

# Public Document Pack

## NORTH HERTFORDSHIRE DISTRICT COUNCIL

### HITCHIN COMMITTEE

**TUESDAY, 13TH NOVEMBER, 2018**

### **SUPPLEMENTARY AGENDA**

Please find attached supplementary papers relating to the above meeting, as follows:

<b>Agenda No</b>	<b>Item</b>
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| 5. | <b><u>REGENERATION OF CHURCHGATE SHOPPING CENTRE</u></b> (Pages 1 - 20) |
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To give Hitchin Committee an opportunity to comment on the report that will be presented to Cabinet on 20 November 2018 and Full Council on 22 November 2018.

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| 7. | <b><u>REGENERATION OF CHURCHGATE SHOPPING CENTRE</u></b> (Pages 21 - 70) |
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To give Hitchin Committee an opportunity to comment on the report that will be presented to Cabinet on 20 November 2018 and Full Council on 22 November 2018.

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**HITCHIN  
13 NOVEMBER 2018**

**\*PART 1 – PUBLIC DOCUMENT**

**REPORT DUE TO BE SUBMITTED TO COUNCIL ON 22 NOVEMBER 2018**

**TITLE OF REPORT: REGENERATION OF CHURCHGATE SHOPPING CENTRE**

REPORT OF : *DEPUTY CHIEF EXECUTIVE*

EXECUTIVE MEMBER : *LEADER OF THE COUNCIL AND EXECUTIVE MEMBER FOR FINANCE AND IT*

COUNCIL PRIORITY : *ATTRACTIVE AND THRIVING / PROSPER AND PROTECT*

**1. EXECUTIVE SUMMARY**

- 1.1 The purpose of the report is to update Full Council on the proposed regeneration of Churchgate Shopping Centre and Hitchin Market, how the proposals have developed since the report to Full Council on 8 February 2018 and to seek permission to undertake the next phase of detailed work prior to Full Council taking a final decision on whether to proceed.

**2. RECOMMENDATIONS**

- 2.1 That Full Council continues to support the principle of a regeneration of the Churchgate Centre and Hitchin Market with the Council as funder and owner of the regenerated scheme, noting that the deliverability of the proposals is dependant upon securing funding from the Hertfordshire Local Enterprise Partnership.
- 2.2 That Full Council authorise the Deputy Chief Executive, in consultation with the Chief Finance Officer, the Leader of the Council and Executive Member for Finance and IT, to progress the negotiation of legal agreements with Shearer Property Group for the regeneration of the Churchgate Centre and to progress pre-purchase due diligence, subject to Full Council's final approval of the terms of any proposal.
- 2.3 That Full Council approves a transfer of up to £130k from the Special Reserve to progress the further work required prior to a final decision.

**3. REASONS FOR RECOMMENDATIONS**

- 3.1 The Council has been seeking to regenerate the Churchgate Centre for a number of years and a number of different proposals have been considered during that time, with none of those proposals progressing to a successful conclusion. The proposal currently being considered finds a solution to a number of the problems faced by previous proposals and would appear to be achievable in the short term. The proposals would also see significant investment in Hitchin Market and the public realm. The Council's potential investment in this regeneration opportunity is also expected to provide a

reasonable financial return. The initial proposals received significant public support when they were consulted on in March/April 2018.

#### **4. ALTERNATIVE OPTIONS CONSIDERED**

- 4.1 Full Council has received a number of reports on the subject of Churchgate historically (see Background section below) and those reports explored a number of different alternative options for the site. At the current time the alternative options can best be summarised as any combination of the following:-

- i) do nothing; and/or
- ii) await Local Plan adoption and subsequent town centre strategy work; and/or
- iii) allow SPG option to purchase to expire and seek to acquire on the open market.

#### **5. CONSULTATION WITH RELEVANT MEMBERS AND EXTERNAL ORGANISATIONS**

- 5.1 The Leader of the Council and Executive Member for Finance and IT have been kept informed of the discussions with SPG and consulted as appropriate. The Chair of Hitchin Committee has been briefed on the proposals and an all-Member briefing was held on 14 November 2018. The Council has submitted a bid for funding to the Hertfordshire Local Enterprise Partnership in order to make the scheme financially viable as an investment for the Council (see section 8 below).

- 5.2 Following the report to Full Council on 8 February 2018 the Council consulted the community during March/April 2018 on those proposals. The responses were circulated to Members and have been published in full on the Council's website – see <https://www.north-herts.gov.uk/home/council-data-and-performance/land-and-property/hitchin-churchgate-regeneration> . The survey generated responses from 578 people, with some 86% of respondents supporting the idea of regenerating the existing Churchgate Centre to provide improved shop units. An overwhelming majority (93%) of respondents also supported the principle of investing in Hitchin's market to ensure it is fit for the 21st Century.

##### **5.3 Key Findings:**

- The consultation received 578 responses in total, with 76% of respondents living in Hitchin, 12% living in a village or rural area in North Herts and 6% living in Letchworth.
- 86% of respondents supported the idea of regenerating the existing Churchgate Centre to provide improved shop units.
- Respondents who visited the Churchgate Centre less often than fortnightly were asked what would make them visit more often. The top three responses were: more attractive environment (79%), better quality shops (71%) and more attractive buildings / shop fronts (67%).
- When asked whether they support the principle of regenerating the public space to the rear of the Churchgate Centre, including opening up the views of the Church from the market, 76% of respondents said yes, 11% said no and 13% didn't know.



- The vast majority (93%) of respondents supported the principle of investing in Hitchin's market to ensure it is fit for the 21st Century.

- When asked what types of regular stalls they would like to see in an improved market, the most popular response was food and drink i.e. food consumed at home (81%), followed by street food e.g. tapas (77%), with antiques and home-wares receiving 53% and 50% support respectively.

5.4 The results show that there is widespread support for a scheme to improve both the Churchgate Centre and the Market. The feedback is being used to help inform the development of the proposals moving forward. The results for improving the public space in the area also received a positive response, however there were a significant proportion of people who either didn't know if they supported this proposal or didn't support it. In any future consultations plans for this part of the proposal in particular will need to be explained in more detail.

5.5 If the proposals progress, a consultation strategy will be developed as part of the legal agreements with the developer.

## **6. FORWARD PLAN**

6.1 This report does not contain a recommendation on a key decision and therefore there is no requirement that it be referred to in the Forward Plan. Nonetheless it was added to the Forward Plan on 22 October 2018 for reasons of transparency.

## **7. BACKGROUND**

History of the Council's aspirations and recent decisions (as previously reported to Full Council on 8 February 2018)

7.1 The Council has been seeking to regenerate this area of Hitchin town centre for a number of years. It was first identified as an area for development in the Council's Local Plan No.2 adopted on 20 July 1993, and again identified for development in the Local Plan No.2 with alterations adopted on 23 April 1996 and the draft (unadopted) Local Plan No.3 in December 1999. A Hitchin Town Centre Strategy adopted in November 2004 and a Churchgate Area Planning Brief adopted in November 2005 formed the basis of seeking a suitable development partner. The site identified included the Churchgate Centre, the market area and four adjacent car parks. An OJEU procurement process led to Simons Developments having a contract between 2010 and 2013 for the redevelopment opportunity, but they were unable to make sufficient progress towards a viable scheme that was acceptable in design terms and the Council ended the contract in March 2013. Subsequent discussions with the existing leaseholder as to whether a joint approach to redevelopment might achieve a viable scheme ended in February 2016 after the leaseholder accepted their proposals for their Churchgate Extension Scheme were not viable.

7.2 A number of challenges have defeated previous attempts to produce a viable scheme for a regeneration, including:–

- the cost of buying, knocking down and rebuilding the existing shopping centre as part of a wider regeneration;
- the cost of replacing car parking that would be lost with a wider regeneration;
- the scale and massing of development required to achieve a viable wider regeneration scheme, in particular with reference to the historic buildings nearby;
- finding a suitable alternative provision for the market;
- the public response to a wider regeneration;
- the limitations of the configuration of the land available;
- achieving viability in a challenging economic market where tenants are not committing to schemes and commercial lending rates remain challenging.

7.3 Since 2008 the Council has had contact with eight different developers, all of whom have been unable to propose a viable regeneration of the wider site. It should be noted that none of these schemes failed for reasons of lack of demand from potential tenants. Hitchin remains an attractive location for retailers and advice provided by lettings agents as part of the investigations of the current proposals shows strong demand, provided the right environment is created. Additionally the previous unsuccessful attempts at regeneration followed the traditional model of being developer led, with the Council not taking a proactive role after developing the planning policy and procuring a developer to lead a scheme. It is clear a different approach is required.

7.4 A fuller history of the project can be found in the reports to NHDC Full Council on 31 January 2013 and 11 February 2016 (links below)  
<http://web.north-herts.gov.uk/aksnherts/users/public/admin/kab12.pl?cmte=COU&meet=30&arc=71>  
<http://web.north-herts.gov.uk/aksnherts/users/public/admin/kab12.pl?cmte=COU&meet=93&arc=71>

The decisions in the last three years most relevant to the matters in this report are set out below at paragraphs 7.5 and 7.6.

7.5 On 27 November 2014 Full Council:-

***“RESOLVED:***

*...*

*(2) That, having considered its aspirations for the future of the Churchgate site and its surrounding area, the Council discontinues the current approach based on the Churchgate Planning Brief and considers alternative approaches for a smaller scheme in the short term; and*

*(3) That Officers be instructed to investigate the Council’s preferred approach, as agreed in (2) above, and report back to Council setting out the options and points for consideration to progress the project.*

***REASON FOR DECISION:*** *To allow the Council to clearly state its current aspirations for the Churchgate area of Hitchin in the light of the history of the project to date and provide clarity on its preferred approach going forward.”*

- 7.6 Full Council's most recent decision in respect of Churchgate was on 11 February 2016 where it was:-

***“RESOLVED:***

*(1) That work on the Churchgate Project cease; and*

*(2) That the possibility of acquiring the Churchgate Centre be explored, subject to further consideration of the commercial case for so doing at a future meeting of the Council.*

***REASON FOR DECISION:*** *To review the Council's strategic approach to the site, in an endeavour to find a viable and acceptable solution for the Churchgate Centre and surrounding area.”*

Council Report 8 February 2018

- 7.7 On 5 April 2016 the Council was approached by Shearer Property Group (SPG) (see <http://www.spglondon.com/> ) who explained that they had agreed a binding option to purchase the Churchgate Centre from the existing owner, Hammersmatch. SPG requested to meet with the Council in order to explain its aspirations for the Churchgate Centre. On 8 February 2018 Full Council received a report outlining proposals for a joint venture between the Council and Shearer Property Group to regenerate the Churchgate Shopping Centre, Hitchin Market and the public realm – see <https://democracy.north-herts.gov.uk/ieListDocuments.aspx?CId=136&MIId=154&Ver=4> . The report set out the high level concepts, broad financial arrangements, potential benefits of the proposals and key challenges that needed to be overcome. Following discussion Full Council:-

***“RESOLVED:***

*(1) That the principle of a joint venture regeneration of the Churchgate Centre, with the Council as funder of the regeneration, be supported;*

*(2) That the Deputy Chief Executive, in consultation with the Chief Finance Officer, the Leader of the Council and Executive Member for Finance and IT, be authorised to progress negotiations with Shearer Property Group on the terms of a potential joint venture regeneration of the Churchgate Centre, subject to Full Council's final approval of the terms of any proposal; and*

*(3) That the proposal to allow the contract for the management of Hitchin Market to expire and for the market to be managed in-house, subject to Cabinet's approval, be noted.*

***REASON FOR DECISION:*** *To progress the potential regeneration of the Churchgate Shopping Centre in Hitchin.”*

## **8. RELEVANT CONSIDERATIONS**

### Work undertaken since 8 February 2018

- 8.1 As stated in section 5 above a public consultation exercise was carried out in March/April 2018 by way of online survey. In light of the very positive feedback received there has not been significant changes to the scheme proposals at this stage, although see below for details of how the proposals have evolved. The detailed design work would come later in the process (post Full Council approving the final deal) and will of course include public consultation. Much of the work undertaken has been exploring the potential structure of the arrangement with Shearer Property Group, the funding arrangements for the proposals and ensuring the proposal was financially viable as an investment for the Council.

### Proposals for Churchgate Centre

- 8.2 As previously reported, the proposal is a regeneration of the Churchgate Centre on its existing footprint. In broad terms a new frontage would replace the existing and the centre re-roofed, with some re-configuration of the existing units as required in order to make them suitable for the targeted tenants. In particular the frontage onto Market Place would be completely redesigned and reworked. This transformative “face-lift” of the Centre is intended to create a step change in the quality of the units available, thereby making them more attractive to retailers. The significant advantage of the approach being proposed is that it addresses all of the issues listed in paragraph 7.2 which have affected previous attempts to regenerate the site.
- 8.3 With regard to potential tenants, a mix of food and beverage operators and retailers would be targeted, with some smaller units currently remaining earmarked for existing tenants. The potential tenant mix continues to evolve in response to changing demand within the industry and the scheme is designed to allow for some flexibility of potential tenants. As with any shopping centre key elements in reaching agreement with potential tenants are the incentives they would demand as part of any lease negotiations (for example rent free periods, or contributions to fit out costs) and ensuring an attractive environment from which they operate. A relatively minor change to the proposals is that space on the second floor looking onto Market Place which had previously been earmarked for office space would now become four flats.
- 8.4 The significant change since the previous report to Full Council is the introduction of a three screen cinema, where a potential operator has been identified. A cinema helps support the food and beverage lettings and adds an important leisure use to the balance of the scheme. It has to be acknowledged that cinemas are expensive to include within schemes due to the incentives they require and this has necessitated a lot of work to ensure the proposals remain financially viable with the inclusion of a cinema. A number of the responses to the public survey proactively named a cinema as one of the attractions that would make them more likely to visit the Churchgate Shopping Centre (22% of those who included an answer in the ‘other’ response to that question in the survey).

### Proposals for Hitchin Market and the Public Realm

- 8.5 The market rights are owned by the Council and since the February Full Council meeting the management contract with Hitchin Markets Limited has been extended for a further two years to 31 July 2020 with a break clause on three month notice. The proposals for the Market remain as previously mooted, with a mix of demountable and permanent stalls and the introduction of a canopy over the permanent stalls to improve the attraction for food and drink stalls, which were identified in the survey results as the most popular stall types (see paragraph 5.3).
- 8.6 With regard to the public realm, resurfacing of the 'mall' down the middle of the Churchgate Centre, the new public space, the market area and terrace and steps in front of St Mary's car park would transform the look and feel of the area. Removal of the walls between the current market and the Church would open up the space and provide enhanced views of the Church from the new public space. Additionally consideration can be given to relocation of the electricity sub-station and refurbishment of the toilet block. The level of investment in the public realm and market is dependent on the cost and funding available.

### Funding

- 8.7 The total cost of the proposals being considered is around £23m (excluding borrowing costs). The proposal being put forward is that the Council fund the regeneration (with a significant contribution from the Hertfordshire Local Enterprise Partnership), with SPG providing specialist expertise and knowledge. In return the Council would be sole owner of the completed scheme, receiving all of the income. A detailed breakdown of the finances of the proposed scheme is set out in section 10 of the part 2 report. As previously officers have been working on the prudent basis that the Council would need to borrow from the Public Works Loan Board (PWLB) all sums required for the regeneration of the Churchgate Centre. Local authorities are able to borrow provided that it is in accordance with the Prudential Code, as published by the Chartered Institute of Public Finance and Accountancy (CIPFA). Meeting these requirements needs to be confirmed by the Council's Chief Finance Officer. The Council's Chief Finance Officer is satisfied that the principle of borrowing to fund the regeneration of the shopping centre would meet the requirements of the Prudential Code.
- 8.8 The interest rates charged by PWLB are published twice daily and are not fixed until you draw down the loan. Additionally the rates vary according to the length of loan taken out. Where the Council borrows money to fund capital investment it is a requirement of local government finance rules to make provision for the repayment of the lump sum at the end of the loan period. This is known as the Minimum Revenue Payment (MRP).
- 8.9 As reported previously the Council submitted a bid to the Hertfordshire Local Enterprise Partnership (LEP) for grant funding to cover the cost of the investment in the market and public realm, in response to an open call for applications from economic development projects in Hertfordshire. Whilst the Council was notified on 28 March 2018 that its application had been unsuccessful, the LEP recognised the potential of the proposals and offered to work with the Council on a revised bid relating to the entire proposal (ie the shopping centre, market and public realm). On 5 October 2018 a

revised bid was submitted, which is being considered by the LEP. Their process is as follows:-

- Final application received – 5th October
- LEP Officer Sift – 11th October
- Chairs' Panel – 8th November
- LEP Board – 13th December

The approach of the LEP is to be a funder of last resort ie to provide funding which would make an otherwise unviable scheme financially deliverable. The proposals being reported to Full Council are reliant on LEP funding for delivery. If funding is not secured the proposals could not proceed in their current format.

- 8.10 In addition to the LEP funding officers have been exploring other potential external sources of funding. Through the Hertfordshire Property Partnership the Churchgate project has been shortlisted for a £100k revenue funding bid for consultancy support as part of the Government's One Public Estate scheme. The outcome of this bidding process will not be known until the latter part of quarter one 2019. Additionally in the recent Autumn Budget the Government announced a Future Highstreets Fund of £675m as co-funding for Councils for the transformation of high streets. The indicative timetable set out is as follows:-

- Later this year - launch of the prospectus for the Fund
- Spring 2019 - stage 1, expressions of interest
- Summer 2019 - stage 2, more detailed business cases

Officers will continue to monitor announcements relating to this fund to see whether the Churchgate project would meet the eligibility criteria, as any additional grant funding obtained would help to improve the financial viability of the proposals, or allow for further enhancements outside the scope of the current budget.

- 8.11 At Full Council in February 2018 the mechanism for approval of funding bids prior to submission was queried. The submission was in line with the requirements of the Council's Constitution which states at paragraph 14.6.4(a) *"The Chief Executive, the Deputy Chief Executive, Strategic Directors, Heads of Service and Corporate Managers are delegated the following functions, powers and duties for their respective service areas: [...](ix) National Lottery and external funding applications."*

#### Potential Community Benefits

- 8.12 As Members will be aware the Council has long held aspirations for improvement of the Churchgate Shopping Centre. A brief history is provided in paragraph 7.1 above, however the starting point for those aspirations was even earlier. On 17 November 1986 the Economic Development Sub-Committee received a report titled North Herts Town Centres and their role in the Economy. The report stated "The Churchgate shopping mall is showing its age in many respects and its bland characterless form combines with a need for refurbishment that results in it being considerably less attractive than it could or, indeed, should be." This is therefore an issue that is still not resolved more than thirty years later.

- 8.13 The proposals being explored, if able to be successfully delivered, would finally bring a resolution to the issue of the Churchgate Centre. Additionally the surrounding public realm would be transformed, a new public space created and much needed investment made in Hitchin Market. This investment in the town centre would increase the current offer within the town centre and should provide an economic benefit to the rest of the town. The proposals would also create a number of jobs, both within the Churchgate centre and within Hitchin Market.
- 8.14 Previous reports on the Churchgate Centre have found the existing building to be of a poor quality, to be of bland design and which has not aged well. The existing building does not contribute to and is at odds with the overall character of Hitchin town centre. The regeneration of the Churchgate Centre together with the proposed works to the market and the public realm would provide a welcome opportunity to significantly enhance and improve upon the character and appearance of this part of Hitchin Town Centre and which would also be to the benefit of the wider Hitchin Conservation Area.
- 8.15 In addition to the potential benefits set out above, this proposal could also provide a commercial investment opportunity for the Council. There is scope for an increased revenue stream, which would have potential to increase over time as rents increase (as the interest costs remain fixed over the lifetime of the loan), could therefore help to support the provision of Council services generally.

#### The Future of Hitchin Town Centre

- 8.16 The Council's emerging Local Plan identifies the potential for regeneration of the Churchgate area and the need for additional retail floorspace (paragraphs 13.130 to 13.135 refers – see <https://www.north-herts.gov.uk/files/lp1-proposed-submission-local-planpdf>). The wider site is allocated for mixed use, retail led, schemes as site HT11. The supporting retail studies which underpin that element of the proposed Local Plan (see <https://www.north-herts.gov.uk/files/e2-retail-and-town-centres-background-paperpdf>) show a need for retail space in Hitchin, which supports the information provided by lettings agents that there remains strong interest in Hitchin from potential operators. The proposed regeneration of the existing Churchgate shopping centre does not create much additional floorspace, however there will be a step change in the quality of retail and food and beverage operators who are tenants.
- 8.17 As noted above the amount of additional floor space proposed does not meet the requirements in the emerging Local Plan (and nor is it intended to). It is important to stress that the proposals currently being explored only relate to the Churchgate Centre and market area and does not include any of the wider area identified in the Local Plan. However the proposed regeneration of the Churchgate Centre, Hitchin Market and the public realm would not preclude other incremental development in the future and would in the meantime provide solutions to issues that have previously posed problematic in unlocking the development potential of the wider site.
- 8.18 It should be noted that whilst Hitchin town centre continues to trade well compared to other similar town centres, there are potential threats on the horizon. The development of the A1 retail park at Biggleswade has had an effect on tenant demand, particularly from the retailers located at that retail park. Stevenage Council continue to try to progress their plans for the regeneration of Stevenage town centre. Additionally, the Council is aware of plans for an out of town mixed use scheme park at junction 10 of

the M1 including retail, leisure, office and hotel uses. In the light of these potential threats to the vitality of Hitchin Town Centre the case for potential investment, if viable, is only strengthened in order to maintain the health of the town centre economy.

#### Work required prior to final decision

- 8.19 If Full Council continues to support these proposals there remains a number of key steps to be concluded prior to a final decision from Full Council to proceed. As these steps will incur expense Council's continued approval is sought at this stage to minimise abortive costs. The key work remaining includes (but is not limited to):-
- Negotiating and agreeing legal agreements between the Council and SPG, based on the Heads of Terms
  - Ongoing work on the financial viability appraisal to ensure that it reflects any changes to the design proposals and changing market conditions for both costs and potential income
  - Ongoing work to ensure sufficient tenant demand
  - The outcome of the LEP bid
  - Pre-purchase due diligence eg structural surveys
- 8.20 In the event that the above challenges are overcome and Full Council decides to enter into an agreement for the delivery of the regeneration it is anticipated that it would then take, from that point of final decision, approximately twelve to fifteen months to conclude all issues prior to getting on site (including planning, procurement etc) and a further approximately fifteen months of on site construction works.

#### Management of the Project

- 8.21 One of the requirements of any LEP funding is that a project board oversee the project and the LEP be represented on that project board. The configuration of that board will be considered in the next phase of work, in accordance with the requirements of the Council's constitution. In the interim it is therefore recommended that the Deputy Chief Executive be authorised (in consultation with the Chief Finance Officer, the Leader of the Council and Executive Member for Finance and IT) to continue to progress negotiations with SPG, subject to Full Council's final approval of the terms of any proposal. The Council currently has an established project team working on this opportunity, which is led by the Deputy Chief Executive and includes our Service Director Resources (Chief Finance Officer), Service Director Commercial, Legal Commercial Team Manager and Strategic Sites Planning Officer.

#### Conclusions

- 8.22 The proposals being considered would, on the basis of the information currently available, seem to continue to provide the best opportunity the Council has had for finding a solution to the Churchgate issue. In addition, investment in Hitchin Market and the public realm would create opportunities to transform and reinvigorate the area. This investment, if successful, would create jobs and improve this part of Hitchin town centre. The response from the public to the initial consultation exercise was overwhelmingly positive, which has not been the case with other previous proposals. Subject to the consideration of the detailed information, including financial breakdown, set out within the part 2 report, it is recommended to Full Council that this proposal continue to be supported and that further work be undertaken on the outstanding



matters in order to report back to Full Council for a final decision on whether to proceed or not.

## **9. LEGAL IMPLICATIONS**

- 9.1 Full Council's terms of reference include at 4.4.1(v) "to authorise the acquisition of land or buildings where the purchase price, premium or initial annual rent (after the expiry of any rent free period) exceeds £2,500,000" and at 4.4.1(b) "approving or adopting the budget", which includes the capital programme.
- 9.2 The responsibility for the decision on the arrangements for the management of Hitchin Market lies with Cabinet. On 27 March 2018 Cabinet made the decision to delegate to the Deputy Chief Executive, in consultation with the Head of Leisure and Environmental Services, the Executive Member for Finance and IT and the Executive Member for Leisure, authority to agree an extension with Hitchin Markets Ltd to manage the market contract in the short term. The market contract has been extended following Cabinet approval in March 2018 on terms that would facilitate refurbishment.
- 9.3 If the Council agrees to the recommendation to progress the negotiation of legal agreements with SPG, officers would need to evaluate alternative options in the event that terms can not be agreed. Officers would also need to ensure that they are satisfied on the balance of risk regarding the procurement of SPG or an alternative service provider. Officers would also need to undertake due diligence on SPG, or alternative service provider, which will include an appraisal of SPG's financial standing and request for satisfactory references.
- 9.4 In accordance with previous reports to Full Council, Members are advised that taking part in Council decisions on the strategy to adopt for the Churchgate Area is unlikely to create a valid perception of predetermination in relation to a Member of the Planning Committee who takes part in the decision relating to any future planning application.

## **10. FINANCIAL IMPLICATIONS**

- 10.1 The majority of the financial implications are contained within the part 2 report as they include information which is commercially confidential.

### Current Situation

- 10.2 The Council currently owns the freehold of the Churchgate Shopping Centre and receives a rent that is linked to the rental income achieved by the leaseholder (Hammersmatch). Rent reviews are every 14 years (next one is due in 2024) and are upwards only. The amount received is about 1/3rd of the income being generated at the review date. The current income being received is £140k per year.
- 10.3 The market is currently run under a management agreement by Hitchin Markets Limited (HML). The Council receives an income of £28k per year.

### Costs to date

- 10.4 Since the last Council report in February 2018, the Council has incurred costs in relation to:
- A valuation of the leasehold of the Churchgate Shopping Centre to determine if the option price agreed by SPG could be justified. This is particularly relevant if the Shopping Centre is purchased and then plan A was not successful. Cost of £15k.
  - Advice from BNP Paribas for development consultancy support. Cost of £28k.
  - Financial, tax and legal advice from Grant Thornton in respect of this project and also in relation to forming a property company. Total cost of £26k.
  - Legal procurement advice in relation to appointing SPG as a development manager. Cost of just over £1k.
- 10.5 The above costs have been met from existing budgets including:
- Funding of £53k previously allocated by Full Council for investigating alternative proposals for the Churchgate Centre that has been carried forward from previous years.
  - Funding of £94k for investigating commercial opportunities.
- 10.6 In general these costs are not included within the development financial appraisal. These costs would be treated as revenue (i.e. not capital) costs.

### Expected costs up to purchase

- 10.7 These are fully detailed in the part 2 report. They are expected to be up to £130k. Council is requested to approve a transfer of up to £130k from the Special Reserve to cover these costs. The current balance in the reserve is £1.72m. The reserve was set up for a variety of purposes that included the up-front costs of large investment projects.

### Purchase and regeneration

- 10.8 The detail of the costs of purchase and regeneration are contained within the part 2 report.
- 10.9 The total costs to the Council (excluding financing costs) are estimated to be around £23m. It is estimated that just over £20m of these costs will be capital, and around £3m will be revenue. The amount requested from the LEP has been based on the Council achieving a net neutral position based on prudent assumptions. If these assumptions are exceeded then the Council would generate a surplus from the regeneration.
- 10.10 The Council is able to fund capital projects from the follow sources:
- Capital reserves
  - Grants and other contributions
  - Revenue funding
  - Prudential borrowing

The funding received from the housing stock transfer in 2003 has meant that for a number of years the Council has funded its capital programme from capital reserves, and any grants and contributions that have been available. The currently agreed capital programme shows that to fund the current capital programme there will be a need to top up capital reserves from the sale of surplus land and buildings.

- 10.11 When borrowing for capital expenditure, the Prudential Code (published by CIPFA) determines that the Council must consider whether it is Affordable and Prudent. The consideration of affordability relates to whether the Council can meet the revenue costs of the borrowing, which will be made up of interest and Minimum Revenue Provision (MRP). The expectation is that these will be more than covered by the income from the investment, although they may need to be partly covered from the General Fund during the first few years (i.e. during construction and the early years of operation). Prudence relates to an assessment of the risk, both individually and in the context of the wider treasury position of the Council. As the Council only has a small amount of historic borrowing, this is not a significant factor.
- 10.12 When the Council borrows money to fund a capital investment, it is required to set aside an annual provision for the repayment of the debt. This is known as a Minimum Revenue Provision (MRP) and is a cost to the general fund. There is some discretion as to the phasing of when this is set aside, but it should be linked to the life of the asset it is funding and the benefits that accrue from that asset.
- 10.13 The revenue analysis makes the following prudent assumptions. All of the opportunities for cost reductions need to be considered in the context of the wider capital and treasury strategies:
- The Council will need to borrow all the capital costs of the scheme (except those that will be reimbursed by the LEP). The current capital programme includes an allocation of £2.5m for a pension fund payment. This funding could be notionally reallocated to this project instead. For every £1m that is funded from capital reserves (rather than borrowing) it reduces costs by around £40k per year – based on avoiding interest costs at 3% and MRP at 2.5% but with estimated lost investment income at 1.5%.
  - The Council will externally borrow for all the capital costs of the scheme. The Council can internally borrow against its revenue reserves, which means that interest costs are avoided although it does also reduce investment income. However the margin between interest rates for borrowing and investment means that every £1m that is borrowed internally is a saving of around £15k. Based on current forecasts of general fund and specific reserves, the Council could internally borrow over £12m.
  - The borrowing will be over a 40 year period with repayment at the end of 40 years. The current Public Works Loan Board rate for this period is around 2.7%. The Council's treasury advisors forecast that this rate will increase over the next two years, so 3% has been used as an estimate. The rate of borrowing is only confirmed on the day that the loan is taken out. The Council would reduce its borrowing costs by repaying the loan over its life and/ or by structuring the borrowing so that it was over a shorter period.

- It is being assumed that there will be no inflation increases in the rental income received, as a result the MRP is being charged equally over the life of the asset which is being assumed to be 40 years. If it was expected that there would be inflation then the MRP policy could be changed so that a lower amount was charged in the earlier years and more was charged in later years (i.e. matching the MRP charge to the income generated by the shopping centre). This would improve the revenue position in the earlier years.

10.14 All of the totals above are exclusive of VAT as the contracts will be in the name of the Council and will be able to recover the VAT paid.

### Plan B

10.15 The Council would only acquire the leasehold if there was a good prospect that the plan A scheme could go ahead. However during the period between acquiring the leasehold and starting building work, it is possible that circumstances might make this either impossible or not desirable. At that point the Council could revert to an alternative option. The part 2 report considers what these alternative options could be and the cost implications of them.

## **11. RISK IMPLICATIONS**

- 11.1 The financial risks are detailed in the part 2 report and include:
- a sensitivity analysis in relation to lettings achieved and capital build costs
  - a consideration of the plan B options if the leasehold was purchased and the planned scheme could not go ahead.
- 11.2 As part of the LEP bidding process an initial risk log has been created, which identifies 23 potential risks, their consequences and mitigating action required. This risk log will be developed as formal project management arrangements are considered. If the proposals move forward then the project is likely to be proposed as a Top Risk which is then monitored and updated regularly as part of the Council's risk management procedures.
- 11.3 The Council's Risk and Opportunities Management Strategy refers to Contractors and Partners as follows: *"Contractors and Partners are included in the Risk & Opportunities Management Strategy for NHDC. The risk appetite for both contractors and partners should be considered prior to engaging into contracts or partnerships. Ideally a joint Risk Register should be in place for significant contracts and partnerships. In order to achieve the Council's objectives, Client Officers/relationship managers should implement an ongoing review of risks jointly with appropriate contractors and partners."* A joint register would be created for this project.

## **12. EQUALITIES IMPLICATIONS**

- 12.1 In line with the Public Sector Equality Duty, public bodies must, in the exercise of their functions, give due regard to the need to eliminate discrimination, harassment, victimisation, to advance equality of opportunity and foster good relations between those who share a protected characteristic and those who do not.

- 12.2 Any regeneration proposals for the site will need to consider proposals for thoroughfares, access, surface treatments etc and the needs of the users of the resulting development. These will be considered and recorded under separate equality analysis at the relevant time.

### **13. SOCIAL VALUE IMPLICATIONS**

- 13.1 The Social Value Act and “go local” policy do not apply to this report due to the nature of the decisions Full Council is being asked to make.
- 13.2 However, any decision Council may make in the future with regard to the regeneration of Churchgate which could, either in whole or part, constitute a public service contract would need to report on the social value implications of each/any option at the time of consideration. This would, in brief, consider how every £1 spent could best be spent to benefit the local community, which may include award of some aspects of redevelopment or management of the centre etc. by local social enterprises, a contractor offering an apprentice scheme or similar.
- 13.3 The Council will ensure that Social Value is built in to the procurement processes for the project and encourage the use of local suppliers and trades wherever possible. The Council was able to achieve Social Value outcomes from a recent construction contract on its office building (e.g. building projects with local schools and sponsoring a charitable event). The Council plans to build similar ideas in to this construction contract.

### **14. HUMAN RESOURCE IMPLICATIONS**

- 14.1 The current work undertaken to this point has been met from existing resources, with additional external development consultancy expertise sought to support internal skills and knowledge. An internal team of officers including financial, legal, planning and technical expertise has been identified to support the Deputy Chief Executive. The ongoing resourcing requirements will be considered as part of the next phase of work, if Council supports the principle of the proposals, have been factored into service plans for 2018/19 and will be included in 2019/20. Additionally the internal resourcing will be considered in the light of any changing responsibilities as a result of the senior management restructure.

### **15. APPENDICES**

- 15.1 Appendix A – Indicative Site Plan, ground floor and first floor

### **16. CONTACT OFFICERS**

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**17. BACKGROUND PAPERS**

- 17.1 Reports on previous Churchgate proposals to Full Council dated 31 January 2013, 11 February 2016 and 8 February 2018
- 17.2 Draft Local Plan



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PROJECT		CHK
REV	DATE	DESCRIPTION
02	14-10-13	ISSUE FOR INFORMATION
01	10-03-16	ISSUE FOR INFORMATION
		MZ
		MZ

CHURCHGATE  
HITCHIN

CLIENT

SPG

ARCHITECT



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DRAWING TITLE

DRAWING TITLE

JOB NUMBER	SCALE	DRAWN BY	FIRST ISSUE
	1/2"=1'-0"	AJ	MAY 2016

COMPANY CODE	BUILDING / ZONE	LEVEL	CATEGORY	DRAWING No.	REVISION
<b>PRELIMINARY</b>					

CTL	XX	X (15)	03	00
CTL	XX	X (15)	03	00

## SECOND FLOOR PLAN

U 28  
GEA: 2979 ft<sup>2</sup>  
GIA: 2220 ft<sup>2</sup>

BIGGIN LANE

U 14  
CINEMA

CHURCHYARD WALK

BIGGIN LANE

Covered roof: glass & steel

### Demountable stalls

## NOTES

This drawing must not be scaled. Use figured dimensions. All dimensions are to be verified and checked on site. Any that are, or become apparent should be reported to Chapman.

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of the Local Government Act 1972.

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