From their initial work, completed at risk, Capital and Centric have identified a redevelopment route for York Place which is both lower cost and more environmentally sustainable, through retention and re-use of key elements of the original construction frame of the building – an approach they have successfully deployed elsewhere.
- 2.19 Capital and Centric propose to undertake this work for a fee of up to £256,500 and deliver within six months.
- 2.20 If the Council is satisfied with the RIBA Stage 1 works, it would then be able to use the Pagabo Framework to commission Capital and Centric to develop the schemes to RIBA 4, which provides a fully costed scheme with planning applications made.
- 2.21 In terms of commerciality, the Capital and Centric model would involve:
- Capital and Centric design and cost the schemes
 - NuLBC fund the build (utilising Town Deal, external bidding, and borrowing through PWLB)
 - Upon completion, Capital and Centric purchase and operate the developments, thereby removing a key risk to the Council of maintaining end users.

Third Party Interest

2.22 In addition to the Capital and Centric proposal, the Council has been approached by a third party regarding their potential purchase of a portion of the York Place site for a complementary development. This has the potential to enable one element of the development to be funded without Council borrowing, with a capital receipt from the sale contributing to the overall scheme. It is essential that, were this proposal to progress, it works as part of the overall development and is consistent with the design values overall.

2.23 Through this report authority is sought to progress discussions and, if possible and appropriate, bring them to legal completion.

Next Steps

2.24 Whilst the Capital and Centric model envisages taking developments through to completion and then purchasing the completed development and assuming the lead role in managing the operation of the development, as with all developments, there are a series of gateways through which schemes must pass to assure their viability. These are based upon agreements through the Pagabo Framework and once each stage is complete a subsequent agreement is signed for the next stage of the project development:

- Once feasibility is assessed then a new agreement to take the scheme up to planning permission and a cost envelope are obtained;
- Upon receipt of planning permission, the final construction drawings are produced and a contract sum is agreed;
- Construction will then commence to an agreed plan / design and cost

2.25 At this stage, the commitment to Capital and Centric extends only to step 1, after which the Council would need to take a formal decision to progress to step 2, and incur the expenses for full planning drawings and submission to gather planning approval and new target cost. The final decision on whether or not to commit to borrow and develop is then taken before the final Stage 3. A critical part of this final stage would be determining which of the elements would remain in Council ownership, and which would be bought by Capital and Centric.

2.26 Critically, the model which involves Capital and Centric purchasing the end development is highly significant in terms of the Council's borrowing for the schemes. Rather than borrowing over, say, a 40 year period, during which the Council would need to both pay interest and capital, the Council's borrowing would only be for, approximately, the duration of the build, as any loan and associated interest would be repaid upon sale of the asset. This minimises the revenue impact of the schemes for the Council.

3. Proposal

3.1 That Cabinet

- a. **Notes the progress made to date with the procurement exercise for the Joint Venture Development Delivery Partner redevelopment plans for key town centre sites;**
- b. **Note the benefits of the Capital and Centric operating model as set out in Paragraph 2.14-2.21 of this report;**

- c. **Agree to the procurement through a direct award under the Pagabo Development Management Framework of Capital and Centric to develop plans and development business cases for the York Place and Midway Car Park sites, at a cost not exceeding £256,500;**
- d. **Authorise the Deputy Chief Executive, in consultation with the Portfolio Holder for Finance, Town Centres and Growth, and Portfolio Holder for One Council, People and Partnerships to progress discussions with third parties for the sale or lease of a portion of the York Place site;**
- e. **Authorise the Deputy Chief Executive, in consultation with the Portfolio Holder for Finance, Town Centres and Growth, and Portfolio Holder for One Council, People and Partnerships to undertake the necessary preparatory work for the closure of the Midway Carpark in autumn 2024.**

4. **Reasons for Proposed Solution**

- 4.1 The decision will enable the project to progress as per the programme agreed with Government and the Future High Street Fund awards and commitments and get York Place underway
- 4.2 To use this Government funding opportunity to support delivery of Council Plan objectives.
- 4.3 To uplift the status of Newcastle Town Centre as the heart of economic, social and community life in the Borough.
- 4.4 Bring a national developer to Newcastle to assist in the transformational programme of regeneration that is being undertaken.

5. **Options Considered**

- 5.1 The report above highlights the options that have been considered in some detail.

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. That would include actions to deliver the Future High Street Fund and Town Deal Fund programme for Newcastle Town Centre.

7. **Equality Impact Assessment**

- 7.1 The nature of the project is intended to seek benefits for all people who use the town centre and to support the economic and social health of Newcastle Town Centre as a destination.

8. **Financial and Resource Implications**

York Place

- 8.1 The demolition of the existing York Place complex is funded through the Future High Street Fund which has been confirmed and allocated as shown in the table below:-

Project	FHSF allocation (inc contingency)	Spend as at 31 August 23	Balance remaining
Ryecroft	£3,756,191	£2,776,507	£979,684
MSCP Development	£3,500,000	£642,761	£2,857,239
York Place (Purchase, relocation and demolition)	£3,015,218	£1,933,349	£1,081,869
Stone public realm	£321,251	£0	£321,251
Market Stalls	£75,600	£2,990	£72,610
Programme Management	£380,000	£252,657	£127,343
Total	£11,048,260	£5,608,264	£5,439,996

8.2 The estimated build costs for the new development, which will be sourced from borrowing, are circa £16.8m. If the Council operate the development the cost of borrowing will be covered by rental income from the commercial units and the offices over the useful life of the development but will require a budget pressure of £0.297m in year 1 of operation (which reduces to nil in year 16 of operation) in addition to interest costs incurred during the construction phase. Should the preferred developer take on the ownership of the completed development then the proceeds from the sale will be used to repay the development loan and interest costs that the Council incurs. Interest costs (based on current interest rates) up to the completion date relating to the loan would amount to £0.583m (£0.245m in 2024/25 and £0.339m in 2025/26).

Midway Development

8.3 The estimated build costs for a development of the Midway site, which will be sourced from borrowing are circa £14.0m. Should the preferred developer take on the ownership of the completed development then the proceeds from the sale will be used to repay the development loan and interest costs that the Council incurs. Interest costs (based on current interest rates) up to the completion date relating to the loan would amount to £0.509m (£0.067m in 2024/25 and £0.441m in 2026/27).

Development of Business Case

8.4 Funding for the development of the business case for York Place and the Midway via Capital and Centric is available through Future High Streets Funding allocated for the demolition of York Place and remaining allocations in the approved 2024/25 Capital Programme for feasibility studies and master planning.

9. Major Risks

9.1 The main risk to the demolition element of the York Place project is achieving vacant possession of the site by ensuring that the last remaining tenant is relocated in time for the demolition works to be completed by the end of the Future High Street Programme in March 2024.

9.2 The proposed demolition of York Place is in a densely occupied town centre location and therefore will require careful management throughout the contract.

9.3 The potential for multiple demolition and / or construction projects being undertaken in a short period of time in the Town Centre could impact negatively on the enjoyment of the town amenities by users and will need careful messaging and monitoring. Each stakeholder will be able to assist with this.

9.4 The scheme for Midway could be based around partial demolition to save construction programmes, development costs and the carbon footprint of the scheme. Clearly the structure needs to be examined to see what elements can be retained, and if the structure is unusable then these benefits won't be achieved.

9.5 The inflationary pressures and the cost of borrowing is a risk to the delivery of all of the schemes and each needs to be planned carefully to minimise the effects of each prior to the start or award of any contract.

9.6 Each scheme / project will have a dedicated risk register for the potential risks of each scheme from the feasibility stage to the construction phases.

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 this project is intended to enable the redevelopment of a underused retail complex that is in a poor state of repair and currently blocks good connectivity between the Rycroft site and Ironmarket / High Street, bringing with it sustainability improvements, regeneration and economic benefits as well as in that respect, the project supports the realisation of the following UNSDG objectives:-



11. **Key Decision Information**

11.1 This is a Key Decision

12. **Earlier Cabinet/Committee Resolutions**

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

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

12.3 July 2020, Cabinet concerning approval for submission of bid into MHCLG (now DLUHC).

12.4 April 2021 Cabinet accepting FHSF Grant monies and grant conditions.

12.5 December 2021 Cabinet purchase of York place Newcastle under Lyme.

12.6 March 2022 Cabinet award of contract for design and build contractor

12.7 January 2023 Cabinet progress report on the York Place project

12.8 June 2023 Cabinet award of contract for the demolition of York Place

12.9 June 2023 Cabinet approval for procurement of Hotel Brand and Design and Build Contractor

12.10 June 2023 Cabinet award of contract for Castle Multi Storey Car Park

13. **List of Appendices**

13.1 None.

14. **Background Papers**

14.1 None

