



# Northumberland

## County Council

### CABINET

9 APRIL 2019

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### Summary of New Capital Proposals considered by Officer Capital Strategy Group

Report of: Neil Bradley, Service Director, Strategic Commissioning and Finance, Northumbria Healthcare

Cabinet Member: Councillor Peter Jackson, Leader of the Council

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#### Purpose of report

The following report summarises proposed amendments to the Capital Programme considered by the officer Capital Strategy Group at its meeting held on and 8 March 2019.

#### Recommendations

Cabinet is recommended to:

- **Escape Family Support:** approve a grant award of £28,000 – to be funded from the Adult's Community Capacity Grant allocation within the Medium Term Capital Programme.
- **Flood and Coastal Erosion Risk Management Programme:** approve the proposals and reallocation of NCC contributions.
- **Advance Northumberland – Portland Park, Ashington:** approve a grant award of £3,000,000 to be funded from the Regeneration Schemes provision; and, approve a loan to Advance Northumberland for £4,666,469 to be funded from the Loans to Third Parties provision both of which are included in the Medium Term Capital Programme. Approval would however be conditional on any State Aid issues being resolved before the grant and loan are awarded.

#### Links to Corporate Plan

The Council's Capital Programme is consistent with the priorities in the Corporate Plan 2018-2021; in particular the 'Living', 'Enjoying' and 'Thriving' priorities.

**Key Issues**

The report outlines proposed amendments to the previously approved Medium Term Capital Programme.

**Background**

The Medium Term Financial Plan and Capital Programme for 2019-20 to 2021-22 were approved by Council on 20 February 2019.

## **SUMMARY OF NEW CAPITAL PROPOSALS CONSIDERED BY OFFICER CAPITAL STRATEGY GROUP MEETING HELD ON 08 MARCH 2019**

### **ESCAPE FAMILY SUPPORT**

The Group received details of a proposal to offer a capital grant of £28,000 to 'Escape Family Support' for the purchase of a replacement static caravan for Carers respite.

Escape Family Support is a registered charity based in Ashington. It works across the whole of Northumberland and provides a wide range of services, courses and activities to support anyone affected by drugs and alcohol in the community.

As part of the above services Escape Family Support currently own and operate an existing static caravan based on Haven Holiday Park in Berwick which is used for respite breaks to family carers (unpaid) to provide a much needed break from their caring duties.

The caravan is over 10 years old, in poor condition and in need of replacement. It is currently valued at approximately £3,000 (trade-in). The cost of a new replacement caravan is £31,000.

This proposal is for NCC Adult Care to provide a capital grant of £28,000 to Escape Family Support to enable them to purchase a new static caravan and continue to provide respite breaks to family carers in better quality provision. It is proposed to fund the award from the Adult Care Community Capacity Capital Grant received from the Department for Health.

Evidence shows that by supporting carers to care, they rely less heavily on statutory services.

The grant would be a one off payment and the caravan would be owned and operated by Escape Family Support. All site fees and running costs will continue to be paid for by donations from users and Escape Family Support, as they have been for the past 10 years.

**CSG Recommendation:** The Group accepted the proposal and recommends Cabinet to approve the grant and associated budget requirement of £28,000, to be funded from the Adult Care Community Capacity Capital Grant received from the Department for Health.

### **FLOOD AND COASTAL EROSION RISK MANAGEMENT PROGRAMME**

The Group received a paper seeking approval for the Flood and Coastal Erosion Risk Management (FCERM) Capital programme of works, as approved by the Environment Agency (EA), to be updated within NCC's Medium Term Capital Programme.

In February 2014, NCC submitted details of coast protection and flood alleviation schemes to the Environment Agency, to be included in their 6 year Medium Term Plan (2015-16 to 2020-21), with funding to be provided through EA grant and contributions from NCC and others. Since this time, the programme has been subject to yearly refreshes to ensure it

reflects the priorities of risk management authorities and remains on course to deliver the Government's national target of 300,000 homes better protected.

As the current consented programme enters its final two years, the purpose of this latest report is to seek approval for NCC's contribution to the EA's refreshed programme and include details of additional projects which have come into the programme. These are covered in more detail below.

### **Seaton Delaval Surface Water Flood Alleviation Scheme**

The scheme will significantly reduce flood risk to 6 properties in providing a standard of protection equivalent to the 1 in 100 year storm. The scheme will also be resilient to the predicted effects of climate change through the creation of below and above ground flood storage which will discharge via an innovative deep groundwater infiltration system.

The overall scheme cost is £75,400 to be funded wholly by approved EA grant. Approval of the scheme to be included within the NCC MTFP will allow the scheme to be progressed without delay in the spring of 2019 for completion by summer 2019.

### **Loansdean Flood Alleviation Scheme**

The scheme will significantly reduce flood risk to at least 9 properties in the Loansdean area of Morpeth. The details of the scheme are still to be developed in consultation with the affected residents, however, the risk of flooding from a small watercourse, surface water and groundwater will be addressed by a combination of features.

The overall scheme budget is £45,000 to be funded wholly by EA grant. Approval of the scheme to be included within the NCC MTFP will allow the scheme to be progressed during the summer of 2019.

### **Hexham Industrial Estates Flood Alleviation**

The Environment Agency is developing a scheme to reduce the risk of flooding at the Bridge End and Tyne Mills Industrial Estates in Hexham. Both industrial estates, including NCC's depot and vehicle testing station, were flooded when the River Tyne burst its banks during Storm Desmond in December 2015.

The scheme, which is scheduled for construction to commence in Spring 2020 and completion that same year, will be designed to provide both estates with a 1 in 200 year Standard of Protection, an event larger than Storm Desmond.

At Tyne Mills Industrial Estate, the scheme will comprise raised defences, predominantly sheet pile flood walls, along the banks of both the River Tyne and Skinnersburn. The estimated whole life cost of the scheme, including future maintenance costs, is just over £3.9 million.

NCC will be a significant beneficiary of the scheme given the location of assets within the benefit area, namely, the strategically important Tyne Mills depot, fire station (now closed)

and vehicle testing facility. Since 2000 the depot has been significantly damaged by flooding from the River Tyne on two occasions, in January 2005 and December 2015.

While much of the scheme and future maintenance costs are eligible for EA funding, there remains a funding shortfall of £0.6 million. The Environment Agency is, therefore, requesting a capped contribution of £0.2 million from NCC, with the remainder of the shortfall expected to be secured from the neighbouring beneficiaries.

The Council's capital programme includes a contribution of £0.35 million for flood and coastal management in 2021-22, provisionally to support the Beadnell Coast Protection Scheme. Approval is sought to bring forward £0.2 million of this contribution into 2019-20 to specifically support the Hexham Industrial Estates Flood Alleviation Scheme and assist in leveraging a substantial investment in flood defences for this important commercial area.

**CSG Recommendation:** The Group accepted the report and recommends Cabinet to approve the reallocation of NCC contributions across the various flood and coastal erosion projects, as set out above.

## **GRANT TO ADVANCE NORTHUMBERLAND IN RESPECT OF PORTLAND PARK ASHINGTON (ADDENDUM FOLLOWING THE MEETING)**

Following the meeting, a request was received from Advance Northumberland for a capital grant and loan towards the development of the Portland Park site at Ashington.

Portland Park is considered by Advance Northumberland to be the most significant and influential of the key regeneration opportunities in and around Ashington town centre. If developed effectively, it is felt the site has the ability to transform Ashington and through structured development, reposition the town as a new retail and leisure led destination, driving footfall to boost the economy.

Advance Northumberland has carried out a detailed financial appraisal of the proposed scheme which has been approved by the Advance Northumberland Board and is now seeking approval from the Council for the funding required to undertake the development.

### **Proposed Development**

Aligned to the outcome of the two separate public consultations the proposal for Portland Park is made up of three distinct development plots:

#### **Plot 1: Multi screen cinema with accompanying restaurants and cafes**

Advance Northumberland will develop a 17,000 sq. ft (net), seven screen cinema at first floor level. Advance Northumberland will construct the external shell but provide a capital contribution to the cinema operator who will undertake the internal fit out to an agreed specification.

Heads of terms have been drafted for a 20 year lease with the cinema operator paying an initial annual rent with RPI uplifts every fifth year.

It is important to note that a key condition of the cinema operator contract is that Advance Northumberland must secure a minimum of 5,000 sq. ft of 'A3' use within the Portland Park scheme. (A3 comprises restaurants and cafes for the sale of food and drink for consumption on the premises - restaurants, snack bars and cafes).

This condition is crucial, as it means if an A3 operator cannot be secured or, in sufficient quantum, the terms will not be satisfied and the cinema scheme will not progress. However, as drafted, Advance Northumberland are confident that it will be possible to satisfy this condition.

Advance Northumberland will also be required to develop out the A3 restaurant premises but will also benefit from the income generated through letting those premises. The challenging shift in levels of Plot 1 allows the development of the A3 at ground floor but with good visibility and access to the cinema at first floor level. The scheme incorporates two 3,500 sq ft units that could generate further rental income.

A further key risk is the impact the scheme may have on the Vue cinema at Manor Walks, Cramlington. Advance Northumberland has recently commissioned an impact assessment but the findings are not yet known.

### **Plot 2: Large Scale Retail**

Plot 2 was promoted with a view to delivering the "more shops and wider range of goods" defined in the residents survey. This was well received by the target markets and Advance Northumberland has also been able to finalise terms with a major retailer that would deliver a 20,000 sq. ft retail store with over 100 car parking spaces.

The main difference between this site and Plot 1, is that this will be a land sale and generate a capital receipt. In addition, this element of the scheme will be delivered by the retailer thus reducing the financial risk to Advance Northumberland.

### **Plot 3: Smaller Scale Retail**

Plot 3 also offers an opportunity to provide "more shops and a wider range of goods" and the final piece to create smaller shops in a more granular layout that will encourage both national and local traders. The masterplan currently envisages a terrace development of approximately 10,500 sq ft which will provide an important link into Station Road.

### **Financial Information and Funding Options**

A detailed development appraisal has been undertaken by Advance Northumberland which provides information on the estimated development costs and values attributable to the scheme.

If the scheme is approved the estimated rental value generated by the completed development is circa £400,000 per annum. However, at this stage the only rent guaranteed is that generated from the cinema in the sum of £170,000 per annum with the remaining income subject to negotiation.

The cost of developing the cinema, restaurants and the retail terrace on Plot 3 is estimated to be £6,113,969. This is due principally to the high cost of developing the cinema; and, the cinema being at first floor level which adds costs and servicing complexities. The additional costs are a cinema fit out contribution of £2,400,000; and, Advance Northumberland anticipate a further £152,500 could be required to incentivise the A3 and retail elements.

This takes the total estimated development budget to £8,666,469, the majority of which is funding the development of the cinema. Notably this is £3,166,469 more than the estimated value of the completed scheme of £5,500,000, and as such as a purely commercial scheme is not viable.

The sale of Plot 2 will provide an anticipated £1 million (net) capital contribution and reduce the overall project cost to £7,666,469. Despite this, based on a loan rate of 5.75%, the annual loan interest is payable at £440,821 per annum, which is £40,821 more than the estimated rental income of £400,000 per annum.

Therefore, if the scheme is to be progressed in accordance with the masterplan, Advance Northumberland will require financial support from NCC to undertake the development and secure a cinema for Ashington. As a result two finance options have been proposed by Advance Northumberland to mitigate the costs of funding the development.

Finance Option 1: A capital contribution in the form of a non-repayable grant of £3,000,000 with the remainder (£4,666,469) being a loan to be repaid including interest at a rate of 5.75%. Under this option the annual interest payment would be £268,332 per annum which is 67% of the estimated annual rental income of £400,000. The financial model currently assumes principal will be repaid on maturity (assumed to be 40 years), however this may need to be reviewed as part of the state aid considerations - please see below.

Finance Option 2: A loan for the whole amount but at a lower rate of interest of 2.75%. This would equate to an annual interest payment of £210,827 per annum, representing 52.7% of the estimated annual rental income of £400,000.

However, option 2 would result in a loan value significantly in excess of the completed asset value of £5,500,000. Therefore on this basis option 1 - a loan of £4,666,469 at 5.75% and non-repayable grant of £3,000,000 - would appear to be the only viable option. This would represent a loan to asset value of 84.5%. The Council could utilise the existing capital provisions in the Medium Term Capital Plan: 'Loans to Third Parties' for the loan element, and the 'Regeneration Schemes' provision for the grant element.

## State Aid

An opinion on State Aid implications has not yet been reached, and is currently being considered by external advisors. Approval of the award may therefore be subject to revision pending the outcome of a review of State Aid implications.

**CSG Recommendation:** Cabinet is recommended to approve a non-repayable grant award of £3,000,000; and, a loan of £4,666,469 (repayable plus interest) to Advance Northumberland in connection with the Portland Park project - subject to confirmation that there are no State Aid implications. It is proposed this is funded from the 'Regeneration Schemes' and 'Loans to Third Parties' provisions within the Medium Term Capital Programme.

## Future Contracts In Excess of Directors Delegated Limits

The following table summarises future capital commitments that are in excess of the delegated 'Limits for Corporate Directors' (as specified in Finance and Contract Rules) and therefore are required to be reported to Cabinet for approval.

Capital Project	Commitment Description	Amount (£)
Alnwick Schools Two Tier Reorganisation	Payment of the dilapidation costs associated with the termination of the leases from Northumberland Estates for the closed school sites at Dukes Middle School and Bailiffgate Annexe. Under the reorganisation, a provision of £1.6 million was established to cover this cost.	£1,100,000

**CSG Recommendation:** The Group recommends Cabinet to approve the dilapidation settlement.



## **Implications**

<b>Policy</b>	The capital programme is part of the Medium Term Financial Plan 2019-2022. The plan supports the Corporate Plan.
<b>Finance and value for money</b>	The report outlines proposed amendments to the previously approved Medium Term Capital Plan. The financial implications of these proposals are outlined in the main body of the report.
<b>Legal</b>	An opinion on State Aid implications has not yet been reached, and is currently being considered by external advisors. Approval of the award may therefore be subject to revision pending the outcome of a review of State Aid implications.
<b>Procurement</b>	In line with all other capital expenditure, the additional spend will be subject to the Council's recognised procurement procedures.
<b>Human Resources</b>	Not applicable.
<b>Property</b>	The properties affected by the proposals are identified in the main body of the report.
<b>Equalities</b> (Impact Assessment attached) Yes <input type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/>	Not applicable.
<b>Risk Assessment</b>	The risks associated with the proposals are regarded as acceptable but these risks will continue to be reviewed up to and during implementation of the proposals.
<b>Crime &amp; Disorder</b>	There are no Crime and Disorder implications.
<b>Customer Consideration</b>	There are no Customer Considerations.
<b>Carbon reduction</b>	None
<b>Wards</b>	All wards

## **Background papers:**

Medium Term Financial Plan 2019-2022 and Budget 2019-2020 - County Council 20 February 2019.

## **Report sign off.**

***Authors must ensure that officers and members have agreed the content of the report:***

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