

Report of	Meeting	Date
Chief Executive (Introduced by Executive Member for Economic Development and Public Service Reform)	Full Council	24 July 2018

MARKET WALK UPDATE

PURPOSE OF REPORT

1. This report provides an update on the current status of the project and proposed phasing.
2. The report outlines the status of associated parking, public realm and enablement projects which are linked to the delivery of the project.

RECOMMENDATION(S)

3. That Council notes the schemes progress in line with the programme proposed in Appendix A to enable trading to commence for Christmas 2019.

EXECUTIVE SUMMARY OF REPORT

4. Council approved a report on Market Walk 23 January 2018 which authorised the Executive Leader, in consultation with the Executive Cabinet, to approve the final design based on Option 2 and to approve any alterations or amendments to the final design, for the delivery of Option 2, which are contained within the approved budget and cost model.

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.

5. On 23 January 2018 Council resolved to proceed without further delay, with the Market Walk Extension development based upon Option 2.

This will include:

- a. The building of the retail and leisure units based upon a design that meets the needs of the tenants; and
- b. The delivery of the proposed parking solution; and
- c. The delivery of the Public Realm improvements.

Confidential report Please bold as appropriate	Yes	No
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CORPORATE PRIORITIES

6. This report relates to the following Strategic Objectives:

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

BACKGROUND

7. On 23 January 2018 Council resolved to proceed without further delay, with the Market Walk Extension development based upon Option 2.

This will include:

- a. The building of the retail and leisure units based upon a design that meets the needs of the tenants; and
- b. The delivery of the proposed parking solution; and
- c. The delivery of the Public Realm improvements.

8. The Council allocated the budget sum of £16,364,643 to deliver the Market Walk Extension and associated works.

CURRENT POSITION

9. Works to the main build were suspended in November 2017 after M&S failed to complete their Agreement for Lease due to re-profiling their store portfolio and re-appraising proposed store expansion plans.
10. Works are underway to extend the Cleveland street short stay car park by demolishing Oak House – this is due to be complete in early August.
11. Works are underway to create a decked car park expanding Friday Street long stay car park.
12. Works took place to create temporary short stay parking provision on the Flat Iron and tenant parking by Market Walk service yard 2.
13. Works are complete to create a council staff car park on Arley Street.
14. In addition to the above temporary parking arrangements have been put in place for market trader parking provision adjacent to Chorley Station and at the Swan with 2 Necks.

CURRENT LETTINGS POSITION

15. Unit 1 – 12,800 sq ft positive dialogue is ongoing with Marks & Spencer design team regarding a revised ground floor store.
16. Unit 2 – 3,900 sq ft letting agents in discussions with retail outlets
17. Unit 3 – 3,400 sq ft letting agents in negotiation with a high street restaurant chain
18. Unit 4 – 9,200 sq ft Heads of Terms been agreed with a high quality regional leisure/restaurant venue operator
19. Unit 5 – 2,000 sq ft letting agents in discussions with coffee outlets

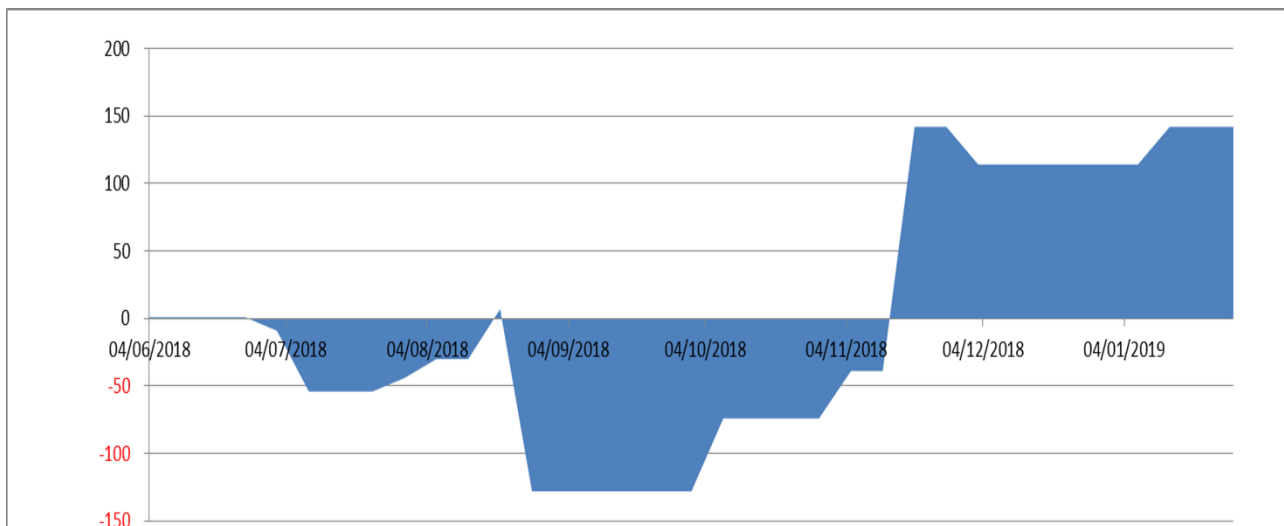
20. Unit 6 – Reel cinema has signed an Agreement for Lease, have been informed of the current situation and confirmed their commitment to the scheme.
21. Unit 7 – 14,600 sq ft first floor accessed from 1,300 sq ft ground floor lobby letting agents in negotiation with a national gym chain.
22. Unit 8 – 3,300 sq ft Heads of Terms are agreed with Loungers and they have instructed their solicitors.

PROJECT PHASING

23. In order for the scheme to be open for trading in Christmas 2019 the phase 2 main build needs to commence prior to Christmas this year. Appendix A shows a phasing plan across all associated works in order to achieve this.
24. The key points from this programme are:
 - a. Oak House complete in mid-August
 - b. Friday Street car park ground floor released mid-October
 - c. Friday Street full car park released mid-November
 - d. Unit 8 site investigations and council network duct installation commence late August
 - e. Clifford Street crossing works commence early September
 - f. Brunswick Street improvements commence mid-September
 - g. PALS monument works commence mid-September (in time for the centenary event on 11/11/2018)
 - h. Phase 2 main build commence early October
 - i. Union Street public realm improvements commence April 2019
 - j. Tenant access for fit-out (practical completion) July 2019
 - k. Scheme open for trading December 2019

PARKING

25. A major concern for existing businesses within the town centre has been the impact of lost parking spaces in close proximity to the retail core during phase 2 works.
26. The impact to parking across the town centre of the proposed phasing plan (Appendix A) is shown in the chart below:



27. The chart shows:
- That there are deficiencies of ~50 spaces through July & August until the Oak House spaces are completed.
 - That there are deficiencies of ~125 spaces through September until the ground floor spaces of Friday Street are released.
 - That there are deficiencies of ~75 spaces through October until the full Friday Street deck is completed.
 - Once the deck is completed there will be a surplus of ~140 additional spaces compared to what was previously available on the Flat Iron
 - By closing Oak House car park to accommodate the Christmas Ice Rink there will only be an additional ~115 spaces in December.
28. To mitigate the period where spaces are lost whilst phase 2 works re-commence, prior to the Friday Street car park being fully complete, it is proposed that a number of council staff will be instructed to park & ride through a shuttle bus service from Woodlands Road site each Tuesday when demand is highest. On the other days of the week there is envisaged to be enough surplus capacity at this time of year to suffice for the short period.

ASSOCIATED WORKS – PUBLIC REALM

29. The Chorley PALS memorial improvements now need completing in isolation in order to be ready for the centenary event on 11th November 2018.
30. The super-crossing on Clifford Street will be delivered prior to the Friday Street car park opening and under a traffic management plan keeping a lane flowing at all times apart from 2 overnight closures to resurface.
31. Brunswick Street improvement works will be carried out to improve pedestrian linkage through to Friday Street car park alongside the Clifford Street works.

FINANCIAL APPROVALS TO DATE

32. On 23 January 2018 a report to Full Council asked members to approve one of three options to be progressed with Eric Wright. Members approved the option to commission a partial redesign with an updated budget of up to £16.365m (excluding VAT) as detailed in Table 1 below.

33. **Table 1 Budget Approved in January 2018**

	Approved Budget
Development Cost	12,309,911
Total Development Budget	12,309,911
Parking Options	2,297,719
Enabling Costs	1,557,013
Brunswick Street	200,000
Total Approved Budget	16,364,643

34. Out of the overall approval in Table 1, approval was given to commit funds against a 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 2 below.

COSTS

35. Table 2 – Current Development and Parking Costs

	Approved Budget	Current Forecast
Market Walk Extension - Main Build	12,309,911	12,306,677
Market Walk Extension - Enabling Costs	1,557,013	1,592,226
Total Development	13,866,924	13,898,903
Oak House Car Park	476,161	535,270
Friday Street Decked Parking	1,751,558	1,660,470
Arley Street Car Park	70,000	70,000
Brunswick Street Improvements	200,000	200,000
Total Parking Options	2,497,719	2,465,740
Grand Total	16,364,643	16,364,643

36. The costs detailed in Table 2 above for the Market Walk Extension main build are provisional, subject to a re-tendering exercise being carried out by Eric Wright. Eric Wright have been asked to keep costs within the overall budget, therefore wherever any element of the project is forecast to be over budget, the costs will be met through value engineering elsewhere.
37. Other maintenance works on-site such as temporary parking and the improvement to the PALS memorial will be funded through council maintenance budgets.

MAIN DEVELOPMENT - FINANCING

38. The annual borrowing cost for the development is dependent on the level of overage that the council wishes to commit to the project and therefore the level of risk the council wishes to take. There is an option to reduce borrowing costs by committing overage funds which have not yet been agreed by developers.
39. Table 3 below illustrates the annual cost of borrowing assuming the council takes the low risk approach to committing these funds. All subsequent income analysis assumes the higher cost of borrowing.
40. **Table 3 - Financing of the Development**

	Development
Borrowing	6,723,226
Overage	2,391,664
Developer Contributions	3,711,055
Capital receipts and reserves	1,072,958
Total Financing	13,898,903
Annual Cost of Borrowing	239,150

41. The net distributable income achieved by the extension factors in both the borrowing cost and rental income.

42. The estimated net distributable income on a fully let scheme is shown in Table 4 below. Assumptions for currently vacant units have been made based on ongoing discussions with interested parties and typical rental values per square foot. The value of incentives available has been capped at the level reported in July 2017.

43. **Table 4 – Net distributable income assuming full occupancy**

Fully Occupied	Development
Annual Cost of Borrowing - Development	239,150
Gross Rental Income	(935,135)
Cost of Incentives	235,681
Distributable Income (Surplus)/Deficit	(460,304)

44. Heads of Terms or advanced negotiations with Solicitors have been agreed with Reel, Marks & Spencer and Loungers. This represents lettings of 48.6% of floor space with 6 vacant units available for letting. If the scheme were to progress with the commitment of these three tenants the value of Net Distributable Income would be as shown in Table 5:

45. **Table 5 - Net distributable income with current lettings**

Current Agreed Lettings in Heads of Terms or in negotiation with Solicitors	Development
Annual Cost of Borrowing - Development	239,150
Gross Rental Income	(451,480)
Cost of Incentives	180,046
Distributable Income (Surplus)/Deficit	(32,284)

46. As the models show, the scheme will make a surplus with all current parties signed up.

47. 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.

48. 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.

PARKING - FINANCING

49. Dependent on the chosen financing, the parking options required in the town centre would attract a borrowing cost, as detailed in Table 6 below, which could be met from any surplus achieved from the rental income. The borrowing has been assumed over a 30 year period:

Table 6 – Financing of the Parking Schemes

	Parking
Borrowing	1,879,890
Capital receipts and reserves	585,850
Total Financing	2,465,740
Annual Cost of Borrowing	89,210

50. There is a potential further receipt of overage dependent on the result of ongoing discussions with the developers.
51. As stated in the report to Council on 23rd January 2018 the council could expect approximately £5.2 million of overage. This is £2.8 million more than assumed in the financing figures above. If the full £5.2 million is received it could replace borrowing assumed to finance the parking schemes. This would eliminate the £89k borrowing costs outlined in Table 6 and result in the council receiving the surplus outlined in Table 5.

IMPLICATIONS OF REPORT

52. 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

53. 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.
54. 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.
55. If all the interested parties sign up to the scheme, i.e. Reel, Marks and Spencer and Loungers then the development should yield a surplus even if all other units remain vacant. The period until completion of the development provides an opportunity to secure further lettings which further reduces the revenue risk.
56. The net distributable income stated within this report looks solely at the development and associated development works. 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 £89k per annum.

57. There are options to commit further overage or capital receipts to reduce the level of borrowing required. However even with the maximum level of borrowing the subsequent deficit would not impact significantly on the councils overall deficit position. The most advantageous method of financing the project will be agreed at the time.
58. It should also be noted that the some of the cost appraisals, including the main build, 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

59. The project is being delivered in accordance with authorities granted.

GARY HALL
CHIEF EXECUTIVE

Background Papers			
Document	Date	File	Place of Inspection
Market Walk Update	23 January 2018	***	
Market Walk Extension – Award of Contract	25 July 2017	***	https://democracy.chorley.gov.uk/Extranet/ieListDocuments.aspx?CId=114&Mid=5711&Ver=4&\$LO\$=1
Urgent Commissioning Works: Market Walk	30 August 2017	***	https://democracy.chorley.gov.uk/Extranet/documents/s78219/Urgent%20Commissioning%20Works%20Market%20Walk.pdf?\$LO\$=1
Urgent Commissioning Works: Market Walk	11 October 2017	***	https://democracy.chorley.gov.uk/Extranet/ieListDocuments.aspx?CId=112&Mid=6215&Ver=4&\$LO\$=1
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	13 July 2018	***