

WNDC Board Report

Report by Director of Regeneration and Development

Paper Reference: 2011-06-07-01

Agenda Item: 7

15 November 2011

Subject: Grosvenor / Greyfriars

Advice: That the Board:

1. **Endorse** the work that has been undertaken by WNDC, Northampton Borough Council and Northamptonshire County Council to progress the project
2. **Note** the commitment by Legal and General to implement and pay for the work required to secure planning consent for the proposed Grosvenor development.
3. **Approve** a funding contribution of £8million (plus PMR) to the Grosvenor Greyfriars project subject to:
 - 3.1 Northampton Borough Council and Legal & General entering into a Deed of Variation extending the date for the Bus Depot pre-conditions of the Development Agreement to be satisfied.
 - 3.2 A legally binding agreement between Northampton Borough Council and Stagecoach in relation to the buy-out of the Bus Layover lease in the existing bus station;
 - 3.3 Confirmation from Northampton Borough Council that they will secure the additional costs associated with the new Bus Interchange

3.4 Northampton Borough Council sign up to the terms of the proposed Funding Agreement.

Summary:

- Significant progress has now been made with the assessment of the overall viability of the project.
- The buyout of the Stagecoach Lease has been thoroughly reviewed.
- Work is now underway on the detailed design of the new Bus Facility at the Fishmarket.
- An HM Treasury Green Book compliant economic appraisal has been undertaken on the overall project.

1. Background

- 1.1 The redevelopment and extension of the Grosvenor Centre has been a long standing aspiration for the regeneration of Northampton town centre. The project has been led by Northampton Borough Council (NBC), who have been working/negotiating with Legal & General (L&G), the owners of the existing Grosvenor Centre, to secure its redevelopment. In November 2009 a Development Agreement between NBC and L&G was signed in relation to the proposed redevelopment.
- 1.2 Under the terms of the Development Agreement the Borough Council is responsible for securing the public investment required to buyout the leasehold interest of Stagecoach in respect of the Bus Station and for the provision of new bus facilities to replace those currently provided. As reported at previous meetings, the Borough Council have asked WNDC to provide this investment to enable the development to proceed.
- 1.3 At its meeting in September 2011, the Board received a report setting out the viability of the project which confirmed that there was a realistic prospect that the extension to the Grosvenor Centre would take place. That report set out the issues and work streams relating to the delivery of the project.

- 1.4 Work has continued with Northampton Borough Council, Legal and General and the County Council to reach a position where the Board can consider taking a decision to allocate funding to the project. This report sets out progress made to date and seeks approval to invest in the delivery of the project.
- 1.5 It should again be noted that Confidentiality Agreements have been entered into with Northampton Borough Council and Legal & General in respect of this project.

2. Existing Development

- 2.1 The existing Grosvenor Centre is built on land in the freehold ownership of the Borough Council. L&G have long leasehold of the site, although the Borough Council currently retain ownership of the Grosvenor Centre car park by way of a lease back from L&G. The Borough Council own the freehold of Greyfriars House, which accommodates the Bus Station, two floors of car parking and some 150,000 ft² of vacant office space. The car park and office space has been vacant for some 10 years.
- 2.2 The existing Grosvenor Centre is comprised of the following:
 1. 60 retail units comprising 34,838 m² retail floorspace.
 2. Circa 6500 m² of commercial office space.
 3. 11 decks of car parking.
- 2.3 Greyfriars House is comprised of the following:
 1. The Bus Station.
 2. One floors of car parking (unused).
 3. 150,000 ft² commercial office space (unused).
- 2.4 Greyfriars House is of little commercial value for its existing use as it currently runs at a significant operating loss.

3. Proposed Development

- 3.1 The proposed development comprises the integration of a new-build extension to and a significant improvement to the existing Grosvenor Centre. The new development will incorporate:

- Approximately 57 new retail units and one anchor store and one variety store (total 42,000m²)
 - Approximately 2980 car parking spaces, and
 - Sites for a hotel and residential development.
- 3.2 The scheme requires alterations to around 17 of the existing retail units to create linkages between the existing retail areas and the new development.
- 3.3 Legal & General have now appointed their professional team to take forward the detailed design of the scheme and to submit a planning application for the development in July 2012. Given the likely cost of progressing the design to this stage this represents a significant commitment by Legal & General.

4. The Development Agreement

- 4.1 NBC entered into a legally binding Development Agreement with a wholly owned subsidiary of L&G (Northamptonshire Shopping Centre Limited Partnership) in November 2009. The agreement is subject to a number of conditions, the first two of which relate to the funding of the acquisition of the Stagecoach lease, and the funding of the re-provision of the Bus Interchange Facilities. The Development Agreement has a deadline of 12th November 2011 for the funding of the Stagecoach Lease. The remainder of the conditions are contingent on the funding condition being fulfilled.
- 4.2 A Deed of Variation to the Development Agreement has been drafted and will be entered into by the Borough Council and Legal & General in advance of the date of this Board meeting, extending the date for this condition to be satisfied.

5. WNDC Investment

- 5.1 The delivery of an extended, exciting, well designed retail offer will have a significant transformational effect on Northampton and one that WNDC has stated it would support.
- 5.2 The Grosvenor Centre project is a priority for WNDC. As reported previously WNDC are now engaged in developing and appraising the project so that the Board is able to consider investing in its delivery. Critical to any decision by WNDC to invest in the project, must be the likelihood of delivery of the new Grosvenor

Centre development. The Development Agreement has been negotiated between the Borough Council and Legal & General, without direct input from WNDC. The Corporation must consider and be satisfied that there is a reasonable prospect that the development will follow if it invests in the Lease Buyout and in the new Bus Facilities. This aspect is central to WNDC's consideration of the project and so has been the focus of work over the past three months. Specialist retail development advice has been sought to support this analysis and, as reported to the last Board meeting, this has confirmed that there is a reasonable prospect that the development will happen.

5.3 In addition to the viability appraisal, the cost of the buyout of the Stagecoach Lease has been reviewed. Work on the provision of the new bus facility is also underway. The cost of these two aspects of the development is what WNDC is being asked to support and progress on these two workstreams is reported in Para 6 and 7 below.

6. Stagecoach Lease Buyout

6.1 Terms have been agreed between NBC, Stagecoach and L&G for the acquisition of the Stagecoach lease over the bus station, and the relinquishment of all rights to use it once the new facility is in place. The overall acquisition price agreed amounts to £5m. This reflects the professional advice that NBC has received in respect of the potential liabilities should acquisition be made by CPO, which would include making provision for alternative bus overlay and depot facilities for Stagecoach to enable their continued business operation.

6.2 The Borough Council have confirmed a capital contribution of £1million to the cost of the lease buy-out. The Borough Council have asked WNDC to provide £4million to fund the balance of the cost of the lease buy-out.

6.3 The agreement between Stagecoach and the Borough Council will be signed in the same period of time that the funding agreement is signed, thus enabling the acquisition to proceed.

7. Proposed New Bus Facilities

- 7.1 NBC and NCC have decided on the preferred option for the new Bus Facility to be the site of the former Fishmarket. Work is well underway on the detailed design and costing for this aspect of the project.
- 7.2 A Project Board and Project Working Group have now been established and are meeting on a monthly basis. WNDC is represented at both levels. The design of the new Bus Facility is being managed and procured by Northamptonshire County Council through their Highway Partnership with May Gurney WSP. As part of this, MGWSP have appointed an architect to undertake the design of the new facility. Cost estimates will also be provided through this process.
- 7.3 Northampton Borough Council, who own the land on which the new facility will be developed, are in the process of securing vacant possession of the site. The Northampton Arts Collective currently occupies the Fishmarket building and the Council will need to secure their relocation as part of the project. The Council have given notice to the Arts Collective who will need to vacate the property by the end of March 2012. The Council are also undertaking a review of the various titles to ensure that any rights in respect of adjoining properties are properly dealt with.
- 7.4 A detailed programme for this aspect of the project is being prepared. It is anticipated that a planning application for the new Bus Facility will be submitted in early 2012. To meet this programme the design team are engaging with a wide range of stakeholders and public consultation on the scheme is scheduled to take place in advance of the submission of a planning application. Construction of the new facility is programmed to start during the summer of 2012. A target for completion would be mid 2013.
- 7.5 WNDC is being asked to contribute £4million to the cost of constructing the new facilities. Northampton Borough Council has been asked to secure any funding requirement above this figure and to cover any costs associated with risk or any other additional costs.

8. Funding Agreement

- 8.1 The proposed terms for WNDC funding of both the acquisition of the Stagecoach leasehold interest and the re-provision of the bus Interchange Facility are in discussion with the Borough Council. The principles reflect that the funding would be provided in advance of any certainty of delivery of the overall project. Provisions therefore include for repayment of the funds to WNDC or its successor in title in the event that the bigger scheme never comes to fruition.
- 8.2 The principles also limit the WNDC exposure to fixed amounts, with a requirement that risk in relation to any cost overruns is met by NBC and/or other partners. Further discussion will take place with the Borough Council to reach agreement on the exact terms.

9. Funding Approvals

- 9.1 Northampton Borough Council have prepared a detailed Business Case for the project and this has been circulated separately to Board Members. The Business Case has been presented to and reviewed by WNDC's internal Programme Board.
- 9.2 An economic appraisal has also been undertaken on the project in line with HM Treasury Green Book. AECOM were commissioned by WNDC to undertake this appraisal, which has also been circulated to Board Members with the Business Case. The Green Book Appraisal assesses the economic impact and value for money on a range of development options and outputs. The key figures for this Grosvenor Greyfriars project are:

Net Additional Floorspace	33,900m ²
Development Costs	£220 million
Gross Construction Jobs (fte)	236
Gross Jobs Created	1,784
Net Jobs Created	Northampton – 980 West Northants – 1,030

Net Cost Per Job	Northampton £14,600 West Northants £13,900 <i>Benchmarks: CLG £19,300 - £48,000</i> <i>EMDA £38,550</i>
GVA Economic Impact	Northampton £33.6m pa =£235m NPV West Northants £35.4m pa = £248m NPV
Cost : GVA Benefit	Northampton £1.00 : £16.43 West Northants £1.00 : £17.34 <i>Benchmarks: CLG £1.00 : £6.00 - £10.00 (Commercial Property)</i> <i>EMDA £1.00 : £5.80 - £8.90</i>

9.3 In comparison to other public sector investment in development projects the Green Book appraisal demonstrates that the proposed investment in the Grosvenor Greyfriars project represents good value for money.

9.4 In addition to consideration by the Board, the economic appraisal will be required to support any decision by CLG before they can approve any funding for the project. Informal discussions have already taken place with CLG and, subject to the approval from the Board, it is intended to submit the project for consideration at CLG's Investment Panel at the end of November.

9.5 It is recommended that the Board approve a funding contribution of £8million (plus PMR) to the Grosvenor Greyfriars project subject to:

1. Northampton Borough Council and Legal & General entering into a Deed of Variation extending the date for the Bus Depot pre-condition of the Development Agreement to be satisfied.
2. A legally binding agreement between Northampton Borough Council and Stagecoach in relation to the buy-out of the Bus Layover lease in the existing bus station;
3. Confirmation from Northampton Borough Council that they will secure the additional costs associated with the new Bus Interchange;
4. Northampton Borough Council sign up to the terms of the proposed Funding Agreement.

10. Financial Implications

10.1 £8million has been requested by the Borough Council for the project. Expenditure for 2011/12 is currently forecast to be £4m with the remaining £4m forecast in 2012/13. The funding profile may change subject to demands on the overall Capital Programme in each financial year.

10.2 This level of funding represents a significant commitment to the project by WNDC from its Capital Programme total of £20m.

10.3 Project Management Recharge (PMR) will be applied to the funding above.