

Report of:	Councillor Ashley Waters - Executive Member for Regeneration Councillor Chris Hobson - Executive Member for Finance and Governance Richard Horniman - Director of Regeneration and Culture Ian Wright - Director of Finance
Submitted to:	Executive - 13 April 2021
Subject:	Future High Streets Fund - Town Centre Property and Asset Management (PART A)

Summary

Proposed decision(s)
<p>The following is asked of the Executive:</p> <ul style="list-style-type: none"> a) That the information contained in Part A of the report be noted; and b) That the decision be taken once all the financial or exempt information contained in Part B of the report has been considered.

Report for:	Key decision:	Confidential:	Is the report urgent? ¹
Decision regarding property investment and asset management	Yes	No (PART B - Exempt under paragraph 3 of Part 1 of Schedule 12A to the 1972 Act)	No

Contribution to delivery of the 2021-24 Strategic Plan		
People	Place	Business
The proposals will attract significant investment within the town centre, to contribute to the objective that <i>"We will ensure that we place communities at the heart of what we do, continue to deliver value for money and enhance the reputation of Middlesbrough"</i>	The proposals will stimulate investment within the town centre, in support of a Council-owned asset, and aimed at creating new opportunities and jobs, to contribute to the objective that <i>"We will transform our town centre, improving accessibility, revitalising unused assets, developing iconic new spaces and building more town centre homes"</i> .	The proposals will enable the Council to secure a new leisure offer to deliver a strengthened and repurposed town centre, attracting new jobs and investment. by <i>"making sure we work as effectively as possible to support our ambitions for People and Place"</i> .

Ward(s) affected
Central Ward – albeit the economic benefits will be town-wide.

What is the purpose of this report?

1. The report sets out the delivery framework for the delivery of the recently allocated £14.1m from the Future High Streets Fund (FHSF). A significant proportion of this is proposed to be spent within the Council owned asset, the Captain Cook Square shopping centre. The report also sets out the operational parameters against which officers are delegated to manage and let the asset; and, the formal approval to deliver the FHSF interventions, in line with the strategic business case and funding criteria; as set out in the successful bid.

Why does this report require a Member decision?

2. Following the announcement of the successful bid relating to the Future High Streets Fund, the approved programme budget of £14.1m exceeds the Council's key decision threshold and, therefore, requires Executive approval to commence delivery.
3. In addition, it is necessary to agree the delegated operational parameters for lettings, debt recovery and asset management which enable the transformation of the asset to build the proportion of leisure uses. Similarly, the approach will respond to asset management issues arising from Covid-19 and the resultant retail sector distress, in line with Council policies, whilst providing as much support as possible to the individual tenants.

Report Background

4. The Executive report relating to the purchase of the Captain Cook Shopping Centre (20th December, 2019) provided a comprehensive case for the acquisition and proposed repurposing of the centre; in support of the wider town centre economy. This report detailed the business case for such investment and how the Council had a compelling case to intervene in diversifying the economy. The intention is to actively manage the asset as a going concern with the strategic objective to repurpose to alternative and more sustainable leisure uses. This approach provided the basis for the Council's original FHSF competitive funding application (further details below) totalling £20.5m; now amended to a £14.1m allocation.
5. The FHSF application criteria required the Council to demonstrate its capital investment, and longer-term intentions, as well as what private sector interest had been received and the commitment the interested parties had demonstrated. The schemes that were deemed more deliverable and were scored higher were those which had either entered detailed negotiations, or initiated design teams or preliminary studies. The Council was therefore obliged to have presented as much information, at that time, of detailed interest, and what schemes it believed would provide the most transformation.
6. One of the key objectives within the business case to acquire was to rebalance the economic mix and diversify C. 400k sqft of floorspace to commercial and leisure uses, creating a more balanced and attractive offer to support and enhance the town centre. Whilst Covid-19 has had a significant impact on the leisure and hospitality sector, market specialists still maintain that this is the commercial direction of high street areas and the sector anticipates strong recovery, when circumstances allow.

7. For the effective management of the estate, in line with the strategic transformation objectives, it is critical that the managing agent and senior council officers are working to agreed parameters to enable the transformation of the asset. This often requires urgent, commercial decisions to be made to capitalise on immediate interest and the ability for the managing agent to operate for the commerciality of the council's asset.

Future High Street Fund (FHSF)

8. Middlesbrough sees a bright future for its high street. The vision is based on building a new urban community in the heart of Middlesbrough. By bringing more people to live in central Middlesbrough (an offer which does not currently exist), the strategy meets the transformational objectives of:
 - meeting housing demand both now and in the future;
 - driving reliable footfall into the heart of the High Street;
 - converting, adapting and diversifying a chronic oversupply of retail space;
 - attracting and retaining skills and talent; and,
 - building an increasingly, economically-active consumer base which will provide the necessary demand to sustain the transformation to a balanced leisure economy.
9. Middlesbrough Council has successfully secured £14.1m from the FHSF. This includes:
 - i. £3.5m for residential property;
 - ii. £1.05m for transport adaptations and improving safety / security of town centre areas;
 - iii. £270,352 for cultural animation and experiences;
 - iv. £250k for businesses adaptations for covid mitigations; and,
 - v. £9.1m for the transformation of Captain Cook Square for leisure uses, incentives, decant compensation, remodelling units, contribution to fit out and adapting public spaces.
10. The £9.1m dedicated to Captain Cook Square requires input from both Council officers and the managing agent. The most appropriate funding structure will be identified to ensure that all works and financial incentives are procurement compliant, subsidy control regime (former state aid) compliant and are delivered to the conditions of funding set out by HMGovt.
11. Any changes to project elements within the £9.1m allocation would be subject to a Change Control process with Government, however, it is advised that the Director of Regeneration and Culture and the Director of Finance are delegated approval to vire allocations beneath the £9.1m allocation, insofar as the objects of the project and the outputs are unaffected or bettered.

Estate Management Parameters

12. Council appointed agents, Praxis, have been managing the asset, as of mid-November 2020. It has been a challenging and difficult period in terms of national rates of retail distress, rent collection and management, however the Council continues to receive collected income at an improving rate, whilst covering its associated costs.
13. Much interest has been forthcoming from leisure providers in investing in the vision for a leisure quarter in Captain Cook Square and firm interest is in place for a number of large and small units, with a range of local and national operators. It is proposed that Praxis lead on the discussions, on behalf of the Council, to progress such.

Debt Recovery Strategy

14. Praxis maintain a pro-active approach to rent and debt collection and have an impressive collection rate, when compared with industry standards. Whilst lockdown measures (and a national moratorium on rent lease enforcement, has significantly impacted rent collection in the traditional format, Praxis remain committed to regular engagement and collection of debt. Given that lockdown is to be lifted imminently, and it is likely that Government moratoriums on pursuing debt and evictions is to be lifted, Praxis require Council guidance on how firmly they pursue and enforce debt collections; on behalf of the Council.
15. The recommended approach is to continue to pursue and enforce debt collections in a firm, commercial manner, albeit with the safeguard that the Council will have the final sign-off of debt enforcement and the approach, in each instance. This allows the Council to be sighted on any potential sensitive or reputational matters.

Targeted Marketing – Leisure Interest

16. Since the announcement of the purchase of the Captain Cook Shopping Centre, the asset has been inundated with interest from many regional and national leisure operators. This has been extremely positive, particularly as interest has remained strong in the wake of COVID. The operators remain optimistic about underlying market conditions and have bought into Middlesbrough's vision. Many investor appreciate the opportunities available due to the FHSF and this further incentivises operators to relocate in the centre.
17. Leisure interest has been surprisingly high, even in the midst of the Covid pandemic. Since the shopping centre was purchased in June 2020, many interested parties have contacted the Council direct, with requests for additional information, site visits, and to learn more about the Council's longer term intentions. Praxis has commenced detailed dialogue with a number of operators, including proposals for :
 - bowling alley with associated multi-use leisure attractions;
 - boutique cinema;
 - multi-leisure venue;
 - small-medium scale Breweries;
 - restaurants and eateries, with proposals to maximise outdoor space ; and,
 - Hosting event(s) – temporary/seasonal usage for central square area
18. In addition to the positive interest already received, it is important that interest / options are secured from as wide an offer as possible, both regionally and nationally. Marketing for leisure-focused expressions of interest, promoted (via Praxis) a notification asking for expressions of interest, has been circulated to sector specialists. The outcome of this exercise will not only capture interest at this site, but may also assist in the numerous commercial Council led opportunities currently available.
19. Officers from across the Council have commenced discussion to assess planning, environmental, highway, safety and security issues and provide early guidance to Praxis in terms of how the new uses can effectively work with those retail businesses which will remain in the estate. To ensure effective project management, a monthly working group, along with a Strategic Board, has been created to oversee this programme of works.

Why is this being recommended?

20. The Council has purchased the Captain Cook Shopping Centre as part of a strategic case to support the town centre economy and to provide significant commitment to FHSF programme, demonstrating a coherent policy to intervene in, and enhance, a struggling

PART A

market. This was pre COVID, in the wake of COVID, town centre issues, alongside the unfortunate number of distressed retailers, has amplified and exacerbated the problems facing retail, leading to a greater and more urgent case for intervention.

21. The announcements prior to Christmas, and in the recent Budget, provided much needed and anticipated news, that the Council had been successful in levering in desperately required Government capital. The proposals within this report both maximise this contribution and allow this to be used to lever in additional private finance, which minimises the Council's risk.

What decision(s) are being asked for?

22. The following is asked of the Executive:

- a) That the information contained in Part A of the report be noted; and
- b) That the decision be taken once all the financial or exempt information contained in Part B of the report has been considered.

23. In delivering FHSF and managing Captain Cook Square, alternative options include:

Do nothing:

24. The Council could remain landlord of the asset and passively manage it as going concern for retail uses (or any forthcoming tenant enquiry. Praxis would remain as managing agent and would operate the facility on Middlesbrough Council's behalf.

25. Whilst the business case made the investment viable under a 'business as usual' model, failure to invest available FHSF funding to and enhance and repurpose the site would represent a lost opportunity to enhance the asset and help to rebalance the town centre economy.

26. The asset would be more vulnerable over time as the retail market continued to decline and no strategic impact would be realised from repurposing C. 400k sqft of retail floorspace; and, therefore, addressing the chronic oversupply in retail floor space.

Preferred recommendation: Strategic Investment in Captain Cook Square – Repurpose to Leisure Uses

27. By investing C. £9.1m of awarded FHSF monies in Captain Cook Square the Council can:
- i. Rebalance the town centre economy, making it more sustainable for the future;
 - ii. The funding has been awarded specifically for the purposes set out in the bid and would be recoverable if not used for this explicit purpose;
 - iii. Drive additional footfall into central Middlesbrough, creating benefits for all tenanted businesses;
 - iv. Create a more sustainable retail market by reducing supply (currently there are four shopping centres in the town centre) would positively impact on demand;
 - v. Increase the reputational and visitor appeal for Middlesbrough;
 - vi. Create and sustain new employment opportunities;
 - vii. Create additional appeal in supporting the new urban living market;
 - viii. Repurpose C. 400k sqft of retail floorspace to address oversupply, protect asset values and encourage renewal investment by property owners; and,
 - ix. Inject a new vibrancy and impetus into our town centre economy.

Impact(s) of recommended decision(s)

Legal

28. If Executive approve the preferred option, the Council will need to work to secure legal, and procurement, compliant routes to:
- i) ensure any contribution towards capital fitouts/building works is Subsidy Control Regime (former State Aid) compliant, confers no selective advantage and is consistent with commercial norms. Commercial parity is the main mechanism for ensuring compliance but Counsel advice has been sought to explore the exact model.
 - ii) oversee all lease agreement, debt recovery and contractual issues. The in-house legal team has dedicated representation and is included in the internal asset management working group; and,
 - iii) where legal recourse may be required in relation to the effective management of the asset, Praxis provide initial legal services and advice and, where there is a potential corporate issues, this is also overseen by in-house legal support. In relation to any debt collection which requires legal recourse.

Financial

29. FHSF is conditional upon a funding agreement and associated conditions. The funding is principally capital and is predicated on match funding secured by public sector and private sector sources. Any funding matched to the programme has been committed out of Council existing budgets and already funded through the investment strategy, or external funding and is secured (principally the acquisition costs already settled). Private sector match will be monitored throughout the programme.
30. The internal delivery programme will be monitored through established internal accounting procedures and overseen by the corporate project management framework and governance structures.
31. Where appropriate, staffing costs relating to capital project delivery will be included in project costs at a rate which is proportionate and permissible for the funding terms.

Policy Framework

32. The decision will not conflict with the existing policy framework.

Equality and Diversity

33. An Impact Assessment is not required as the proposals will not have an impact on groups with protected characteristics.

Risk

34. The relevant risks this decision would influence are cited below, with an explanation as to why they are relevant and how it would affect each risk.

O1-005	If poor economic growth occurs, then this will reduce public and private sector investment in the town, including town centre retail, housing development and business.	The report mentions that there were existing signs of decline pre COVID, this has increased post COVID. Delivery of the proposals within this report will enhance economic growth and prosperity of the town.
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PART A

O1-024	If Middlesbrough's population reduces, with changes in the demographic make-up, then this will impact on the Council's capacity to deliver services, leading to financial pressures, decline in service performance, reduced outcomes for local people and reputational loss.	By providing retail, leisure and residential properties within the town this may have a positive impact on people staying in Middlesbrough which will help skills and talent to be retained.
O1-038	If traffic into certain parts of the town increase, due to successful inward investment, then there could be an increase in traffic management and parking issues.	As per of the redevelopment discussions have commenced with regards to the highway and pedestrian use etc. which support mitigating this risk.
O1-045	If delivery of the new housing programme does not meet the projected targets then this can have a negative impact on the assumptions within the MTFP.	By putting residential properties within the town this will have a positive impact the new housing programme in achieving its targets.
O1-049	If town centre property values continue to decline, a national response may include an overall Business Rates review that would impact upon the Council's financial position unless mitigated.	By bringing a mixture economy in the town so it is not just reliant on retail but includes leisure and residential should help mitigate this risk.
O1-050	A continuing national decline in the retailing environment has the potential to manifest further in Middlesbrough's town centre. The withdrawal of major retail brands has the potential to damage Middlesbrough's local economy in terms of business growth / turnover; employment opportunities for Middlesbrough residents; and, the appeal of Middlesbrough as an investor / visitor attraction.	By moving current retailers into other retail areas of the town and using their current space for leisure facilities will have a positive impact on this risk.
O1-052	Substantial areas of the town have high residential voids/low sales values and high population churn, effectively creating market failure resulting in significant social consequences which in turn have implications for Council resources and service delivery. Such an approach is unsustainable and will result in the need for significant market invention at great cost to the Council.	By repurposing parts of the town for leisure facilities it should have a positive impact on this risk as there are less likely to be void properties in the town.
O8-055	If the Council doesn't respond effectively and efficiently to legislative changes it could be in breach of statutory duties in relation to service delivery and fail to make the most of opportunities.	By undertaking this report the Council is ensuring it is complying with the relevant procurement rules, state aid compliance, delegation of decisions to be made and conditions of funding.
O8-059	If incorrect assumptions are made in the MTFP this will result in a funding gap requiring further savings to be made.	Assumptions have been made about rents, income etc. and these will be factored into the MTFP and should prevent any funding gaps occurring so this should be a positive impact on this risk.
O8-094	If there is an increase in voids within the commercial property portfolio due to economic downturn then this may lead to a loss of commercial rent income resulting in an impact on budgets and vacant properties falling into disrepair.	By repurposing parts of the town for leisure and residential properties this should ensure that income is sustained and properties do not become void.
O8-097	If corporate procurement policies are not adhered to this may lead to the Council not achieving best value for money resulting in the potential for legal challenge, fines, setting aside of contracts which will have an impact on budgets and damaged the Council's reputation.	Procurement rules in relation to financial incentives are being followed which will have a positive impact on the risk.

Actions to be taken to implement the decision(s)

PART A

35. If approved, the Council would proceed with detailed discussion and negotiation with interested parties and with the formulation of a delivery plan, with targets on how the use of the centre will be transformed with available FHSF monies, whilst existing tenants are supported.

Appendices

None

Background papers

Body	Report title	Date
Executive – CONFIDENTIAL Part B	Future High Streets Fund - Acquisition of Town Centre Properties	20 th December 2019