

Report

Cabinet

Part 1

Date: 13 September 2017

Subject 123-129 Commercial Street

Purpose To advise the Cabinet of current proposals in relation to the delivery of this scheme and to seek approval of the financial considerations arising

Author Matt Tribbeck, Regeneration Manager

Ward Stow Hill

Summary The redevelopment of 123-129 Commercial Street is the flagship project of Newport's Vibrant and Viable Places programme. Welsh Government has ring-fenced the remaining £3.097m of Newport's Vibrant and Viable Places funding into a fourth year of the programme to allow the development to proceed. This funding forms part of a package which seeks to deliver further housing-led regeneration projects within the city alongside the redevelopment of 123-129 Commercial Street. The Council would need to make a financial commitment to the scheme in order to secure the development and bring this £10m investment into Newport City Centre.

Proposal To approve a finance package of £1,050,700 and negotiate terms of an on-lending facility necessary to secure the redevelopment of 123-129 Commercial Street and additional housing led regeneration projects.

Action by Keir Duffin, Head of Regeneration, Investment & Housing

Timetable Immediate

This report was prepared after consultation with:

- Leader of the Council
- Strategic Director - Place
- Head of Finance (Chief Finance Officer)
- Head of Law and Regulation (Monitoring Officer)
- Cabinet Member for Regeneration and Housing

Signed

- **Background**

- .1 This project will redevelop an obsolete block of city centre properties acquired by the Pobl Group in accordance with agreed aims and objectives of the Vibrant and Viable Places (VVP) programme. 123-129 Commercial Street includes the entrance to the Park Square Car Park and the redevelopment will therefore transform a key city centre gateway as well as delivering much-needed new affordable homes for older people.
- .2 Additional funding has been understood to be required for some time due to a number of inflationary factors. The proposed development sits in a difficult urban location and the complexity of the scheme intersects with an ambition to deliver a statement development synonymous with the renewed sense of confidence around the city centre. On-site constraints and market conditions, notably the buoyancy of the local construction industry, have also played a role towards inflating costs. Any dilution of the redevelopment will run contrary to the Planning consent for the scheme and restrict the regeneration impact achieved, which limits the potential to value-engineer the scheme costs down.
- .3 The main source of funding for the development remains the Welsh Government, via a combination of VVP funding secured against the scheme and a requested allocation of Social Housing Grant (SHG). Detailed work has continued to both further improve the financial viability and explore synchronicities between this development and additional housing-led opportunities within the city centre that could be incorporated within the funding envelope of 123-129 Commercial Street. In order to satisfy Welsh Government's Social Housing Grant conditions, there is a requirement to lever in additional affordable housing units. This responsibility is being undertaken by Pobl and will not incur further cost to the project or NCC.

- **Financial Summary**

Capital Costs	Position July 2017 (123-129 only)	Package Option (123-129 and additional 18 units)
Acquisitions	£791,700	£791,700
Main Works	£9,250,000	£11,331,384
On-costs	£502,085 (@5%)	£689,409 (@6%)
NCC On-lending Saving (to be negotiated)	(£200,000)	(£200,000)
Under croft Car Park Income	(£100,000)	(£100,000)
Total Scheme Cost	£10,243,785	£12,512,493
Funding		
VVP	£3,855,000	£3,855,000
SHG	£2,602,085	£2,602,085
NCC Contribution	£1,050,700	£1,050,700
Pobl Private Finance	£2,736,000	£5,004,709
Total Scheme Cost	£10,243,785	£12,512,494

- .1 The package option represents a commitment in principle only to achieve at least an additional 18 units without any uplift in grant. The delivery of additional units is a requirement of Welsh Government approving the overall funding package. No specific schemes have been identified at this stage due to the urgency of the need to secure the funding for 123-129. It is assumed that for these extra units to be delivered with no recourse to Welsh Government grant regimes, this provision would need to be based around shared ownership.
- .2 The core of the funding for 123-129 Commercial Street is derived from the Council's VVP allocation. Ongoing discussion around this scheme saw the Welsh Government ring-fence the

£3.097m allocation remaining yet to be drawn down by the Pobl Group into a fourth year of programme delivery pending approval of a refined scheme. This funding can be defrayed to Pobl immediately to allow the development to proceed once the overall financial package is approved.

- .3 The Pobl Group are already contributing significant private funding into the scheme (£2.736m). Viability calculations provided by the Pobl Group to illustrate the cost of delivering an additional 18 affordable housing units without grant assistance suggests an estimated cost of a further £2.268m. The total Pobl Group contribution to the funding envelope is therefore likely to be in the region of £5m. If the above financial position is accepted, the project risk will lie mainly with the Pobl Group as it will be incumbent on them to develop both 123-129 Commercial Street and the required additional units without further assistance from either NCC or the Welsh Government, beyond that detailed in the existing funding envelope.
- .4 Newport City Council's own commitment to the scheme must also be formally confirmed. At present, the scheme requires a commitment of £1,050,700 in direct match funding in order to make the development viable. There is also the potential to provide an on-lending facility to the Pobl Group allowing them to make an additional £200,000 saving on borrowing rates. Details of this arrangement need to be negotiated and Cabinet approval is sought to commence such negotiations with Pobl.
- .5 The financial impact of this contribution by the Council can largely be met by external funding, as detailed below:
 - An on-lending facility to be discussed with Pobl which would allow them to make a potential saving of around £200,000 on borrowing rates. The figure to be borrowed is yet to be negotiated and approval is sought to commence negotiations.
 - £445,700 can be met by unallocated Section 106 contributions ring-fenced for affordable housing in the city. In accordance with the standard five-year period by which these funds will need to be used, an initial tranche of these monies will need to be paid to Pobl within the current financial year.
 - The allocation of £300,000 Joint-Venture monies is required to support the development.
 - £300,000 is required from the Council's capital reserves to complete the funding package.

By agreement with Pobl, the Council's match-funding contribution will largely be paid out in the final year of construction, providing the authority with security against delivery of the development. It is unlikely that any meaningful legal charge can be attached to the properties at 123-129 Commercial Street due to the requisite primacy of the Welsh Government charges. However we will seek to obtain security on any loan facility.

- **Risks**

- .1 The key risks are as follows:
 - Firstly, that the scheme costs inflate further during the course of delivery. The current proposals are based on explicit communication that no further grant intervention will be palatable to the Welsh Government. Pobl are also aware that NCC is also at the limits of its exposure under the scheme. This risk is mitigated by including within the VVP grant offer conditions attached to the £3.097m that if the overall scheme costs increase, Pobl will meet these additional liabilities through their own sources of funding. No equivalent increase will be made from either WG or NCC in light of total project costs.
 - Secondly, that a minimum of 18 additional units of affordable housing-led regeneration within the city cannot be delivered within the medium term without recourse to any further Welsh Government grant funding. Pobl will be accepting the liability to deliver these units in their entirety and have an excellent track record in the provision of affordable housing. They manage a successful shared ownership product which has been deployed effectively to deliver several housing schemes within the city. Whilst the timing of delivery is less urgent than the formal

commitment to deliver, the provision of at least additional 18 homes will need to be included in the VVP offer of funding to contractually ensure delivery of the scheme(s). There is a pressure on Pobl to produce significantly advanced proposals sufficient to give confidence that they can deliver these additional units and secure the overall financial position.

- Thirdly, tender prices increase. Pobl Group have invested significant effort into a collaborative procurement exercise alongside their main contractor as part of their extensive work to drive down the overall cost of the scheme. This joint approach has realised some savings, however the longer the delay in proceeding with the full scheme, the greater the likelihood that the guarantees attached to the tender prices received to date will expire, which would force Pobl to go back out to tender on each element of this extensive development causing further delay in introducing a risk that the overall cost might inflate. It is therefore imperative that the financial position is agreed as soon as possible to allow the scheme to proceed at the cost identified.
- Finally, the scheme does not proceed. If the scheme does not proceed the Council may be faced with a claw-back in relation to any funding defrayed to Pobl to secure the acquisition of the land. Currently these costs amount to £755,000. It is the Council's position that these funds were defrayed in accordance with both the Council's and the Welsh Government's aims and objectives and terms and conditions, and that any claw-back should be resisted. It is unlikely these funds could be recovered via an enforced sale of the properties in any case.

Risk	Impact of Risk if it occurs* (H/M/L)	Probability of risk occurring (H/M/L)	What is the Council doing or what has it done to avoid the risk or reduce its effect	Who is responsible for dealing with the risk?
Increase in Project Cost	H	M	VVP Offer of Funding Conditions Norse cost consultancy?	NCC/Pobl
Delivery of at least 18 Additional Housing Units	H	L	VVP Offer of Funding Conditions Achievement of Outline Planning Consent	NCC/Pobl
Tender Package Costs Increase	M	M	Pobl have instructed soft-strip works at risk to secure additional commitment to honour tender prices received from their contractors. An urgent decision is the main mitigation around this risk.	NCC/Pobl
Grant Clawback	L	M	The funding has been defrayed in accordance with VVP aims and objectives. WG terms and conditions have not been breached. The Pobl Group intend to proceed with demolition regardless of whether the redevelopment proceeds.	NCC/Pobl

- **Links to Council Policies and Priorities**

- .1 The redevelopment of 123-129 Commercial Street is a key economic anchor which will add significant value to the Council's strategic Priorities and Policies for continued regeneration of the City Centre. City development and regeneration remains one of the Place priorities under the Improvement Plan. The development at 123-129 will create over 200 jobs in the local

construction supply chain, reduce the number of long-term vacant shops in the city centre, improve the accessibility and use of the Park Square Car Park and remove a focal point for antisocial behaviour in the city. It will maintain confidence in the city centre and encourage further development to take place, such as the Emlyn Walk Plaza scheme.

- .2 The 38 units of housing delivered will be of exemplar standard and provide bespoke accommodation for over 55's. Provision for this demographic is of high strategic importance given the pressures around the ageing population and the need to support the active ageing agenda. The units will nonetheless be affordable and can be accessed by those of limited incomes. Housing quality plays a key role in health and well-being and the scheme will increase the housing options for people forced to reside in poor quality private rented accommodation in the city. Pressures on benefit reform will also continue to increase the demand for affordable housing units.
- .3 The project supports Newport City's Economic Growth Strategy, which sets out a ten year programme for delivering growth across the city centre through capital redevelopment, upskilling, training and business support.
- .4 Funded by the Welsh Government's Vibrant and Viable Places Programme, a number of key projects have been completed in the immediate vicinity, including the refurbishment of the National Building, creation of St Paul's Walk and improvements to a number of properties along Cardiff and Commercial Road. These projects have provided an uplift to the area but the proposed scheme is considered to be a key element in reversing the fortunes of this end of Commercial Street and prevent it being further marginalised by the opening of Friars Walk.

- **Options Available and considered**

- .1 To approve the financial commitment of £1,050,700 from Newport City Council, as outlined in Section 5 above, and commence negotiations on an on lending facility which allows the redevelopment of 123-129 Commercial Street to proceed.
- .2 To approve the financial commitment of £1,050,700 from Newport City Council, as outlined in Section 5 above, but without agreeing to the principle of an on lending facility.
- .3 To not approve any form of financial commitment from Newport City Council, leaving the redevelopment of 123-129 Commercial Street unable to proceed.

- **Preferred Option and Why**

- .1 To approve the financial commitment of £1,050,700 and commence negotiations on an on lending facility. As mentioned above, the redevelopment of 123-129 Commercial Street is a significant investment that is critical to the future of the city centre. It will bring a key economic anchor to the southern end of the city encouraging further investment and footfall into an area that is increasingly marginalised by the success of Friars Walk. Ancillary benefits include the creation of construction jobs, training opportunities, and financial benefit to local construction companies. The properties are obsolete in their current manifestation and serve little purpose other than as a focus for anti-social behaviour. If Newport is to maintain the momentum generated by the regeneration of the city centre then it is vital that aspirational and transformational developments such as the proposal for 123-129 Commercial Street are secured and delivered.

- **Comments of Chief Financial Officer**

The medium term capital programme from 2018/19 onwards is currently being developed alongside the Councils medium term budget strategy. This capital programme will need to be affordable and within the

financial constraints available to the Council. As part of this, capital reserves are an integral part of the affordability of the overall programme.

Regeneration has been identified as a priority for the capital programme and capital reserves can be utilised if deemed to be vital for the regeneration of the city. This proposal would see £300,000 of the capital reserve being used, with a further £300,000 being funded from the Council's share of the Joint Venture capital receipts. Following funding already earmarked from the JV receipts, this will reduce the current balance available to £734,000, which based on the split available between WG and NCC would be £620,000/£114,000 respectively.

- **Comments of Monitoring Officer**

The proposals are in accordance with the Council's statutory powers under section 2 of the Local Government Act 2000 to provide funding and financial assistance for the purposes of securing social, economic and environmental improvements to the area. The strategic importance of this scheme has already been established as a critical part of the approved VVP programme and grant funding has already been committed to develop the project. Welsh Government agreement has been secured for an increase to the VVP and SHG capital funding costs, subject to a further commitments from Pobl to secure additional affordable housing units within the area, to extend the social benefits of the scheme.

This commitment will need to be identified as a specific condition of any revised VVP grant offer letter from the Council. The balance of the additional costs will need to be met by Pobl and the Council, through a mix of Section 106 monies, use of the ear-marked Joint venture receipts and loan funding. The Council has the power to provide loan assistance under its section 2 powers, with or without interest, and any preferential rates of interest charged to Pobl would not constitute unlawful state aid as there is no commercial or economic profit involved in the project.

- **Comments of Head of People and Business Change**

The continued regeneration of the city centre with a particular focus on the traditional high street (i.e. Commercial Street) was considered to be a priority as identified in recent public engagement work on the Wellbeing of Future Generations Act 2015. The report explains that the 123-129 Commercial Street project is considered transformational and should deliver a range of wellbeing benefits. Further to this the project is expected to create significant construction employment, will address anti social behaviour issues and will complement other regeneration projects in the area which will help to prevent economic, social and economic marginalisation. The impact on wellbeing linked to this redevelopment project is considerable and should deliver long term sustainable development benefits.

- **Comments of Cabinet Member**

Cabinet Member for Regeneration and Housing has approved the report.

- **Local issues**

Stow Hill Ward members have been consulted.

- **Scrutiny Committees**

Please include a record of any consultation with scrutiny committees. Please add here details of any consultation and the outcomes.

- **Equalities Impact Assessment and the Equalities Act 2010**

The Equality Act 2010 contains a Public Sector Equality Duty which came into force on 06 April 2011. The Act identifies a number of 'protected characteristics', namely age; disability; gender reassignment;

pregnancy and maternity; race; religion or belief; sex; sexual orientation; marriage and civil partnership. The new single duty aims to integrate consideration of equality and good relations into the regular business of public authorities. Compliance with the duty is a legal obligation and is intended to result in better informed decision-making and policy development and services that are more effective for users. The development proposed at 123-129 Commercial Street will meet an identified need for people with protected characteristics and provide them with suitable accommodation in a sustainable and accessible location. It is therefore considered that the development would have a positive impact.

- **Children and Families (Wales) Measure**

Although no targeted consultation takes place specifically aimed at children and young people, consultation on planning applications and appeals is open to all of our citizens regardless of their age. Depending on the scale of the proposed development, applications are publicised via letters to neighbouring occupiers, site notices, press notices and/or social media. People replying to consultations are not required to provide their age or any other personal data, and therefore this data is not held or recorded in any way, and responses are not separated out by age.

- **Wellbeing of Future Generations (Wales) Act 2015**

.1 The Well-being and Future Generations (Wales) Act seeks to improve the social, economic environmental and cultural well-being of Wales. Public bodies should ensure that decision take into account the impact they could have on people living in Wales, in the future. The 5 main considerations are:

- Long term: Funding regeneration schemes in the short term will enable the local economy to grow and sustain jobs and new housing in the longer-term, leading to a more prosperous and resilient Newport with cohesive communities and a more prosperous Wales.
- Prevention: Regeneration will prevent further decline in key parts of the City. Resultant new housing and job creation will help reduce housing need and unemployment rates leading to a more prosperous and resilient Wales.
- Integration: Improving the physical environment will make the City more attractive to investors and residents. Creating more jobs and housing will improve the well-being of Newport's residents by providing access to a range of housing. This will create more resilient and cohesive communities who are well served by suitable housing and employment opportunities.
- Collaboration: We work closely with other Council departments and external partners including Welsh Government to deliver regeneration priorities in Newport. This leads to a more prosperous and resilient Wales with more cohesive communities.
- Involvement: All the recommendations in this report fully support the findings of the recent Your Newport Survey. This helps develop a more prosperous, resilient Wales with sustainable and cohesive communities.

.2 The proposal is in line with the Council's well-being objectives published in March 2017. Specifically, these proposals contribute to the following well-being objectives:

- “Promote economic growth and regeneration whilst protecting the environment”
- “To enable people to be healthy, independent and resilient”
- “To build cohesive and sustainable communities”

- **Crime and Disorder Act 1998**

.1 Section 17(1) of the Crime and Disorder Act 1998 imposes a duty on the Local Authority to exercise its various functions with due regard to the likely effect of the exercise of those functions

on, and the need to do all that it reasonably can to prevent, crime and disorder in its area. Regeneration of the city centre has been shown to reduce the impact and incidence of crime and anti-social behaviour. The properties at 123-129 Commercial Street are subject to continual trespass for the purposes of drug use and metal theft, and have been the location of at least one serious fire. Redevelopment will therefore eliminate a focal point for crime and disorder and improve public safety in the city centre.

Consultation

Comments received from wider consultation, including comments from elected members, are detailed in each application report in the attached schedule.

Background Papers

Pobl Group summary of development costs (pending)

Dated: 7 September 2017