

POLICY & FINANCE COMMITTEE

17 MARCH 2022

REDEVELOPMENT OF 32 STODMAN STREET, NEWARK

1.0 Purpose of Report

- 1.1 To update Members on the progress of the 32 Stodman Street redevelopment scheme, including the Green Book compliant Full Business Case. Further to seek approval for the appropriate disposal route and to progress the development to construction phase.
- 1.2 This report contains a number of redactions in the interests of commercial sensitivity of both the Council and a third party. Any redacted figures or statements are referenced in the exempt **Appendix A** which accompanies this report.

2.0 Background Information

- 2.1 In April 2019 Marks & Spencer closed its town centre location at 32 Stodman Street, leaving a vacant premises of 32,773 sq ft. The Stodman Street site was offered to market by the owner via a proposed auction in November 2019. The Council secured terms for the building's purchase prior to the auction taking place. The terms included an agreed purchase price of £540,000 (£618,000 including all associated fees), against an independent valuation of £850,000. The sale completed on 31 March 2020. The Council has therefore been in ownership of the building since late March 2020.
- 2.2 Prior to taking ownership the Council promoted the unit to the open market through commercial agents, Banks Long & Co, to ascertain what commercial interest there may be for a unit of 32,773 square feet and a rateable value of £226,000. This also included Banks Long & Co being instructed to pro-actively approach a number of traders not currently represented within the town. A number of organisations were clear that Newark was not a preferred destination for their business model, even with heavily incentivised terms. Others expressed a tentative interest, albeit for a retail unit of a smaller size (2000-7000 square feet) and more traditional layout (uniform size and level floor plan).
- 2.3 In July 2020, Newark Town Board proposed the Stodman Street project as one of 10 priority projects to Government as part of the Town Deal Fund bid. This project provides an opportunity to repurpose the property creating new commercial and retail units alongside new residential property. This was to be a catalyst regeneration project that would increase land value surrounding it and increase town centre footfall, dwell time and spend. In August 2020 the Government offered some Town Fund Accelerated Funds to the scheme in order to accelerate the planning and design functions of the project through commissioning of architects, quantity surveyors and other lead professionals to complete the necessary work to secure a planning application. Further, earlier this year the scheme was successfully awarded £284,000 through the Brownfield Land Release Fund. In March 2021 Newark was announced as successful in securing its full £25m Towns Deal ask, with this project being one of the 10 identified. Funding will now be provided, subject to conclusion of a Green Book compliant Full Business Case (FBC). The FBC has now been completed and has been assured by the Newark Towns Board, Quod Consulting (independent assurers and advisors to the Council), and the Council's s151 Officer as representing Value For Money (VfM) as reported at the Policy & Finance Committee in November 2021. Planning permission was granted in February 2022.

Business Case

- 2.4 The Stodman Street FBC has been created in collaboration with the Stodman Street Project Team (comprising relevant service areas in addition to architects, M&E contractors, and commercial agents) and consultants, Hatch, between July 2021 & November 2021. This FBC is created on the five business case model which identifies the Strategic, Economic, Commercial, Financial and Management Cases.
- 2.5 The Business Case identified the following key points in the delivery and regeneration of the Stodman Street development:
- The scheme would create 29 high quality residential units and 5,100 sq ft of commercial and retail units creating 40 new jobs.
 - The proposals are based on an investment grade development appraisal by Pygott Crone that demonstrates a viability gap (and associated market failure) for the investment, and the need for public sector intervention to support site preparation and construction works.
 - The project proposes using £2.2m of Town Fund to deliver the scheme, against £5.75m of funding from Newark & Sherwood District Council as developer. The intended impacts include; direct land value uplift, wider commercial land value uplift, and labour supply uplifts.
 - The Economic Case demonstrates that the estimated value for money of this policy is High (Benefit Cost Ratio (BCR) over 2). The benefits of this policy are land value uplift (equal to £3.6m), wider commercial uplift (equal to £2.9m) and employment impacts (those entering the workforce only, equal to £667k).
 - The Full Business Case has identified market failure and an associated need for public sector intervention without which there would be no development. The scheme could not be delivered within the current retail/mixed use market due to low land values and no investment or profitable return.
 - To enable the Council to deliver this scheme where the private sector cannot, officers have identified that delivering through lower borrowing and a longer repayment period will enable development within tolerable risks. The proposal would be for the Council to build the commercial and residential units and then sell the residential units upon completion. The sale will be on the basis of a minimum 125 year leasehold that would generate a capital receipt of up to £3.9m (value is further discussed below) which would reduce the principle sum borrowed. This would leave a regenerated site with an income from the commercial units covering the remaining borrowed sum over a period of 40 years and generating a small surplus annually that should grow during the period of payback.
 - The full development will cost £9.068 million. This includes site preparation and construction costs, legal fees, sales and marketing costs, finance costs and professional fees. Project funding includes £2.2 million from the Towns Fund, a development loan, accelerated funding through the Towns Fund and the residual asset value. Analysis in the Financial Case demonstrates that the project is affordable over the 40-year appraisal period. This cost is estimated and will be subject to a procurement exercise lead by the Corporate Property business unit. The Town Fund £2.2m was increased from the initial ask of £2m in June 2020 to allow for inflation, and has been sought as a proportion of the reallocation of the projects not progressed within the Heads of Terms. At the time of writing the absence of Government confirmation to agree to reallocation of unallocated project funds remains a risk, albeit representatives of the Towns Fund have been clear on an expectation that funds will be permitted to be re-allocated.

Delivery Model

- 2.6 In April 2021, the Policy & Finance Committee received a report that identified the different delivery models for Stodman Street. The report identified three options for delivery including a 'sell with or without planning permission,' a 'seek planning permission and then build it ourselves,' and finally a 'a joint venture option' whereby the a developer would cover some or all of the capital costs of works in return for the Council taking on the whole or part of the asset using the strength of our covenant. This report concluded with a recommendation that the Council should not simply dispose of the site after acquiring planning permission given associated risk of viability, land banking, or uses being proposed which were undesirable to raising quality, choice, and aspiration within the town. Officers were asked to bring further updates on the remaining options of 'construct-to-sell' and a 'Joint Venture'.

Policy Update

- 2.7 Since the last update the Council has adopted its Acquisitions and Disposals Policy (November 2021) which requires, amongst other things, that the Council to be clear on its preferred method of disposal and associated reasons and outcomes in terms of regenerative benefits, securing value for money, or in the case of potential sale at under-value, having appropriate reasons for doing so. As a Towns Fund project 32 Stodman Street is supported by the Newark Towns Board, Central Government, and this Council. The scheme was also supported in comments on the planning application by Newark Town Council, Newark Civic Trust, and the Towns Fund Heritage consultant. The need for a greater residential presence in the town forms one of the key pillars of the Town Investment Plan (TIP), as does retaining a commercial offer at ground floor to aid footfall and vibrancy.

Joint Venture

- 2.8 Following the last update the Project Team have reviewed the financial, legal and procurement options available for delivery of the scheme. A Joint Venture (JV) model of delivery has been investigated and discounted on the grounds of viability in that even with grant fund injection of the level proposed (£2.2m) the scheme is unlikely to generate a reasonable profit within a reasonable return period.

Council Delivery

- 2.9 The recommended delivery pathway which can best minimise risk alongside providing a viable delivery solution is for the Council to build the scheme utilising borrowing, with a sale upon practical completion of the residential units to a buyer. This would allow the scheme to secure a capital receipt against the residential build, rather than move the properties into the Council housing portfolio, as the apartments are designed for open market sale or open market rent. This recommended approach would allow the Council to retain the commercial/retail units on the ground floor that would generate an income sufficient to cover the initial costs of borrowing and make a surplus over time.

Securing a Sale for the Residential Units

- 2.10 As Members will be aware, and in accordance with the Acquisitions & Disposals Policy (November 2021), it is necessary in all land disposals of this scale to secure a market valuation in order to inform the preferred disposal route. In February 2022 the Business Manager - Economic Growth & Visitor Economy instructed, via the Business Manager - Corporate Property, a 'red book' valuation of the Stodman Street scheme for which planning permission is sought. This builds upon the values and assumptions provided by the separate 'Market Appraisal & Viability Assessment' (July 2021). This valuation

suggested a market value for the residential properties of approximately [REDACTED]. A further valuation was sought in February 2022, which identifies a value for the completed residential property of [REDACTED]. For the avoidance of doubt the latest valuation is based on the proposals which now have planning permission.

Pre or Post-Construction Sale

- 2.11 The Council could choose to construct the scheme for which it has secured planning permission in the hope and anticipation of selling all residential units upon practical completion. The Council's advisors and officers have made clear that a sale post-practical completion carries greater risk given that whilst the overall form and nature of the proposed development is known (in accordance with planning permission), as Members will be aware with any construction project there are a multitude of specification, design, quality, and other decisions taken whilst a build is undertaken. Whilst there may be market interest for a sale the lack of the end purchaser in decision-making throughout the build process is likely to restrict market providers at the end of the process.
- 2.12 The preferred disposal route would be for the Council to secure a buyer for the units 'up-front' via an Agreement to Lease (AtL) and separately (but contractually tied) Lease, with the latter including a commitment to purchase for any agreed purchase price upon Practical Completion for a long-lease period. Members will recall that a similar model has been utilised for Ollerton Hall.
- 2.13 Should Members agree that a pre-construction sale is appropriate as recommended, the Council must then consider how to proceed with the associated sale. There are two options in this regard. First, to invite market bids seeking both an AfL and Lease. Second, to enter into an exclusive sale with Arkwood, who have been aware of the Council's aspirations for some time via the Towns Fund process and who have now made an offer for the site. Members will additionally be aware that Arkwood have been involved in the Project Team to date, solely as an advisor only. The Company has not been privy to any market valuation information for the site.
- 2.14 Whichever route of disposal is elected the end purchaser of a long lease must comply with the following 2 conditions:
- 1) The necessity to sign an Agreement to Lease prior to the commencement of development which commits to a Lease upon the Practical Completion of the development in order to de-risk the Council; and
 - 2) To assist the Council during construction to meet the capital spend profile of the Towns Fund which requires spend of £2.2m in 2022/23

Arkwood Offer

- 2.15 Arkwood have made an offer to acquire the completed residential units as a 999 year Leasehold for £[REDACTED], subject to planning and contract. The offer from Arkwood is [REDACTED]% below the recently assessed market valuation, a reasonable level of tolerance in the opinion of the Business Manager Corporate Property and still in accordance with the Council's duties to achieve "best consideration" under all the circumstances. In any event, noting that this is an agreed sale of all units is up front to a single investor, the Council's independent surveyor has confirmed that a discounted purchase price to £[REDACTED] is appropriate and represents market value. Arkwood are willing to enter into the Agreement

to Lease (AtL) and Lease to secure the units at the agreed purchase price, and will be permitted to input into the build-out as an additional “critical friend” in managing any appointed contractors.

- 2.16 Alongside the residential sales the Council intends to work with local commercial agents during the post planning approval, pre tender works in order to secure ‘in principle’ agreements for the retail and commercial premises. This approach will de-risk the potential for a protracted negotiation with end users after the build completes.

Legal Advice

- 2.17 As required for all grant projects of this nature the Council has sought independent legal advice on any state aid (technically “Subsidy Control” post-Brexit) considerations. The exempt report details the advice which confirms there are no state aid implications.

3.0 Next Steps

- 3.1 It is considered that the Council is now in sufficient receipt of information and regulatory approvals to be able to select its preferred disposal route and party, which in this case is recommended to be a direct sale to Arkwood Developments on the basis of an Agreement to Lease (AtL) prior to the commencement of development alongside a Lease which commits Arkwood to purchasing all of the residential units for the agreed purchase price of £[REDACTED] upon practical completion.

- 3.2 Independent valuers and the Council Business Manager for Corporate Property are aligned in the proposed purchase price meeting best consideration for £[REDACTED]

- 3.3 A summary of the key milestones is captured below:

- Planning Approval – Secured February 2022
- Submission of Full Business Case Summary Document to Government – Complete January 2022
- Pre tender procurement for Demolition, Design & Build; appointment of Mechanical Engineering Consultant, Drainage Consultant, Clerk of Works, Principle Designer and Build Contractor – January 2022 to July 2022
- Agreement to Lease and Lease executed for residential units – July 2022- September 2022
- Mobilisation of Contractor – July – September 2022
- Demolition and Construction Phase – September 2022 – March 2024
- Completion – March 2024
- Sale by long lease of Residential Units – April 2024

4.0 Proposals

- 4.1 It is proposed that the Stodman Street Project Team proceed working to deliver the project plan outlined in 2.10. Further that Members note and support the recommended delivery model for the Stodman Street scheme.

5.0 Equalities Implications

5.1 The scheme offers residential and commercial/retail units which will ensure, through design, good accessibility within them. Equalities impacts will be address via the building control, planning and contractor procurement process.

6.0 Digital Implications

6.1 There are no digital implications for this report and recommendation.

7.0 Financial Implications- FIN21-22/2404

7.1 The current budget within the capital programme is as illustrated below:

Current Budgets	Amount	Funding Source	Amount
Spend prior to 21/22	207,475.62	Primary Fund	284,000.00
Budget 21-22	750,524.38	Towns Fund	2,000,000.00
Budget 22-23	8,110,000.00	Brownfield Land	284,000.00
		Borrowing - NSDC	6,500,000.00
Total budget	9,068,000.00	Total Funding	9,068,000.00

The borrowing costs of the £6.5m is already provided for in the Council's Medium Term Financial Plan. The capital receipt from Arkwood on the sale of the apartments may be used to reduce the borrowing of £6.5m. The allocation of this receipt will depend on a number of factors such as future capital projects that will require funding, interest rates and treasury management considerations.

The profiling of the budget is currently been aligned with contractual works and will be updated once tenders and programme of works are completed.

A request has been made to the Towns fund for an additional £0.2m from the unallocated pot to deal with contract inflation. Currently we are awaiting the outcome of this request.

8.0 Community Plan – Alignment to Objectives

8.1 This project directly delivers to the Community Plan priority of 'Delivering Inclusive & Sustainable Economic Growth' and 'Create more a better quality homes through our role as landlord, developer and planning authority'.

9.0 RECOMMENDATIONS that:

- (a) the exclusive disposal of 32 Stodman Street to Arkwood Developments Ltd. via an Agreement to Lease and Lease disposal route as detailed above, for the consideration of £██████████, be approved subject to planning;
- (b) delegated authority be given to the Chief Executive to negotiate timings of receipts, and conclude other terms in consultation with the Monitoring Officer, Deputy s151 Officer and Business Manager for Corporate Services; and

(c) subject to (a and b) above, the commencement of the commissioning process to appoint contractors to build out the redevelopment proposals within the capital funding envelope of £9.068m be approved

Reason for Recommendations

To allow the progression of the redevelopment of 32 Stodman Street.

Background Papers

Newark Town Investment Plan, July 2020
Stodman Street Green Book Full Business Case, 2022

For further information please contact Matt Lamb on Ext. 5842

Matt Lamb
Director – Planning & Growth