

Report of	Meeting	Date
Chief Executive (Introduced by Executive Member for Economic Development and Public Service Reform)	Full Council	23 January 2018

MARKET WALK UPDATE

PURPOSE OF REPORT

1. This report provides an update on the current status of the project, together with an overview of the main options available to the Council going forward.
2. The report outlines associated parking, public realm and enablement projects which are linked to the delivery of the options.

RECOMMENDATION(S)

3. That Council approves one of the options presented to be progressed with Eric Wright Construction under the current LRPP agreement.
4. That Council approves the required budget and associated works with the preferred option.
5. That where relevant, the Town Centre Masterplan be refreshed to reflect the implications of the preferred option.

EXECUTIVE SUMMARY OF REPORT

6. On 21 November 2017, the Council agreed to pause phase II delivery of the Market Walk Extension until the end of January 2018 to enable a more detailed analysis of the various options going forward to be presented to Council in January 2018.
7. The options moving forward are to consider:
 - Option 1 Continue with extension at earliest opportunity in its existing design
 - Option 2 Commission a partial redesign of the layout, based on the building footprint from the original design to increase flexibility in lettings and then continue to build at the earliest opportunity
 - Option 3 Stop and reinstate the Flat Iron Car Park to a high quality permanent finish
8. There are a number of potential associated projects linked to the delivery of Market Walk extension that are referenced in this report. Selection of a preferred option will also require a decision on these:
 - a. Parking solutions
 - b. Hollinshead Street car park extension
 - United Reformed Church relocation to Friday Street (north)
 - Bengal Street temporary location improvements

c. Creation of a Civic Square

- Demolition of Oak House/Royal Oak (to extend current temporary parking provision)
- **[redacted]** (options being considered for the extension)
- Public realm improvements to Market Street/High Street/Cleveland Street

d. Relocation of Shopmobility service

Confidential report Please bold as appropriate	Yes	No
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CORPORATE PRIORITIES

9. This report relates to the following Strategic Objectives:

Involving residents in improving their local area and equality of access for all		A strong local economy	X
Clean, safe and healthy communities		An ambitious council that does more to meet the needs of residents and the local area	X

BACKGROUND

10. On 21 November 2017 the Council agreed to pause phase II delivery of the Market Walk Extension until the end of January. This was following Marks and Spencers announcement that they were reviewing their store opening programme and would not be in a position to sign the Agreement for Lease until this process was concluded.
11. Under the terms of the existing Council approval, due to the non-completion of agreement to lease by Marks and Spencers, Officers have no authority to commit to further works from the main contract. This means that the original programmed completion date of 14 September 2018 can no longer be met.
12. The Council approved an additional £54,200 expenditure (the performance against which is contained in paragraph 42 in this report) incurred in creating temporary parking, suspending the site and continuing professional fees until the end of January 2018, with a view to undertaking a more detailed analysis of the various options going forward. It was agreed that these would be presented back to full council in January 2018.
13. Since the announcement by Marks and Spencers on 8th November that they are reviewing all outstanding commitments to new developments, Officers have been instructed to deliver a number of actions to minimise the Council's financial exposure on the scheme and mitigate against any short term negative impacts the construction work may have. As a result the following instructions were issued to Eric Wright Construction:
 - Complete the drainage and service diversion works.
 - To complete the final design works as already commissioned.
 - Cancel the order for piling and piling mat
 - To not confirm any orders that would commit the Council to further expenditure including structural steel and cladding system

- To move back the fixed hoarding line by 15.11.17 to make existing hard standing available for 24 public parking spaces
- To lay an area of temporary tarmac surface to create c.30 car parking spaces to be available for public use by the afternoon of 18.11.17
- To lay an area of temporary tarmac surface to create an additional c.30 car parking spaces to be available for public use by the afternoon of 25.11.17
- To lay an area of temporary tarmac surface to create an additional c.30 car parking spaces to be available for public use by the afternoon of 02.12.17
- To further condense the area of the site to the minimum required to enable delivery of remaining scheduled works.

CURRENT POSITION

14. That Council agreed to pause and suspend non-essential operations on the site until the end of January 2018 with a more detailed analysis of the various options going forward being presented to Council in January 2018. The site is currently running a skeleton staff to manage outstanding works until a further decision on the future is taken by Council on 23 January 2018. Work is ongoing to deliver the drainage and service diversions. Since suspension of Phase II, **[redacted]** have made an alternative proposition to the council with a different floor space and financial implications. This is factored into this report and specifically option 2.

CURRENT LETTINGS POSITION

15. **[redacted]** have confirmed that they are in a position to progress the Agreement for Lease if the scheme can be altered to accommodate 12,500 sq ft only on ground floor based on the terms as shown in **[Appendix A redacted]**. This offer removes the requirement for a Christmas 2018 opening.
16. Reel has been informed of the current situation and Officers have met with Reel representatives who have confirmed their ongoing commitment to the scheme.
17. Heads of Terms are agreed with **[redacted]** and they have instructed their solicitors.
18. **[redacted]** has responded positively to a potential relocation to the upper floor of the extension (with a small ground floor presence) and their requirements have been accommodated in the detailed design works. At the time of writing the report, fit out costs are awaited, in order for commercial negotiations to commence. The **[redacted]** configuration lends itself for letting to other parties.
19. Preliminary terms have been agreed with **[redacted]** and are ready to be progressed to formal agreement pending council decision.

ASSOCIATED WORKS - PARKING

20. The major concern for existing businesses within the town centre has been the impact of lost parking spaces in close proximity to the retail core due to phase 2 works. With the current temporary parking provision created on the Flat Iron, when works were suspended, we are at a point of providing the equivalent capacity across the town centre prior to works commencing. Please see Appendix B
21. The original scheme provided replacement parking provision by relocating the URC and further expanding Hollinshead Street. Together with the creation of a new multifunctional

Civic Square / car park, these two solutions provided provision close to that lost to the development. Both solutions require agreement with 3rd parties i.e. URC and Gala Bingo. Both solutions also require the council to make financial contributions to the provision alternate premises for both parties. Whilst progress has been made with both parties, negotiations are not concluded and on the critical path for delivery of the Market Walk extension and ranked as high risk to the project.

22. Officers have been reviewing alternative parking solutions in light of this, also taking into account risk and deliverability, to see if sufficient replacement parking provision can be put in place prior to the extension works commencing. This requires the identification of an existing council owned car park that can generate additional capacity through the provision of one deck.
23. This exercise has identified a decked parking solution on Portland Street/ Friday Street that could provide sufficient replacement parking provision (see Appendix B) and could be potentially delivered in 4-6 months.
24. Eric Wright have tendered the works and **[redacted]**, have returned the best value with a semi-permanent solution. Their high level design and cost exercise demonstrates that an additional deck will provide around 149 extra spaces for a budget cost of £1.75m.
25. There is the opportunity to minimise the impact of the loss of spaces to the development by putting the decked parking solution in place prior to works recommencing on the extension. This would obviously have to be factored in to the programmes listed in the attached Options Appraisal (Appendix C).
26. This solution would not necessitate additional budget for crossing facilities as provision of a super-crossing across Clifford Street is included within the S278 works for the development. The solution would however, significantly benefit from making public realm improvements to Brunswick Street connecting Portland Street to Friday Street through the railway underpass.
27. If the decked parking solution is selected it removes the requirement for progressing the United Reformed Church land swap and relocation requirement. Hollinshead Street car park could continue to be shared with the URC or the previous arrangements be reinstated at the end of the lease agreement.
28. A decked parking solution would mean that the car parking spaces provided by the Civic Square are no longer required to maintain parking provision at its current level should the extension progress, which further de-risks this issue.
29. Delivery of the Civic Square could be progressed as a future phase subject to sufficient funding being in place.
30. Officers have also considered council owned land at Arley Street as a site that could contribute to parking provision through the creation of staff parking. It is estimated that this this could cost up to £70k to create a further 40 spaces if Members choose to progress with site enhancement works.
31. Oak House demolition has received planning consent and a demolition contractor is being procured. Once demolished it will expand the existing Cleveland Street car park from 19 spaces to 47 and be employed as a short stay enforced car park. A budget of £476k is required to complete these works already contained within the budget.
32. Appendix B shows the level of parking provision at various times during the construction period. It takes into account the cumulative impact of current measures such as the URC,

High Street and Mealhouse Lane, the future impact of the demolition of Oak House and assumes the introduction of a decked parking solution prior to the Market Walk extension commencing. It does not include the potential further uplift in parking provision upon the completion of the Civic Square. The table below summarises the information contained at Appendix B.

Construction Phase	Net gain/loss of spaces compared to original Flat Iron configuration
Current Position	-1
During Construction of Extension	+55
Extension Complete	+103

ASSOCIATED WORKS – PUBLIC REALM

33. The previous approval for public realm improvements was related to the creation of the Civic Square. As referenced above, this will not be required to provide sufficient car parking spaces in the Town. The Civic Square will be progressed as a future phase subject to sufficient funding being in place.
34. The public realm improvements around the Market Walk extension are included within the development costs and include S278 works to Union Street and a super-crossing on Clifford Street.
35. If a decked parking solution is progressed on Friday Street members may wish to consider allocating a budget for public realm improvements along Brunswick Street connecting the development to Friday Street through the railway underpass. It is estimated that a budget of £200k would be required for enhancements which would include working with Network Rail to improve the appearance of their bridge/fencing. A provision of £200K has been built into the model.

ASSOCIATED WORKS – SHOPMOBILITY

36. The previous approval for enabling works included the relocation of Shopmobility to Byron Street as part of the URC / Hollinshead Street car park expansion.
37. Due to programming pressures, a temporary solution to relocate their existing facilities in to Market Walk service yard 2 was undertaken until such time as the URC / Hollinshead Street works were completed.
38. The committee for Shopmobility has since requested that their current position becomes a permanent location post-development instead of any previously proposed move. This would free up the majority of the remaining budget to be invested elsewhere with only minor works required to enhance their frontage and final service connections upon the completion of the development. This is reflected in the financial model presented in this report.

PROJECT PHASING

39. The table below shows an indicative programme based on the creation of a decked car park solution prior to construction work commencing on site for the Market Walk extension.

Market Walk Extension Phasing	2018												2019											
	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D
1 Council Decision	■																							
2 Procurement of a decked parking contractor and detailed design		■																						
3 Planning consent for decked parking – network rail considerations			■	■																				
4 Re-mobilisation of Design Team to progress design		■	■	■																				
5 Re-engage with tenants to progress suspended AfL's		■	■	■																				
6 Engage with LCC over Brunswick St S278		■	■																					
7 Demolition of Oak House / Extended Cleveland St car park		■	■	■	■																			
8 Works to Arley St (Apex House)		■	■	■																				
9 Market the remaining units																								
10 Commence S278 works – Clifford St crossing																								
11 Erection of Decked car park on Friday Street																								
12 Commence S278 works – Brunswick Street																								
13 Commencement of phase 2 construction																								
14 Chorley Pals improvements for centenary 11/11/18																								
15 Commence S278 works – Union St																								
16 Finish development public realm works																								
CHRISTMAS TRADING PERIOD																								
PARKING																								
PHASE 2																								
HIGHWAYS / PUBLIC REALM																								

FINANCIAL APPROVALS TO DATE

40. On 25 July 2017 a report to Full Council asked members to note an updated budget of up to £16.351m (excluding VAT) as detailed in table 1 below.
41. **Table 1 Budget Approved in July 2017**

	Approved Budget
Development and associated public realm	10,735,510
Additional tenant enhancements	63,000
Contingency	250,000
Total Development Budget	11,048,510
Hollinshead Car Park	716,552
United Reformed Church - Contribution	750,000
Enabling costs	1,557,394
Civic Square	2,278,582
Total Approved Budget	16,351,038

42. Out of the overall approval in Table 1, approval was given to commit funds against pre-construction service agreement (PCSA) to undertake the initial phases of work. These approvals totalled £2,735,226. The work done to date has been drawn down from the development budget and is therefore absorbed in to the estimated costs provided by Eric Wright, as detailed the Costs section in Table Two below
43. The actual spend under the PCSA is forecast to be £2,791,496. A variance of £56,270 can be attributed to the temporary car park works and variations on the associated projects.

OPTIONS ANALYSIS

44. The options moving forward are to consider:

- Option 1 Continue with extension at earliest opportunity in its existing design
- Option 2 Commission a redesign of the layout to accommodate more/ different end-users and then continue to build at the earliest opportunity
- Option 3 Stop and reinstate the Flat Iron Car Park to a high quality permanent finish

45. The Pick Everard report identifies the pros/cons of each scenario (see Appendix C)

COSTS

46. The revised budget estimate for delivering the options range from £4.6 m to £12.3m (of which £2.8m has already been spent on the enablement phase and suspension costs) although this cost will be firmed up in a revised stage 4 submission once the design team are re-engaged and tenders can be re-affirmed / changed where appropriate.

47. **Table 2 – Cost of development and public realm within in the ‘red line’ plan**

	Option 1	Option 2	Option 3
	Continue with existing design	Partial redesign	Stop & Reinstate Car Park
PCSA - Expenditure to Date	2,791,496	2,791,496	2,791,496
Additional Costs to original cost plan	7,944,014	7,944,014	1,472,674
Cost of Development at July 2017	10,735,510	10,735,510	4,264,170
Inflationary Increases	268,388	268,388	0
Further Enhancements and Additional Works	587,518	561,268	157,243
Additional Costs	215,965	215,965	215,965
Further Enhancements	75,000	206,408	0
Other Fees	0	322,373	0
Revised Development Cost	11,882,381	12,309,911	4,637,377

48. A detailed breakdown of the cost changes is provided in **[Appendix D redacted]**.

49. The costs detailed in Table 2 above relate solely to the cost of the development and associated public realm work within the ‘red line’ plan (see Appendix E) of the development. Please note that some of these costs are provisional, dependent on the final configuration. The costs to continue the project, with associated parking and enabling costs for the three options are detailed in Table 3 below. There are a number of reconfiguration options. For the purposes of this exercise Option 2 assumes that we incorporate **[redacted]** new requirements. The most expensive reconfiguration (without **[redacted]**) would add another £300K to the costs shown in Table 2).

50. **Table 3 – Cost of continuing with associated parking and enabling costs**

	Option 1	Option 2	Option 3
	Continue with existing design	Partial redesign	Stop & Reinstate Car Park
Revised Development Cost	11,882,380	12,309,911	4,637,377
Parking options	2,297,719	2,297,719	0
Enabling costs	1,545,253	1,557,013	1,208,613
Additional Public Realm - Brunswick Street	200,000	200,000	0
Total Cost of Project	15,925,352	16,364,643	5,845,990
Budget Approved by Council in July 2017	16,351,038	16,351,038	16,351,038

51. The parking options include a decked car park, utilising the Oak House site and staff parking on Arley Street. The breakdown of costs is detailed in Table 4 below. Commitment to the parking option would also include public realm work to Brunswick Street at an estimated cost of £200,000.

52. **Table 4 – Parking Options**

Parking Options	Costs
Oak House	476,161
Decked Parking	1,751,558
Arley Street (Apex House)	70,000
	2,297,719

53. The cost model shows that the revised project costs can be broadly contained within the original budget approval, albeit this is reliant on deferring the Civic Square to a later date and using the budget provision to fund the parking options and additional development costs.

54. A summary of the changes of the budget requirement is detailed in Table 5 below:

55. **Table 5: Reconciliation of the changes to the required budget**

	Option 1	Option 2	Option 3
	Continue with existing design	Partial redesign	Stop & Reinstate Car Park
Budget Approved by Council in July 2017	16,351,038	16,351,038	16,351,038
Less			
Civic Square	(2,278,582)	(2,278,582)	(2,278,582)
Contingency and M&S specifications	(213,000)	(213,000)	(313,000)
Other Minor Changes	(2,925)	(2,925)	(2,925)
Plus			
Development Cost increases/decreases	1,146,870	1,574,402	(6,098,133)
Parking Provision	831,166	831,166	(1,466,552)
Increase in Fees (PM, QS & Architect)	170,784	182,544	16,344
Reduction in enabling costs	(280,000)	(280,000)	(362,200)
Additional Public Realm - Brunswick Street	200,000	200,000	
	15,925,351	16,364,643	5,845,990

FINANCIAL IMPLICATIONS - FINANCING

56. The annual borrowing cost for the development is dependent on the level of overage that the council wishes to commit to the project. Two models have been produced based on the level of risk the council wishes to take. The second option, which reduces borrowing costs, relies on committing funds which have not yet been agreed by developers.

57. Table 6 and 7 Seven below illustrate the annual cost of borrowing for all three options. All subsequent income analysis assumes the higher cost of borrowing.

58. **Table 6: Financing of the three options, low overage, high borrowing**

	Option 1	Option 2	Option 3
	Continue with existing design	Partial redesign	Stop & Reinstate Car Park
Borrowing	6,645,844	£7,073,375	1,724,585
Overage	2,912,792	2,912,792	2,912,792
Developer Contributions	2,323,744	2,323,744	
Total Financing	11,882,380	12,309,911	4,637,377
Annual Cost of Borrowing	261,700	277,100	83,580

59. **Table 7: Financing of the three options, high overage, low borrowing**

	Option 1	Option 2	Option 3
	Continue with existing design	Partial redesign	Stop & Reinstate Car Park
Borrowing	4,358,636	4,786,167	0
Overage	5,200,000	5,200,000	4,637,377
Developer Contributions	2,323,744	2,323,744	0
Total Financing	11,882,380	12,309,911	4,637,377
Annual Cost of Borrowing	179,000	194,500	0

60. The net distributable income achieved by the extension factors in both the borrowing cost and rental income. The rental income for option two, the partial redesign, has two possible further options, dependent on the chosen configuration of units. The detail for individual units is shown in **[Appendix A redacted]**.

61. The estimated net distributable income on a fully let scheme is shown in table eight below. A typical rental value per square foot has been included for currently vacant units. The value of incentives available has been capped at the level reported in July 2017.

62. **Table Eight – Net distributable income assuming full occupancy**

Fully Occupied	Option 1	Option 2 - B1/2	Option 2 - B4	Option 3
Total Cost of Development	11,882,380	12,309,911	12,309,911	4,637,377
Annual Cost of Borrowing	261,700	277,100	277,100	83,580
Gross Rental Income	(847,980)	(845,114)	(859,125)	0
Cost of Incentives	229,289	225,641	227,813	0
Net Distributable Income (Surplus)/Deficit	(356,691)	(342,373)	(354,212)	83,580

63. With current agreed and interested lettings, i.e. Reel, [redacted] the value of Net Distributable Income is as shown in Table Nine. The assumption has been made that due to their new unit size requirements [redacted] would be unlikely to sign up if the decision was made to continue building with the current configuration. If [redacted] were not to sign up, but the other three did, the effect on Net Distributable Income is shown in Table Ten.

64. **Table Nine - Net distributable income with current interested tenants**

Current Agreed/Interested Lettings	Option 1	Option 2	Option 3
Total Cost of Development	11,882,380	12,309,911	4,637,377
Annual Cost of Borrowing	261,700	277,100	83,580
Gross Rental Income	(321,900)	(491,900)	0
Cost of Incentives	92,952	141,783	0
Net Distributable Income (Surplus)/Deficit	32,752	(73,017)	83,580

Table Ten - Net distributable income with current interested tenants excluding [redacted]

Current Agreed/Interested Lettings excluding [redacted]	Option 1	Option 2	Option 3
Total Cost of Development	11,882,380	12,309,911	4,637,377
Annual Cost of Borrowing	261,700	277,100	83,580
Gross Rental Income	(321,900)	(321,900)	0
Cost of Incentives	92,952	92,952	0
Net Distributable Income (Surplus)/Deficit	32,752	48,152	83,580

65. As the models show, the scheme could make a surplus if all current interested parties sign up. If [redacted] did not proceed the scheme makes a deficit, there is potential to review the financing to reduce borrowing to bring down the deficit.

66. There is a further option available under Option 2 to reconfigure the layout to a mall style layout. There would be an additional build estimated at £12.589m; an additional £279k to the current Option 2 layout. The cost of additional borrowing would depend on the loan terms but as a guide would add an extra £10k-£15k per annum to costs. It should be noted, however, that this option would reduce lettable floor space by approximately 7000 sq ft which would reduce income between £30-70k per annum.

67. The net distributable income figures shown here only include the cost of the development itself (the 'red-line' plan). Dependent on the chosen financing the parking options required in the town centre would attract a borrowing cost, as detailed in Table Eleven below, which could be met from any surplus achieved from the rental income:

68. **Table Eleven**

	Option 1	Option 2	Option 3
	Continue with existing design	Partial redesign	Stop & Reinststate Car Park
Cost of parking solution	2,297,719	2,297,719	0
Funding agreed for Oak House parking	(585,850)	(585,850)	0
Borrowing Amount	1,771,869	1,771,869	0
Annual Cost of Borrowing (50 years)	61,860	61,860	0

69. The decision to proceed with a decked parking option would require additional public realm to Brunswick Street at an estimated cost of £200,000.

70. The scheme will also attract additional income through the retained business rate scheme. It is not possible to quantify the exact amount as the rateable value is dependent on a number of factors. The government has committed to 75% retention by 2020/21 but the details of how the scheme will operate and how sums will be distributed between bodies are still unknown.

71. The valuation office provided an estimate of rateable values on the original scheme, which under current regulations provided around £117k per annum in retained rates.

IMPLICATIONS OF REPORT

72. This report has implications in the following areas and the relevant Directors' comments are included:

Finance	X	Customer Services	
Human Resources		Equality and Diversity	
Legal	X	Integrated Impact Assessment required?	
No significant implications in this area		Policy and Communications	

COMMENTS OF THE STATUTORY FINANCE OFFICER

73. The report considers the impact of building the development, with associated public realm works that fall within the 'red line' plans.

74. Overall, delivery of the main build will cost more than reported in July 2017. This can be attributed in part to the effect of inflation and in part because of increased scope and tenant enhancements. The specific details of increases to the build cost are listed in **[Appendix D redacted]**.

75. Outside of the main 'red-line' build other costs have changed as summarised in Table 5 in the main body of the report with detail in the table below. The cost changes demonstrate how the initial project has evolved and where capacity needs to change to allow the scheme to proceed.

76. Changes to Cost Schedule Against Budget Approval

	Option 1	Option 2	Option 3
	Continue with existing design	Partial redesign	Stop & Reinstate Car Park
Budget Approved by Council in July 2017	16,351,038	16,351,038	16,351,038
Cost Decreases			
Development Cost (detail in <i>[Appendix D redacted]</i>)			(6,098,133)
Works to Hollinshead Street And URC car park	(716,552)	(716,552)	(716,552)
Contribution to United Reformed Church	(750,000)	(750,000)	(750,000)
Contingency	(150,000)	(150,000)	(250,000)
Cost of canopy already included in main build	(63,000)	(63,000)	(63,000)
Other Minor Changes	(2,925)	(2,925)	(2,925)
Reduction in enabling costs - Shopmobility	(130,000)	(130,000)	(130,000)
Reduction in enabling costs - Temporary relocation of URC	(150,000)	(150,000)	(150,000)
Hoarding	0	0	(32,200)
Illuminated Signage	0	0	(50,000)
Total Cost Decreases	(1,962,477)	(1,962,477)	(8,242,810)
Cost Increases			
Development Cost (detail in <i>[Appendix D redacted]</i>)	1,146,870	1,574,402	0
Additional Public Realm - Brunswick Street	200,000	200,000	0
Parking Provision - Decked Car Park	1,751,558	1,751,558	0
Parking Provision - Oak House	476,161	476,161	0
Parking Provision - Arley Street	70,000	70,000	0
Increase in Fees (PM, QS & Architect)	170,784	182,544	16,344
Total Cost Increases	3,815,373	4,254,665	16,344
Change in costs	1,852,896	2,292,188	(8,226,466)
Total cost to deliver project	18,203,934	18,643,226	8,124,572
Less Civic Square	(2,278,582)	(2,278,582)	(2,278,582)
Total Project Cost per Table 5	15,925,352	16,364,644	5,845,990
Variance from Original Approval	(425,686)	13,606	(10,505,048)

77. Both options that continue with the development can broadly still be delivered within the capital project budget approved in July 2017. However, this is with the understanding that the deliverability of the development is not reliant on the public realm work to deliver the Civic Square and resultant parking and as such those works can be deferred to a later date.

78. The cost of option three to stop the development and reinstate the Flat Iron car park is the cheapest of the three options in terms of capital expenditure, however, it does not provide a financial return and any cost of borrowing to complete the works would have to be met from existing resources as there will be no income generation to offset it.

79. There is also a risk that there could be a requirement for some of the costs of the reinstated car park to be charged to the General Fund.

80. The report focuses on the cost to deliver the development and the financial return that it could generate. In terms of net distributable income there are two main factors, cost of borrowing and rental income.

81. The cost of borrowing is very important and the use of existing resources can be used to minimise the borrowing and therefore the ongoing cost to the council. Members will need to consider what level of existing resources they are willing to commit to the scheme, in particular the amount of overage that should be applied. The financial modelling has been

carried out on the basis that £2.3 million overage will be used to fund the scheme. However, there is around £5.2 million that could be available if agreed by developers.

82. The rental income that the three configurations could potentially generate is fairly similar; the impact of vacant units therefore becomes important as larger vacant units have a bigger impact on the ability to generate an income.
83. If all the interested parties sign up to the scheme, i.e. Reel, **[redacted]** then the development should yield a surplus even if all other units remain vacant. However, if **[redacted]** were not to sign up there would be a deficit position. This could be managed to some extent by reducing the borrowing costs, for example by increasing the amount of overage funding the development. The indicative programme shows completion of the development in late summer 2019. This period provides an opportunity to secure further lettings which further reduces the revenue risk.
84. The net distributable income stated within this report looks solely at the development. If the development proceeds there will be additional costs to deliver a town centre parking solution. There is around £586k identified for parking at Oak House from the reverse premium and if the remainder were to be funded through borrowing there would be a further cost of around £62k per annum. The costs can be met from the net distributable income generated across all options where additional parking is required. Again, with current interest in the scheme the cost of parking provision can be met but would reduce the surplus.
85. Overall the key financial considerations are; the increased cost of delivery of the build that can be broadly met within the agreed cost envelope as the Civic Square development would no longer be required at this stage to deliver parking capacity. In terms of the overall funding of the scheme members will still have the opportunity to allocate additional funding from the overage should they wish to mitigate financial risk further. It should also be noted that the all cost appraisals are estimated and we will not know the final costs until a further tendering exercise is undertaken. In addition allowances have been made for future lease negotiations but again we may need to vary these in any final agreements. However, any negotiations can only be agreed within the cost envelope agreed by Council and should any of these exceed the amounts agreed then Council will be asked to consider any such requests.

COMMENTS OF THE MONITORING OFFICER

86. All the options cited are legally permissible to adopt by the Council. No further decision on the procurement route is required as this has been settled previously. The risk / benefit relating to the scheme options are clearly set out both in the body of this report and within Appendix C, it is noted though that the significant risk areas are financial. There is sufficient information contained within this report and the associated background papers for Council to make a decision on this matter.

GARY HALL
CHIEF EXECUTIVE

Background Papers			
Document	Date	File	Place of Inspection
Market Walk Extension – Award of Contract	25 July 2017	***	[redacted]

Urgent Commissioning Works: Market Walk	30 August 2017	***	[redacted]
Urgent Commissioning Works: Market Walk	11 October 2017	***	[redacted]
Market Walk Update	21 November 2017	***	https://democracy.chorley.gov.uk/documents/s80660/Market%20Walk%20Rpt.pdf

Report Author	Ext	Date	Doc ID
Mark Lester	5571	12 January 2018	***