

NEWCASTLE-UNDER-LYME BOROUGH COUNCIL

**CORPORATE LEADERSHIP TEAM'S
REPORT TO CABINET**

18 March 2025

Report Title: Contract Award for Ryecroft

Submitted by: Deputy Chief Executive

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

Ward(s) affected: Town

<u>Purpose of the Report</u>	<u>Key Decision</u>	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
<p>To provide Cabinet with an update on the progress made by Capital&Centric on the Ryecroft project in Newcastle Town Centre, and to make recommendations to Council to enable the project to progress through the construction phases of the projects.</p>			
<p><u>Recommendation</u></p> <p>That Cabinet:</p> <ol style="list-style-type: none"> 1. Notes the progress made to date by Capital&Centric on the Ryecroft project in Newcastle Town Centre. 2. Recommend that Council: <ol style="list-style-type: none"> a. Approve expenditure of up to (£34,444,256 or £33,131,668 minus costs already approved) to complete the Ryecroft scheme to practical completion in readiness for occupation; b. 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 legal agreements, subject to planning approval, to enable the appointment of Capital&Centric under a Development Services Agreements (DSA) for the development of the scheme through a direct award under the Pagabo Development Management Framework; c. 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 the legal agreement for the 'buy back' of the schemes by Capital&Centric upon completion of the developments. d. Authorise the Deputy Chief Executive, in consultation with the Portfolio Holder for Finance, Town Centres and Growth to progress legal agreements to enable the sale of a portion of the Ryecroft site to Aspire Housing for their development on the site which they will be undertaking directly with Capital&Centric. e. Authorise the Deputy Chief Executive, in consultation with the Portfolio Holder for Finance, Town Centres and Growth to progress the legal agreements with Homes 			

England to accept a grant as a subsidy for the development and become the accountable body for the grant, subject to Homes England approving the grant.

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 at Ryecroft site.

Each of the individual town centre regeneration projects that have been subject to previous reports and approvals are now being taken through individual approval routes to allow the breakdown of projects into specific approvals / projects with stand-alone approvals as each project will eventually be purchased by a Special Purpose Vehicle company as a stand-alone asset within Capital&Centric, as per their over-riding business model.

In the case of the Aspire element of the scheme, at the point of contract award to Capital&Centric for the build out of the main Council development and subject of a separate Council approval, then Aspire Housing would purchase their element of the site from the Council, reimburse the Council for fees paid up to that date and then contract directly with Capital&Centric for the build out phase.

1. Background

- 1.1 As reported to previous Cabinet meetings, the Council has secured Future High Street Fund and Town Deal Fund for the re-development of several key regeneration sites across the Town Centre. In September 2023 the Council appointed Capital&Centric to undertake feasibility studies for the re-development of the Ryecroft and agreed in February 2024 that they would:-,
- 1.2 Again, as reported previously but repeated for completeness and clarity, the Process being followed with Capital&Centric having completed their initial development proposals (RIBA Stage 2) and subsequently the RIBA Stage 3 works of the scheme design and costs for each of the sites.
- 1.3 If the Council is satisfied with the RIBA Stage 4 works, as summarised in this report, and in the attached Appendix, the Council would then use the Pagabo Framework to appoint Capital&Centric through a development agreement to:
 - Manage the procurement and delivery of the main construction works to Astley Place, the former Midway Car Park and the residential / aparthotel works on the Ryecroft, all subject to individual Council approvals.
 - Agree a 'buy back' agreement with the Council, in that the Council will fund the build of each development but after Practical Completion Capital&Centric will purchase the individual developments for a value that is either the total cost of developing the scheme or the market value of the created asset, whichever is higher.
- 1.4 This incremental approach has been used successfully by the Council on both the Kidsgrove Sports Centre refurbishment and on the construction of the new Castle Car Park. Crucially, it enables the Council to take a phased approach to the developments, with cost certainty secured before progressing to the next stage. We are now at the final stage of development and will be securing construction works with this report.

2. Update

Update on Current Position

- 2.1 In January 2025 the new Castle Car Park, through the construction contract with Morgan Sindall, signed in 2023 opened with the Midway Car Park and the Ryecroft surface level car park are both now closed.
- 2.2 In July 2024 the Council sold a portion of the site to McCarthy and Stone for the development of an over 55-year-old residential apartment block. A planning application will be submitted shortly with works expected to commence in 2025.
- 2.3 Work on the aparthotel continues through the design development of the wider scheme with Capital&Centric and design consultants have fed into developing the design for this element of the site.
- 2.4 Discussions have also been progressing with Aspire Housing and their aspirations for residential units on the site to sit alongside the other elements of the site. It has been agreed that Capital&Centric will be undertaking this work alongside the Council and other works so the designs, public realm and approach will be consistent across the wider site. Capital&Centric will contract with Aspire directly for 15 new houses and 28 apartments and that the land required for this will be sold by the Council to Aspire to allow them to enter into this development / construction agreement. All fees and costs incurred by the Council for this element of the development will be reimbursed by Aspire at the same time as the land sale agreement is completed, to allow a back-to-back contract between Aspire and Capital&Centric for the build out stages of their section of the site.
- 2.5 The design has now been set (See Appendix A) for the provision of modern apartments for young professionals, down sizers and families broken with the following apartment mix: [note this excludes the Aspire Units]
 - 20 studio apartments
 - 71 one bed apartments
 - 41 two bed apartments
 - Extensive shared facilities including a gym, residents lounge and private dining will be provided at the Midway site which the residents at Ryepark will be able to access.
- 2.6 The construction costs for the redevelopment of the former Ryecroft site are estimated at £34,444,256 excluding grant and interest with a project timeline of 38 months to submission. A breakdown of the costs and the funding sources are set out later in this report.
- 2.7 A planning application for the site (including the Aspire section) has been submitted and will be subject to approval by the planning committee, that will consider all Town Centre developments that are subject of this report, at special meeting in April 2025.

Cost and Funding Considerations

- 2.8 A summary of the costs supplied by Capital&Centric to complete the developments is set out below:

Site	Construction Contract	Project Construction Period
Midway Carpark	£37,518,885	26 months
York Place	£18,213,758	22 months
Ryecroft – Housing and aparthotel	£34,444,256	38 months
Total*	£90,176,899**	

**See financial section below for budgetary information*

***Excludes grants and interest costs but includes land value*

- 2.9 The above projects will be funded by external borrowing and potentially a grant from Homes England. Further information is provided in the finance section below.

Cost impact of the Capital&Centric Model

- 2.10 As highlighted in previous Cabinet reports and worth reiterating again here, Capital&Centric are a social impact property developer who pride themselves on the design quality of their developments. Their model of retaining assets beyond completion ensures that they have a vested interest in the long-term success of the development with a focus on the experience of the end user, aspirational placemaking and creating developments which are an asset to the community.
- 2.11 Their approach, whereby they retain ownership and management of the developments once completed has a significant positive impact for the Council in terms of both financial and operational risk.
- 2.12 This 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 removes 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, and the project is launched, and shifts the ongoing risk of maintaining occupancy of the finished development away from the Council and onto the operator.

Next Steps

- 2.13 The Capital&Centric model that the Council has been working with envisages taking developments through to completion and project launch, then purchasing the completed development and assuming the lead role in managing the operation of the development. There have been a series of gateways controlled by the Council through which the projects have passed to ensure viability. A further and final Cabinet and Council approval will be required to progress to the next stage of the process (procurement of a construction company to complete the works for occupation). At each gateway an updated business plan has been presented for each scheme including updated costs and a delivery programme. The final business plans for the scheme is attached in Appendix A.

- 2.14 At this currently approved stage the commitment to Capital&Centric extends only to developing the schemes up obtaining a full planning approval, the programme of construction and the construction budget. The submitted plans / proposals for the scheme that is being considered by this Cabinet report are the result of this stage and have been assessed and subject to the approval will be accepted and used as the basis of the final award for construction.
- 2.15 Subject to this Cabinet report being approved at Full Council the Council would progress to the construction stages of the scheme.
- 2.16 A critical part of this final stage is the model which involves Capital&Centric purchasing the end development is highly significant in terms of the Council's borrowing for the three schemes. Rather than borrowing over, say, a 40year 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 financial impact on the Council's General Fund Revenue Account of the schemes for the Council. This would be covered in a legal 'buy back' agreement and would be signed at the same time as the development agreements for the construction of the schemes. If this 'buy back' agreement is not agreed or signed the construction agreements would not be signed, thus avoiding the risk of agreeing the 'buy back' once the funding commitments are made for the final construction stages.
- 2.17 Presently Capital&Centric are in discussions with Homes England regarding a grant from their BIL Programme to subsidise the costs of the project. This is based upon viability and financial pressures that the development costs versus value are currently presenting. The aim of the development is to drive the value up via increased rental demand, increasing rental values. The grant covers the viability gap between costs and value – it is the aim of the grant to cover these shortfalls. Homes England are progressing their assessment for the grant and are due to finalise their decision in the next few months. Homes England have requested that the grant is assigned to the Council and the Council become the accountable body for the grant, as the Council will be the property / land owner during the construction phases.
- 2.18 The Aspire build out development of the site will not form part of this approval (other than the land sale), as the land will be sold directly to Aspire Housing for them to contract directly with Capital&Centric for the build out stages. Costs to date to develop the scheme on this section of the site will be refunded by Aspire to the Council at the time of the land sale.

3 **Proposal**

- 3.1 That Cabinet:
- Notes the progress made to date by Capital&Centric on the Ryecroft site project in Newcastle Town Centre.
- 3.2 Recommend that Council:
- Approve expenditure of up to £34,444,256 excluding interest costs and grant to complete the Ryecroft scheme to practical completion in readiness for occupation;
 - 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 legal agreements, subject to planning approval, to enable the appointment of Capital&Centric under a Development Services Agreements (DSA) for the development of the scheme through a direct award under the Pagabo Development Management Framework;

- 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 the legal agreement for the 'buy back' of the schemes by Capital&Centric upon completion of the developments.
- Authorise the Deputy Chief Executive, in consultation with the Portfolio Holder for Finance, Town Centres and Growth to progress legal agreements to enable the sale of a portion of the Ryecroft site to Aspire Housing for their development on the site which they will be undertaking directly with Capital&Centric.
- Authorise the Deputy Chief Executive, in consultation with the Portfolio Holder for Finance, Town Centres and Growth to progress the legal agreements with Homes England to accept a grant as a subsidy for the development and become the accountable body for the grant, subject to Homes England approving the grant.

4 Reasons for the 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 the Ryecroft project 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.
- 6.2 Pre-construction services agreements (PCSA) are used to appoint a design and build contractor to carry out services before entering into a formal building contract. A PCSA is sometimes referred to as a pre-construction agreement (PCA) and is used in two stage tendering to obtain further design input, buildability/technical advice and detailed costs information from a prospective contractor. This is a formal agreement to provide the specified services/works and is not a letter of intent.

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

Cost Summary

Site	Pre-Application Gateway 1 (£)	Planning Submission Gateway 2 (£)	Pre Contract Submission Gateway 3 (£)	Construction Costs £	Total Costs (£)
Ryecroft Aspire – Housing	40,000	326,338	174,920	0	541,258
Ryecroft Aparthotel/Residential	41,500	522,759	748,329	33,131,668	34,444,256
Total Cost	81,500	849,097	923,249	33,131,668	34,985,514

8.1 Approval was given at the Cabinet meeting on 19 September 2023 to spend up to £256,500 with Capital&Centric to develop plans and business cases for the Ryecroft site, York Place and Midway Car Park. The budget in relation to the Midway Car Park is shown in the above table (Pre-application / Gateway 1 £85,000). The actual spend for the Gateway 1 stage amounted to £83,121.

8.2 The Gateway 2 stage was to commission works to take the regeneration projects to the next stage (Planning Submission / Gateway 2). The works covered the development plans up to and including the submission of the planning application for the re-development of the Midway Car Park. The principle around the re-development would be to retain the concrete frames and floors and re-engineer the structure for residential purposes, delivering around 106 modern apartments. The budget for completing this stage was £624,883 with actual spend amounting to £648,726. The overspend of £23,842 was due to an increase in the number of structural surveys that were required over and above that originally envisaged. This overspend still falls within the overall budget allocation for the Gateway 2 stage which was approved at Full Council on 14 February 2024 and is summarised in the table below.

8.3 As of the February 2025 draw down, a total of £669,441 against the Ryecroft Aparthotel/Residential element and £238,540 has been expended against the Ryecroft Aspire- Housing element, a total of £907,981. The remaining balance of £945,865 is currently forecasted to be expended prior to the end of Gateway 3.

8.4 The total development costs for the project excluding grant and interest is £34,444,256 meaning a balance of £33,131,668 is to be approved for Gateway 4. A breakdown of the total costs are included in Appendix A. The approved sum of £541,258 relating to the Aspire site will be repaid to the Council when the build contract is entered.

9 Major Risks & Mitigation

9.1 The potential for multiple re-development 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.

- 9.2 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. Construction inflationary pressures are now easing but are still a consideration.
- 9.3 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. Furthermore this project is intended to enable the redevelopment of 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, 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. One Council

Please confirm that consideration has been given to the following programmes of work:

One Commercial Council

The development seeks to ensure that the Council is using its assets effectively and that investment is made in the Town Centre that deliver good quality and modern environments for businesses and residents.

One Digital Council

The Council will seek to utilise technological developments in these investment's and that there are options available to customers where possible.

One Green Council

As part of the Council's Sustainability agenda the developments will deliver against the zero carbon standards to support this.

12. Key Decision Information

- 12.1 This is a Key Decision.

13. Earlier Cabinet/Committee Resolutions

- 13.1 October 2019, Cabinet concerning development of the second stage FHSF bid and procurement of consultancy support.
- 13.2 December 2019, Economy Environment & Place Overview and Scrutiny Committee Town Centre Funding Update (information item).
- 13.3 July 2020, Cabinet concerning approval for submission of bid into MHCLG (now DLUHC).
- 13.4 April 2021 Cabinet accepting FHSF Grant monies and grant conditions.
- 13.5 March 2022 Cabinet award of contract for design and build contractor
- 13.6 June 2023 Cabinet approval for procurement of Hotel Brand and Design and Build Contractor
- 13.7 June 2023 Cabinet award of contract for Castle Multi Storey Car Park
- 13.8 September 2023 Cabinet approval for Town Centre Regeneration Feasibility Studies
- 13.9 6 February 2024 Cabinet approval for Town Centre Regeneration Update
- 13.10 14 February 2024 Council approval for Town Centre Regeneration Update
- 13.11 12 November 2024 Cabinet approval for completion of RIBA Stage 4 works.

14. List of Appendices

- 14.1 Capital&Centric Ryecroft Business Case.

15. Background Papers

- 15.1 None