



Report to: Policy and Resources Committee, 28th July 2020

Report of: Corporate Director – Place

Subject: FUTURE HIGH STREET FUND SUBMISSION

1. Recommendation

That the Committee:

- 1.1 Notes the contents of this report and its exempt appendix and approves the submission of the Council’s business case for investment in the northern quarter of the City Centre for consideration by MHCLG as part of the Future High Streets Fund;**
- 1.2 Delegates authority to the Corporate Director of Place and the Corporate Director, Finance and Resources in consultation with the Chair and Vice Chairs of the Committee to make minor amendments to the bid document (attached to the exempt appendix) prior to submission on or before the 31st July 2020;**
- 1.3 Notes that, in the event the Council’s bid is successful, further reports will be brought to the Committee for approval on the proposed terms of the funding agreement and on property acquisitions and businesses cases for projects within the bid; and**
- 1.4 Confirms its commitment, in support of the bid submission (and subject to the satisfactory outcome of 1.3 above) to:**
 - (a) commit match funding of £200,000 to support public realm works drawn from the City Plan (City Centre Masterplan Delivery) allocation;**
 - (b) recommend to Council the additional provision to the capital programme required to deliver the bid.**

2. Background

- 2.1 At the end of 2018 national government announced a package of measures including the Future High Streets Fund (FHSF) to support transformative change to high streets and town centres.**
- 2.2 The FHSF seeks to renew and reshape areas in a way which improves experience, drives growth and ensures sustainability. With an expectation that investment would fall under the following themes:**
 - Investment in physical infrastructure
 - Acquisition and assembly of land
 - Improvements to transport access, traffic flow and circulation

- Support change of use
- Support adaption of the high street

- 2.3 FHSF will contribute up to £25m to each successful place. However, it is suggested that most awards will be between the £5m and £10m figure.
- 2.4 An initial Expressions of Interest (EoI) was submitted in March 2019, which identified the northern part of the City Centre, building on the recently adopted City Centre Masterplan, with a focus around Angel Street, Angel Place, The Foregate, The Cross and Trinity Street (see appendix 1).
- 2.5 Its vision was to establish an 'urban neighbourhood' focusing around a younger demographic, creating a vibrant area with a diverse leisure, residential and cultural offer, bringing together communities, businesses and partners.
- 2.6 Worcester was announced within the second cohort, of successful places, and was subsequently awarded capacity and resource funding of £150,000 to develop a business case for its interventions/proposals.
- 2.7 The City Council commissioned a multi-disciplinary team of consultancy support to work up the business case. This team is led by Amion, an economic development consultancy, who are supported by Thomas Lister (Development Surveyors), PJA (transport), One Creative (design), Fusion (Building Surveyors) and the Assembly Line (focusing on on-street and off-street market provision).
- 2.8 The team have developed a series of options for individual buildings based upon a series of architectural concepts, building surveys, cost plans and market assessments. County Council colleagues have developed initial proposals and budget costs for public realm proposals. This has been supported by the development of the overall strategic rationale for intervention both in policy and market terms.
- 2.9 The overall intention of the submission is to demonstrate how this area of the City can become a new cultural and leisure destination to enhance both the daytime and night-time economy, attractive to local people as well as visitors. As well as an extensive programme of public realm improvements, sites have been identified which can be developed into new centres for performing arts, leisure and entertainment, as well as potentially some family-friendly attractions. While food and beverage would not be the key focus of this scheme, there could be some complementary uses. It will also complement the Arches Worcester Cultural Development Fund which has already secured £4.5m of resources to regenerate the area between Foregate Street Station and the River Severn with new accommodation for creative industries.
- 2.10 If Worcester is successful in progressing towards an award, there is an opportunity to rectify the imbalance between the northern and southern ends of the City centre which creates a 'tale of two cities'. There is the prospect to provide a new, yet different, destination which counter-balances the City centre with the primary retail core. It will also result in improved linkages (both physically and aesthetically) with The Arches (Cultural Development Fund) project and the City centre.
- 2.11 It is worth noting that the UK leisure sector has enjoyed healthy growth and there are currently gaps in Worcester's leisure/entertainment market with leisure provision below average for a City of its size (CBRE, 2018). Experian Economic Forecasts for

Worcester City (September 2019) predict significantly lower growth in retail Gross Value Added (GVA) than leisure sectors, along with growth in leisure employment but decline in retail employment. Town centre retail is anticipated to continue to decrease which will further impact on future property demand in the Northern Gateway area. However, the area has accessible but underutilised city centre buildings and spaces with potential to re-use for leisure, entertainment and cultural activities close to major transport hubs (bus, train, car and foot). Covid19 clearly will have a significant impact on these sectors in the short term and may particularly affect commercial chains which are highly indebted. However, the long term prospects, based on an increased propensity to use available leisure time for experiences, suggests that over time the sector will return to growth.

3. Proposed Submission

3.1 The proposed interventions are:

1. Refurbishment of a number of key buildings within the area for a variety of uses including a performance venue, new residential accommodation, commercial leisure use, food and beverage and workspace.
2. Investment in public realm and connectivity improvements to streets including the Cross, Angel Street, Foregate Street, St Nicholas Street, Lower Broad Street and Trinity Street.
3. Repurposing Angel Place to provide provision for market units and space for new activities to create interest and generate activity to generate additional footfall.
4. A grant scheme to enable building owners to bring vacant heritage property back into use.

3.2 These interventions will lead to further investment by the private sector and other public sector agencies outside the initial programme and create a new identity to the area connected to the High Street by high quality public realm.

3.3 The exempt report provides further details of the proposed interventions including proposed costs, potential capital receipts, and commercially sensitive information relating to acquisitions. In overall terms, the submission proposes a total investment of £29.309m, of which £18.158m is expected to be funded through the Future High Street Fund with the remaining £11.151m to be funded locally.

3.4 In summary, the proposed submission, if delivered, is expected to deliver the following benefits:

New arts venue (GIA, sq m)	1,003
Food and beverage/leisure provision (GIA, sq m)	2,557

Commercial floorspace (GIA, sq m)	721
Attendance at events (gross)	70,000
Residential floorspace (GIA, sq m)	3,960
Gross direct jobs	140
Gross GVA per annum (£000)	4,242
Residential units	50

- 3.5 The overall assessment of value for money based upon government guidance is that the proposals demonstrate a benefit to cost ratio (BCR) of 3.6:1 which represents good value for money when compared to similar regeneration schemes.

Delivery of the FHSF interventions

- 3.6 The FHSF programme will be overseen by a Project Board drawn from across the City Council and where appropriate partner organisations. The City Council's approved process for the development of projects will be adhered to. Progress reports will be provided to Policy and Resources Committee on a quarterly basis.
- 3.7 It is the intention to procure a development partner to act initially as development manager for the property development schemes approved through the FHSF programme. Selection of the preferred development partner will take place through a procurement process compliant with the City Council procurement strategy.
- 3.8 The costs of the development management role have been included within the FHSF submission. The role of this development partner is likely to have a core set of services relating to management of design and construction teams, procured in accordance with the relevant City Council procedures, with the potential to extend this role to include securing occupiers and, if appropriate, the sale on the investment market of completed schemes. The selection of the development partner will seek to minimise risk to the City Council and secure, where compliant with the FHSF, private sector funding towards projects.
- 3.9 In the case of public realm schemes the City Council has a long-standing relationship with the County Council to deliver public realm improvements in the City Centre including Cathedral Square and the Shambles. This provides a cost effective and integrated mechanism to secure improvements on the highway. It is the intention to continue to use this process to implement FHSF public realm improvements with the City Council acting as client. This activity will report into the Proposed Project Board alongside the selected development partner ensuring overall project co-ordination.

Future High Street Fund Operation

- 3.10 The FHSF will be available to support projects for the years 2020/21 to 2023/24. However, match funding (such as that from the City Council, County Council and private sector partners) to support the approved projects can be utilised outside those dates. The level of FHSF grant is normally calculated on the basis of the gap between the investment value of a completed scheme and its costs demonstrated through a development appraisal. In other cases such as public realm works and public projects then FHSF grant support is calculated by reference to the overall benefits of the project and takes into account the availability of match funding.
- 3.11 Should this business case submission be approved, in part or whole, then a funding agreement will be drawn up by MHCLG for agreement with the City Council. This is likely to include specific milestones to enable the drawdown of grant funding and obligations concerning match funding, the delivery of specific outputs and the monitoring and evaluation of the overall programme. Should the Worcester FHSF submission be successful a further report will be brought to Committee setting out the proposed Funding Agreement.

Timescales

- 3.12 The Future High Street Fund submission should be made by 31 July 2020. The bid will then be appraised by officials from the Ministry of Housing, Local Government (MHCLG) based on the following criteria and weighting:

FHSF Assessment Criteria Weighting:

- Value for Money (in accordance with HMT guidance, and departmental guidance where applicable) 50%
 - Strategic fit of the proposal 20%
 - Deliverability (made up of the commercial, financial and management cases) 30%
- 3.13 Following the assessment, business cases will be scored and ranked. This scoring and possible clarification questions will then lead to announcements of grant awards in the autumn of 2020.

City Council Funding Commitment

- 3.14 The overall proposal is for a £29.3m investment programme to transform the northern gateway to the City Centre as a cultural, entertainment and leisure hub. Given the position of the development market and the impact of Covid19 on project development, it is not possible at this stage to secure a private sector partner to deliver the whole scheme. Therefore the City Council will need to act as the primary financier of the project alongside the Future High Street Fund. This gives the surety of delivery required under the FHSF guidance. Without this the bid would be much weaker as 'Deliverability' accounts for 30% of the appraisal criteria scoring. The overall requirement for this is set out in the financial implications section below
- 3.15 In terms of public realm, the FHSF does not discount such improvements as part of an overall regeneration plan but discourages proposals which simply seek to beautify the area without improving the local economy and connectivity. MHCLG has been

clear that only 5% FHSF support can be used for such projects and whilst the proposed submission very much includes public realm that delivers improved connectivity to the area it is important to maintain an overall balance to the funds being sought from FHSF between direct economic investments in property projects and wider supporting investments such as public realm. One approach to maintaining this balance is to include local contributions to such projects. On 31 July 2019 this Committee approved an allocation from the City Plan (City Plan Masterplan Delivery) fund of £215,000 towards public realm improvements in the City Centre. It is proposed that £200,000 this is used to reflect a local funding contribution towards the proposed public realm works.

4. Preferred Option

- 4.1 The proposed business case includes a range of interventions that could be undertaken as a whole or in isolation. The preferred option incorporates those interventions that will provide the maximum benefit to the City as set out in the table at paragraph 3.4.
- 4.2 The interventions selected will restore culture and vibrancy within the north of the city centre and are designed to help make Worcester a destination of choice for local young people and families, alongside contributing towards the city's tourism offer. Historic buildings will be brought back into use. Public realm and transport infrastructure improvements will contribute to the transformation. By strategically complementing the retail offer which is already present to the south of the intervention area, Worcester FHSF will integrate and strengthen the city as a whole (see appendix 2).

5. Alternative Options Considered

- 5.1 The Council could choose not to submit the FHSF business case. This option is not recommended as there are limited opportunities for the Council to secure third party funding to initiate a significant regeneration scheme in the City.
- 5.2 Alternative intervention levels have been considered and are presented in the Financial Implications section below. This include a reduced option and a do less option and also considered an enhanced level of intervention although this has not been fully costed at the date of this report. It is unlikely that an increased-cost option would be considered by MHCLG, given the indications regarding the level of funding that will be available.

6. Implications

6.1 Financial and Budgetary Implications

The business case for the FHSF submission includes a range of interventions which provide the maximum benefit within the expected available funding and in accordance with the set criteria provided by MHCLG.

As stated in the report, FHSF must be matched by local funding and, in order to provide assurance over deliverability, the submission proposes that the Council will provide the match funding required. The level of funding may be reduced by contributions from partners if these are sought and achieved. All match funding provided by the Council will be in the form of borrowing and borrowing costs have been taken into account in the development of the proposals.

The proposed levels of investment for the preferred option is shown in the table below along with the alternative scenarios referred to at paragraph 5.2. Further details of each of the proposals is provided in the confidential appendix to this report. Each of the proposals is subject to further consideration and costs may, therefore, change as the scheme develops. Further reports will be provided to the Committee setting out any additional financial implications, as the key stages of the project are reached.

Option	Total investment (£m)	Potential FHSF funding (£m)	Match funding requirement (£m)
Do Nothing	Zero	Zero	Zero
Do Less	4.699	3.020	1.679
Reduced	14.844	11.970	2.874
Preferred	29.308	18.158	11.151
Enhanced	31.308	20.158	11.151

6.2 Legal and Governance Implications

The Council will be required to enter into a funding agreement with MHCLG in the event that its bid is successful. The funding agreement will contain outputs and there will be a related risk of clawback if those outputs are not delivered. The Council will mitigate this risk by ensuring that its business case appraisal work is robust and individual projects and related commitments for expenditure (e.g. property and development costs) are scrutinised and approved by Committee before funding is drawn down.

The Council has powers under s120 Local Government Act 1972 to acquire land for the purpose of any of its functions or for the benefit, improvement or development of its area. In addition, the Council has a power of general competence under s1-4 Localism Act 2011 to do anything an individual can do, subject to any statutory prohibitions which may be in place. The Council must nevertheless act reasonably in the exercise of these powers, having regard to its overall fiduciary duty.

The Council will secure market valuation advice before acquiring property and will ensure that independent expert advice to the project generally is commissioned when required to ensure that the Council is properly informed and professionally advised.

To deliver projects within the terms of the approved bid/funding agreement, it will be necessary to establish a number of contractual relationships, including developer(s) and works contractors and professional services. These will be procured in compliance with the Public Contracts Regulations 2015. It will also be necessary to

undertake a number of property transactions and possibly establish partnership agreements with local stakeholders.

The Council will need to ensure that State Aid rules are complied with respect of the use of public funds to improve or develop assets currently in private ownership. To support the bid submission, specialist legal advice is being obtained on how to structure projects so as to ensure State Aid compliance. Ongoing compliance will be monitored as part of the programme management arrangements.

The Council will ensure that as individual projects come forward for consideration by Committee, decisions are progressed as far as possible in the public domain, respecting the need for minimal levels of commercially sensitive information to remain confidential, for example, relating to property values.

6.3 Risk Implications

There are no risks relating to the submission of a bid to the FHSF, except the possible risk that third party landowners consider the prospects of grant funding and a regeneration scheme increases the value of their assets and makes negotiating value-for-money outcomes more difficult for the Council. This risk is mitigated by the fact that the Council would not proceed with acquisitions which were not supported by market valuation advice.

A comprehensive risk register has been prepared as part of the bid and includes 27 risk at this stage those evaluated as red (high) at this stage are:

Demand risk - The risk of not having a sufficient understanding of demand in the town centre from residents and commercial tenants. The success of the scheme will be contingent on the state of the creative industry within Worcester.

Land ownership - There is a risk associated with the acquisition of land and properties from third party ownership, which could significantly impact costs and timescales

Building / Site characteristics and unknowns - Risk that site characteristics delay or constrain proposed re-development plans or increase costs.

Income risk - This risk that income generating interventions have lower occupancy rates than budgeted for, for example take-up of pop-up leisure and culture units at Trinity House and Angel Street / Angel Place might be lower than expected. There also might be a reliance on commercial income.

Economic - The risk that changes in external economic influences occur that result in a failure to achieve the programme objectives.

Reputation - by publishing the FHSF proposals an expectation will be placed on the City Council to deliver these projects. MHCLG have been clear that the expectation in terms of funding levels will be in the region of £5m to £10m. The preferred option at £18.158m of FHSF exceeds the likely level of funding and therefore the actual FHSF programme is likely to be smaller than the preferred option.

Covid19 - There is a risk that retail and high street outlets will suffer as a result of the Covid-19 pandemic, with a significant number of businesses ceasing to trade under lockdown restrictions as they have temporarily closed. Additionally, Covid-19

will limit the resources available to deliver the FHSF programme which might restrict the ability to progress development works to budget and in time.

As the major funder of the overall project those risks associated with cost overruns and income shortfalls are particularly important to the City Council. Appropriate contingency and inflation has been built into project cost estimates which provide some measure of mitigation. Income forecast have been based on market evidence and reviews with appropriate allowance made for voids after schemes are completed. Ultimately these risks can only be addressed as the projects and more fully developed and by ensuring cost control, continuing to engage with the market and by flexibility in design and use.

The risk register and its development will be a key instrument in the development of the project and be reviewed by the project board with clearly identified risk owners. Risks will be reported to Committee as individual projects are brought forward for consideration.

6.4 Corporate/Policy Implications

The submission of the business case supports the City Plan and City centre masterplan aspirations.

6.5 Equality Implications

None directly arising from this report.

6.6 Human Resources Implications

None directly arising from this report.

6.7 Health and Safety Implications

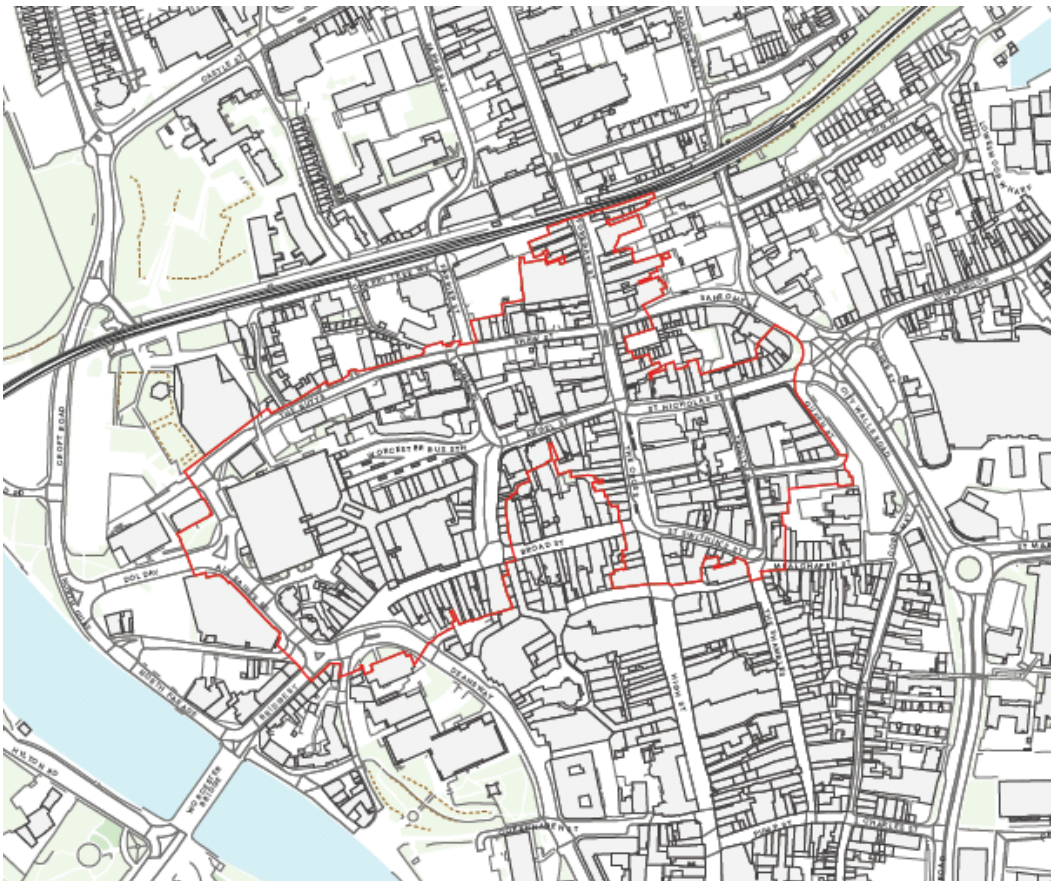
None directly arising from this report.

6.8 Social, Environmental and Economic Implications

The proposed business case submission identifies a series of social, environmental and economic benefits from the scheme these include direct and indirect employment, increased footfall, amenity value to residents and visitors.

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Background Papers:	None

Appendix 1



Appendix 2

