



Reigate & Banstead
BOROUGH COUNCIL
Banstead | Horley | Redhill | Reigate

REPORT OF:	HEAD OF PROPERTY
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TO	EXECUTIVE
DATE:	23 March 2017
EXECUTIVE MEMBER:	Councillor Natalie Bramhall

KEY DECISION REQUIRED:	YES
WARD (S) AFFECTED:	Redhill East and Redhill West

SUBJECT:	MARKETFIELD WAY – THE CONSTRUCTION OF A MIXED USE DEVELOPMENT COMPRISING CINEMA, A1, A2 AND A3 RETAIL, TOGETHER WITH 153 RESIDENTIAL FLATS AND UNDERCROFT CAR PARKING
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RECOMMENDATIONS:

- (i) That the Executive note the completion of Stage 2 of the Marketfield Way project and the confirmation of the scheme's viability, obtaining of detailed planning consent, and stage 1 building construction tenders;
- (ii) That the Head of Property be authorised to progress Stage 3 of the Marketfield Way project, in accordance with the strategy set out in the Executive report dated 26 February 2015 and updates set out in this report, and bring forward the development, retaining the commercial elements and selling or letting the individual residential units on the open market at completion of the development;
- (iii) That the Marketfield Way project be progressed in accordance with the updated financial parameters set out in the exempt report in Part 2 of this agenda, including further land assembly, appointment of construction consultants, appointment of construction building contractors, placement of contracts to move statutory services on site, and conclusion of pre let arrangements;
- (iv) That the Capital Programme be amended to resource stage 3 of the Marketfield Way project subject to phase 2 tenders meeting the financial parameters set out in the exempt report in Part 2 of this agenda.
- (v) That the Executive note the list of prospective tenants set out in exempt report in Part 2 of this 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 impact on improving the night time economy.

On 26 February 2015 and subsequently on the 15 October 2015, in order to enable a project which supports key 5 Year Plan objectives, the Executive authorised the placing of the necessary building contracts, professional appointments, agreement for leases, leases, land transfers and budgetary provisions to enable the construction of the development, site assembly and funding. The financial parameters and resource requirements were set out in an exempt report of 15 October 2015 within Part 2 of that Agenda.

Since the reports of February 2015 and October 2015 the Council has been working on the viability of the scheme in more detail. Offers or Heads of Terms have now been agreed with Tenants, and this has included securing the important pre let to the cinema offer, and a pre sale agreement for the residential element. However, the market for this type of offer has evolved, resulting in a need to update the financial parameters.

Stage 2 of the project as outlined in the February and October 2015 reports has now been completed:

- The scheme design has been progressed in conjunction with agreement for leases and leases with the tenants, and
- Planning permission has now been obtained for the scheme with phase 1 tenders from selected building construction Contractors received.

This report seeks authority to progress to Stage 3, the appointment of a building construction contractor to progress phase 2 fixed tender and contract pricing, finalising of detail design, whilst at the same time progressing with moving statutory services from the site and preparing the site for the building contract.

Stage 3 will also involve conclusion of the land assembly, if necessary acquiring the remaining landed interests on the site through compulsory purchase.

EXECUTIVE SUMMARY:

At its meetings in February and October 2015 the Executive gave approval for the Council to take an active development role in the Marketfield Way project.

This report acknowledges the achievements made in Stage 1 and Stage 2 of the project (now completed) and confirms that the scheme remains viable subject to updated financial parameters as set out in the exempt report at Part 2 of this Agenda.

The report also sets out the proposed arrangements for proceeding to Stage 3 involving phase 2 construction tenders, design detail and commencement of moving services and finalising land assembly.

The significant additional costs associated with the next stage require approval, and the report recommends an amendment to the Capital Programme in order to resource the costs associated with Stage 3 of the project.

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

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 influence the economic and environmental well-being of Redhill. There is potential to impact the night time economy, make a real difference to the attractiveness of the town centre as a retail and leisure destination, and at the same time to provide much needed housing. As such the scheme meets several corporate objectives.
3. At the same time the project will, as an ancillary benefit, be economically viable and produce revenue income for the Council, supporting additional 5 Year Plan objectives to increase income derived from property and to become financially self-sustainable.
4. Stages 1 and 2 of the Marketfield Way development were approved by the Executive in February and October 2015, respectively. Since October 2015, scheme design has been progressed in conjunction with agreement for leases and leases with the tenants. Pre-application consultation on planning has also been conducted, culminating in the submission of a planning application and its approval.

DESIGN AND OCCUPANCY

5. A planning application has been approved with the following outline scope:
 - A mix of 153 one, two and three bedroom flats within a development of up to 13 floors in height.
 - 10 retail units at ground and first floor level
 - Cinema
 - Undercroft car parking with 48 spaces.
6. The approved planning drawings have been produced in conjunction with the prospective tenants. However approved drawings may be subject to change as a result of individual tenancy requirements. A copy of the planning application

including drawings and floor plans produced by PRP Architects is available at <https://democracy.reigate-banstead.gov.uk/aksreigate/images/att7242.pdf> .

7. A list of commercial tenants that have expressed an interest, together with those which are already in solicitors' hands with Heads of Terms agreed, are outlined in the exempt report in Part 2 of the agenda.
8. Under policy CS15 of the Council's Core Strategy and the Affordable Housing SPD 2014, the development should provide affordable housing as an on-site provision at a rate of 30% but the development viability has been fully explored and it is concluded that it would not offer sufficient profit to enable the requirement of affordable housing in this case. However, in order to ensure that a contribution towards affordable housing is clawed back, should the development viability prove better than expected, a clawback agreement has been negotiated with the agreement to provide 50% of any profit over and above a 15% profit on cost threshold as affordable housing contribution.
9. Options around residential disposal routes are outlined in part two of this report, the option being either disposal by sale or pre sale to a private sector operator.

PROGRESSING THE SCHEME

10. Members will recall that the development of the Marketfield Way site would be taken forward in a managed phased approach with different stages that recognised milestones being achieved. A summary of the stages is set out below:
 - Stage 1: Scheme viability
 - Stage 2: Proof of viability, scheme design to Planning, land assembly, lettings, pre sales and phase 1 construction tenders.
 - Stage 3: Phase 2 construction tenders, moving altering services, land assembly, CPO and appropriation.
 - Stage 4: Building contract award to completion occupation and sale.
11. Stage 2 has included work up to a receipt of planning approval and monitoring proof of viability. It is considered that sufficient evidence of viability is now available to enable the Council to move to the next stage of the project. The financial details are set out in the exempt report at Part 2 of this agenda.
12. Stage 3 – Scheme detail design and phase 2 tendering, and movement of key strategic statutory services will be progressed in conjunction with agreement for leases and leases with the tenants. We would endeavour to agree the acquisition of all the outstanding interests needed to undertake the development.
13. Stage 3 will culminate in confirmation of land assembly, phase 2 tender costs and sufficient pre-lets to enable the scheme to become unconditional.
14. Stage 4 – Implementation and contract award.

Provisional Dates	Milestone/Activity
First quarter 2015	Stage 1 – now complete
Fourth quarter 2015 - First quarter 2017	Stage 2 – now complete
Second/third quarter 2017	Stage 3
Third/Fourth Quarter 2017/First Quarter 2018	Stage 4

15. The project may involve the serving of compulsory purchase orders (CPO) and appropriation of landed interests to facilitate the development. If this proves to be the case a separate report will be brought back to the Executive.

FUNDING

16. Although Marketfield Way represents a significant revenue generating opportunity it is likely to require the Council to take debt to fund the development. Debt is available from the funding market or the Public Works Loan Board (PWLB). It is likely debt will be taken from the PWLB as this offers the Council a much more favourable interest rate. This capital investment will require the approval of full Council and revision to the capital programme, the details of the funding required are set out in the exempt report in Part 2 of the agenda.
17. The income stream anticipated is set out in the exempt report in Part 2 of this agenda. Costs will continue to be carefully managed by key stage sign off. However, the Council must continue to recognise the inherent risks associated with commercial property development.
18. Project development has inherent risks, such as cost overruns, contract delays and, contracting issues but in recent years the Council has earned itself a strong reputation in this area. The project has key milestones before development will start, viability proved through pre-lettings of the cinema, A1, A2 and A3 occupiers, and a potential pre-sale agreement with a private rented sector operator, as well as build budget cost management.

PROCUREMENT

19. The Council has undertaken an OJEU compliant tender exercise to obtain phase 1 construction tenders. This process will be extended into phase 2 construction tendering, subject to Executive approval.
20. The Council will continue to need to conduct a procurement exercise with consultants and building contractors that is compliant with the Council's procurement policies and, where appropriate, OJEU.

OPTIONS

21. Option 1 – Approve the recommendations in this report and continue to take an active development role in the project and proceed to Stage 3 as set out in 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 sale or possibly letting of the residential elements of the scheme. **This is the recommended option.**
22. Option 2 – The Council does not progress the development but seeks an independent funding source to do so through purchase of the site. This would substantially reduce the anticipated revenue income and potential capital receipt to the Council as set out the in the exempt report in Part 2 of the agenda. **This is not the recommended option.**
23. Option 3 – Do nothing. The regeneration of this key town centre site will not happen, the Council will continue to receive the benefit of the income from the existing property investment and car park. **This is not the recommended option.**

LEGAL IMPLICATIONS

24. The Council has wide ranging powers to undertake development activity for the well-being of the Borough as highlighted above.
25. The procurement of consultants and contractors required to perform the contract will comply with the Council's CPRs and any applicable EU legislation.

FINANCIAL IMPLICATIONS

Capital Implications

26. This scheme will need to be funded through debt finance. An amendment to the capital programme will be necessary and requires full Council approval.
27. Further detail of the scheme's Budget costs schedule is set out in the exempt report in Part 2 of the agenda.

Revenue Implications

28. Further details of the scheme's Budget costs schedule and potential revenue income are set out in the exempt report in Part 2 of the agenda.

EQUALITIES IMPLICATIONS

29. An equalities impact assessment will be produced for the development as the scheme develops. The recommended option will include provisions to allow disabled access to all parts of the buildings.

COMMUNICATIONS IMPLICATIONS

30. An ongoing communications strategy will be developed around key stages of the project, including secured lettings, community engagement on the development, and involvement of the local community in the development.

RISK MANAGEMENT CONSIDERATIONS

31. Typical risks associated with the development include cost overruns, delays, contractor difficulties, latent and inherent defects. These will be project managed including performance bonds and insurance.

CONSULTATION

32. Public consultation undertaken to date has supported the development of Marketfield Way. Further public consultation will be undertaken during the design and development of the project.
33. The Leader and Deputy Leader of the Council and Executive Members for Finance and Property have been consulted on the design, finances and procurement process.

POLICY FRAMEWORK

34. 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. This scheme will also support the Council's 5 Year Plan 2015-20 by creating new jobs, thus supporting our residents into employment and ensuring a resilient, vibrant local economy. It will also contribute 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.

Background Papers:

Report to Planning Committee dated 18 January 2017