



REPORT OF:	DIRECTOR OF FINANCE AND ORGANISATION
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TO:	EXECUTIVE
DATE:	18 OCTOBER 2018
EXECUTIVE MEMBER:	COUNCILLOR N BRAMHALL

KEY DECISION REQUIRED:	YES
WARD (S) AFFECTED:	REDHILL EAST AND REDHILL WEST

SUBJECT:	MARKETFIELD WAY – CONSTRUCTION OF MIXED USE DEVELOPMENT
<p>RECOMMENDATIONS:</p> <ul style="list-style-type: none"> (i) That the Executive note progress in relation to land assembly, site preparation and the pre-letting of retail, leisure and residential components of the scheme. (ii) That the Director of Finance and Organisation be authorised, in consultation with the Director of Place Services, the Executive Member for Property, the Leader and the Deputy Leader, to progress Stage 3 and Stage 4 of the Marketfield Way project, in accordance with the strategy set out in the Executive reports dated 26 February 2015, 23 March 2017 and updates set out in this report, and bring forward the development, retaining the commercial elements and pre-selling the residential flats to a private rented sector operator/residential investor. (iii) That the Director of Finance and Organisation be authorised, in consultation with the Director of Place Services, the Leader, Deputy Leader and Executive Members for Finance and Property, to progress the Marketfield Way project in accordance with the updated financial parameters set out in the exempt report in Part 2 (Option 1) of this agenda. (iv) That the Director of Finance and Organisation be authorised, in consultation with the Director of Place Services, the Leader, Deputy Leader and Executive Members for Finance and Property to agree terms, seal and complete a construction contract or enabling contracts with construction contractors, subject to construction costs being in accordance with the updated financial parameters set out in the exempt report in Part 2 (Option 1). (v) That Full Council be recommended to amend the Capital Programme to resource Stage 3 and Stage 4 of the Marketfield Way project subject to stage 3 and Stage 4 meeting the financial parameters set out in the financial projections provided in the exempt report in Part 2 of the Executive agenda. 	

REASONS FOR RECOMMENDATIONS:

Marketfield Way is one of the principal regeneration sites in Redhill Town Centre. The provision of a cinema - together with a selection of restaurant, retail and residential uses – will enhance town centre provision and will have a significant positive impact on the town's shopping and leisure offer and night-time economy.

On 23 March 2017, the Executive authorised the appointment of construction consultants, appointment of construction building contractors, placement of contracts to move statutory services on site and conclusion of pre-let arrangements. The financial parameters and resource requirements were set out in the exempt report of 23 March 2017.

On 18 May 2017, the Executive resolved that a Compulsory Purchase Order be made to secure the land interests required to deliver the project.

Since the 2017 reports, the Council has been working towards the confirmation of the Compulsory Purchase Order, the appointment of a preferred main contractor for the project, and securing pre-lets on the residential, retail and leisure elements of the scheme.

Development costs have become more certain as this work has progressed, however the market for mixed use town centre developments has evolved. This has resulted in a need to update the financial parameters presented to the Executive in March 2017 and to update the Capital Programme.

Stage 3 and 4 of the project includes finalising detailed design, placement of building and specialist contractors, placement of contracts to move statutory services on site and concluding pre-let arrangements. It also includes concluding the land assembly process, and implementation of the construction process.

EXECUTIVE SUMMARY:

Marketfield Way represents a significant opportunity to improve the social, economic and environmental wellbeing of Redhill. Its development potential has been identified in corporate and planning policy documents for many years. At its meetings in February 2015 and October 2015, the Executive agreed to take an active development role in the site.

Planning permission was granted in January 2017 for a mixed use development at Marketfield Way, comprising a new cinema, shops, restaurants, cafes and residential units.

This report sets out progress on Stage 3 of the project, including land assembly, contractor selection, site preparation and the securing of pre-lets and pre sales.

Despite changes to the retail market over the past year, the permitted scheme remains viable and will secure clear regeneration benefits for the town, including modern retail units capable of attracting high quality national retail chains, new leisure uses which will create a vibrant night-time economy in the town, public realm and environmental improvements, and high quality private rented sector flats in a highly sustainable location. The commercial elements will also generate significant revenue income streams for the Council which can

be reinvested in Council services and help the Council become financially self-sufficient.

Executive member agreement is therefore sought to progress with Stage 3 and 4 of the development for the permitted scheme. The report also recommends an amendment to the Capital Programme in order to resource the costs associated with Stage 3 and 4 of the project.

**Executive has authority to approve recommendations (i), (ii), (iii) and (iv).
Recommendation (v) is subject to approval by Full Council.**

STATUTORY POWERS

1. The Council has wide ranging powers to promote the economic, environmental and social well-being of the borough. These powers are derived from the Local Government Act 2000 and also include the powers of general competence under section 1 of the Localism Act 2011 to do anything that individuals with full capacity generally may do, subject to the provisions of the Act.

BACKGROUND

2. Marketfield Way represents a significant opportunity to improve the economic and environmental wellbeing of Redhill. As a currently unattractive and underused site in the town centre, its redevelopment can secure environmental and public realm improvements, additional and improved retail and leisure uses in the town (with associated new jobs) and provide much needed housing in a central and highly sustainable location.
3. At the same time, and as an ancillary benefit, the development will produce improved revenue income for the Council from commercial rentals, supporting the continued provision of Council services following the removal of the Council's Revenue Support Grant by Government, and helping the Council become financially self-sustainable in accordance with its adopted Five Year Plan 2015-2020.
4. Stages 1 and 2 of the Marketfield Way development were approved by the Executive in February and October 2015 respectively. A planning application for a new multi-screen cinema, flexible retail and restaurant/café units at ground and first floor level, 153 residential apartments, and associated parking and amenity provision and public realm improvements, and approved in January 2017.
5. Progression to Stage 3 of the project was approved by the Executive in March 2017 and May 2017.

KEY INFORMATION

Land Assembly

6. A CPO order was made by the Council on 23 February 2018, along with a Stopping Up Order with respect of the public highway access across the site.
7. At the close of the period within which representations could be made to these orders, a small number of objections were received. Even though the number of objections was limited, the Secretary of State requires a Public Enquiry, which is programmed for the 2nd to 4th October 2018.

8. Since the receipt of the objections, Council Officers have been working with specialist advisors to remove the objections to the Compulsory Purchase Order. Details of the objections and the status of negotiations are set out in the Part 2 report.
9. Land assembly also includes securing vacant possession of current leases. Leases under the direct control of the Council have now been secured on short lets with appropriate termination provisions, with negotiations ongoing on other units to enable the Council to secure vacant possession once the CPO is confirmed. Details on the status of land assembly in relation to the leases are set out in the Part 2 report, which also includes details about other uses on the site and cessation of the car park in its current use to enable development to proceed.

Selection of main contractor, detailed design and site preparation

10. Following an OJEU tendering process, and the receipt of stage 1 tenders reported earlier, a main contractor has been selected, and the contract is in the process of being signed. The contract is based upon a Stage 2 tendering exercise and a Pre Contract Services Agreement. The basis of this contract is for the detail design work to be undertaken in order that a final tender and contract figure can be agreed. Details of the Stage 2 contract and costs are set out in the Part 2 report, together with the anticipated programme.
11. Service diversions are required before other on-site works can take place. These are costly and come with long lead in times given the involvement of statutory undertakers. Negotiations with service providers are progressing positively: further details are set out in the exempt report in Part 2 of the agenda.

Pre-lets

12. Positive progress has been made in relation to securing pre-lets, including securing a cinema operator and a pre-sale agreement for the residential units with a private rented sector operator, as detailed in the exempt report in Part 2 of the agenda.
13. However, the retail market has weakened considerably since March 2017, such that it has not been possible to achieve the level of retail pre-lets that was previously anticipated. This in general terms increases the level of financial risk to the Council in the short term; however the Council's agents remain positive about the permitted scheme and their ability to let the retail units as the project advances beyond the current early stages. The financial appraisals included in the exempt report in Part 2 of the agenda confirm the headline details of the deals achieved, and also the rents likely to be achieved.

Progressing the scheme

14. Members will recall that the development of the Marketfield Way site is being taken forward using a managed and phased approach, with different stages that recognise milestones being achieved. In summary:
 - a. Stage 1 related to establishing scheme viability
 - b. Stage 2 related to proof of viability, scheme design to planning, commence land assembly activity, phase 1 tenders
 - c. Stage 3 will now comprise confirmation of land assembly, detailed design and letting of construction tenders, and continuing with pre-let activities

d. Stage 4 comprises scheme implementation and construction.

15. As the retail (and residential) markets continue to change, it is important that the Council regularly reassesses the scheme to ensure that project risks and returns remain acceptable.
16. The latest financial assessments are included in the exempt report in Part 2 of the agenda. The scheme remains viable and therefore it is recommended that members support the progression of the currently permitted project through Stage 3 and into Stage 4, such that the identified regeneration benefits for Redhill town centre outlined above can be realised.

OPTIONS

17. Option 1 – Approve the recommendations in this report and continue to take an active development role in the project and proceed with Stage 3 and 4, subject to meeting the criteria for the permitted scheme as set out in the exempt report in Part 2 of the agenda. This would include retention of the retail and cinema elements of the scheme for their long term income, and pre-sale of the residential elements of the scheme. **This is the recommended option:** it provides the Council with the opportunity to secure maximum regeneration benefits for Redhill whilst at the time retaining income streams which can be reinvested in the provision of Council services.
18. Option 2 – Progress with an alternative proposal for the development of the site, which reduces the amount of retail and leisure floorspace and increases the amount of residential, with a view to minimising the financial risk to the Council of the project. **This option is not recommended.** It would start to undermine the regeneration drivers behind the development by reducing the number of larger retail units that would attract high quality national retail chains. In addition this option would have time and additional cost implications.
19. Option 3 – The Council does not progress the development but seeks an independent funding source to do so through purchase of the site. **This option is not recommended.** It would substantially reduce the anticipated revenue income and potential capital receipt to the Council as set out in the exempt report in Part 2 of the agenda, and limit the control of the Council in securing regeneration benefits for the town.
20. Option 4 – Do nothing. Under this option, the regeneration of this key town centre site will not happen, and the Council will continue to receive the benefit of income from the existing property investment and car park. **This option is not recommended.**

LEGAL IMPLICATIONS

21. The Council has wide ranging powers to undertake development activity for the well-being of the Borough as outlined above. The recommendations in this report do not conflict with the statutory powers available to the Council.
22. The procurement of consultants and contractors required to perform the contract will comply with the Council's CPRs and any applicable EU or subsequent national legislation.
23. The Executive needs to feel assured that the risks associated with this matter have been fully assessed and mitigated.

FINANCIAL IMPLICATIONS

24. Although the permitted scheme represents a significant revenue generating opportunity for the Council, it is likely to require the Council to take debt to fund the development. Debt is available from the funding market of the Public Works Loan Board (PWLB). It is likely that debt will be taken from the PWLB as this offers the Council a much more favourable interest rate. The capital investment will require the approval of Full Council and a revision to be made to the Capital Programme. The details of the funding required are set out in the exempt report in Part 2 of the agenda.
25. Further detail about the income stream anticipated and the projected scheme costs is set out in the exempt report in Part 2 of the agenda.

EQUALITIES IMPLICATIONS

26. An Equalities Impact Assessment screening has been undertaken looking at the principles of progressing with detailed design; procurement of contractor/subcontractors; scheme construction and scheme completion. This has identified that when completed the scheme will have positive or neutral impacts on all equalities target groups.
27. The potential for low negative impacts have been identified on the following groups during the construction stage: Older people; those with physical, sensory or learning disabilities or with long term health impairments; mothers or women who are pregnant.
28. Actions have been identified to mitigate these low negative impacts as follow:
 - a. Require (as part of the Council's contracts) accessibility to be maintained as far as possible, and construction activities to be considerate of all town centre users.
 - b. Deliver a comprehensive communications strategy to provide information about activities and clear signage about access and parking during construction.
 - c. Deliver the communications strategy in accessible as well as standard formats.
29. Other actions to improve the positive impacts of the scheme have also been identified:
 - a. Require, as part of the detailed design phase, appropriate consideration to be given to ensuring the scheme is accessible to all equalities target groups, and compliant with building accessibility regulations
 - b. Require (as part of the Council's contracts) contractors/subcontractors to promote equality and not to discriminate.

COMMUNICATION IMPLICATIONS

30. Communications activity has been undertaken throughout Stages 1 and 2 of the project, and this will continue into future stages, including in relation to construction timing and managing the impact of construction on local businesses, residents, and general town centre amenity and access.

A communications strategy will be developed as we move through the Stage 3 and stage 4 to report and update on milestones achieved.

RISK MANAGEMENT CONSIDERATIONS

31. The Council must continue to recognise the inherent risks associated with commercial property development. We have set out in Part 2 the risk mitigation used on the project.
32. Project development has inherent risks, such as cost overruns, contract delays and contracting issues, letting issues and vacancy, but in recent years the Council has earned itself a strong reputation in this area. Risks will be managed through careful preparation of the building contract, the use of appropriate consultants and project management of the contractor and quality control through the use of consultants and Clerk of Works. Allowances have been made in the cost planning for the appointment of a comprehensive professional team and a tier 1 construction contractor.
33. Costs will continue to be carefully managed via key stage sign off. Project viability continues to be monitored (as set out in the exempt report in Part 2 of the agenda) and is supported by progress regarding the pre-letting of the cinema, and the pre-sale agreement on the residential units. Build and budget cost management measures are in place including an assessment of the financial strength of the main contractor. The main Contractor will also be required to provide performance bonds and insurances.
34. In the confidential annex at Part 2 of this agenda it will be seen that the financial appraisals with pre lets and pre sales agreed and in discussion that a substantial part of the requirements to break even on cash flow have already been achieved or are in the process of being agreed.

CONSULTATION

35. Extensive public consultation has been undertaken through the course of the development of the Marketfield Way scheme including as part of the planning application and compulsory purchase order process. At the early scheme development stages this included public exhibitions and consultation material at the statutory stages consultation was undertaken in line with the relevant regulations and included advertisements in the local paper, site notices and written notices to affected parties.
36. Planning Committee considered all consultation responses to the application (ref:16/01066/F) at its meeting in January 2017 as outlined in the report below. No objections were received from statutory bodies including Surrey County Council (as highways authority and lead flood authority) and the Environment Agency, as well as from UK Power Networks, Gatwick Airport Safeguarding and Environmental Protection. Two letters of support were received for the scheme including one from the Belfry shopping centre and there were seven objections
37. Other objections to the scheme were considered as part of the CPO and extinguishment order process. The CPO Inquiry took place between 2-3 October 2018 and the respective Secretaries of States decisions are now awaited.

38. The Leader, Deputy Leader, and Executive Members for Finance and Property, have been consulted on the design, finances and procurement process and are satisfied with the proposed development.

POLICY FRAMEWORK

39. Regeneration of Redhill Town Centre has been a corporate priority for this Council for a number of years, and will be greatly advanced by the successful completion of the Marketfield Way development.
40. The scheme will also assist in delivering priorities in the Council's Five Year Plan 2015-2020 including through the creation of new jobs (supporting our residents into employment), ensuring a vibrant local economy, and by contributing towards the financial self-sufficiency of the Council by increasing the value of, and establishing a significant revenue income stream from, a key property asset.
41. The development of the Marketfield Way proposal aligns with a key development opportunity area identified in the Borough Local Plan 2005 and will assist in the delivery of Core Strategy objective SO20 to enhance the role of Redhill town centre as a centre of strategic importance and a safe and attractive retail, cultural and leisure destination with a high quality environment.

Background Papers:

- Equality Impact Assessment - Part 1: Screening