



Northumberland County Council

CABINET

12 APRIL 2022

Summary of New Capital Proposals considered by Officer Capital Strategy Group

Report of: Jan Willis, Interim Executive Director of Finance and Section 151 Officer

Cabinet Member: Councillor Richard Wearmouth, Portfolio Holder for Corporate Services

1. Purpose of Report

The following report summarises proposed amendments to the Capital Programme considered by the officer Capital Strategy Group via email on 4 March 2022.

2. Recommendations

Cabinet is recommended to:

2.1 Bedlington Town Centre Redevelopment:

- Approve an increase in the NCC grant contribution towards the Bedlington Town Centre Redevelopment of £2,045,268 to be funded from the Strategic Regeneration Projects Budget within the Council's Medium Term Financial Plan 2022-26. Together with the existing approved budget of £2,718,490, this will take the total grant funding from the Council for this project to £4,763,758. The profiling for this additional grant contribution will be split between 2022/23 £1,454,690 and 2023/24 £590,578.
- Approve a re-allocation of the Strategic Regeneration Projects Budget for the 2022/23 year from existing schemes that are in delay to fund this additional grant as per the table in paragraph 5.11 below.

3. Links to Corporate Plan

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

4. Background

This paper summarises reports considered by the officer Capital Strategy Group on the allocation of funding within the Medium Term Plan to specific projects.

SUMMARY OF NEW CAPITAL PROPOSALS CONSIDERED BY OFFICER CAPITAL STRATEGY GROUP VIA EMAIL ON 4 MARCH 2022

5. Bedlington Town Centre Redevelopment

- 5.1 The Group was asked to consider a request for additional grant funding to complete the Bedlington Town Centre Redevelopment.

Background

- 5.2 The redevelopment of Bedlington has been a priority for both the Council and Advance Northumberland since Advance purchased the site from Tesco in 2015. The purchase was for a 5.5 acres site comprising the former Tesco store and ancillary land interests.



- 5.3 At its meeting on 12th January 2021, Cabinet approved a package of support towards the Bedlington Town Centre redevelopment which included:
- *Phase 1* – Aldi Store and associated Seller works.
 - *Phase 2* - The development of the Market Place including the demolition of the former Tesco store to create small retail units with residential accommodation above.

Current Position

- 5.4 Phase 1 (Construction of ALDI Supermarket and public car parking) is now complete with a small cost saving against budget.
- 5.5 The demolition works for Phase 2 (Marketplace Redevelopment) have progressed sufficiently to prepare the site for the start of building works.
- 5.6 Party wall issues were encountered when separating the building to be demolished from the Market Tavern building which is in third party ownership which added cost to the project. Advance Northumberland also encountered asbestos in the ground which has had to be removed from site to a licensed tip. The projected final account for the enabling demolitions and site preparations is £360,000 which is £140,000 over budget.
- 5.7 The procurement of the main contractor was due to complete in October 2021. Delays to the design extended this process by approx. 6 weeks and then further delays were encountered due to low levels of market interest, and poor competition for the various tender packages leading to an extended procurement process. The final tender return for the construction works came back in January 22 at £5.1m. This was significantly in excess of the original budget of £3.3m.
- 5.8 There are several factors contributing to the cost increase as below:
- **Design Changes:** Enhanced fire protection measures were incorporated later in the design process at an additional cost of £250,000. The introduction of rear fire escapes to retail units and refuse disposal routes added a further £300,000 to the costs. The contractor has also added a design contingency of £176,000 for as yet unknown design development.
 - **Inflation:** Many of the suppliers will currently only hold prices for up to one month. The main contractor has therefore added

£224,000 to allow for inflation from now until the orders are placed for the subcontractor packages.

- **Additional Preliminaries:** The programme of work has extended which has resulted in additional weekly prelim costs from the main contractor of £258,000.
- **Covid-19 pandemic impact:** Current market conditions have resulted in a lack of competition / market interest. Out of 31 subcontract packages, 20 had only one return, 4 had two returns and 7 had 3 returns. The balance of the cost increase is attributed to this lack of competition/market interest.

Options Appraisal

5.9 Following the increase in scheme costs, the Project board have considered four options:

Option 1 – Do nothing – if no further work were undertaken on the project the floor-space and employment outputs claimed in order to receive the GBF funding would not be achieved. Advance would be in breach of the funding agreement and subject to 100% clawback of the funds drawn down to-date totalling £2,000,000.

Option 2 - Reduce the size or number of retail units and apartments: Reducing the scope on the Market Place back to a minimum requirement could result in construction cost savings in the region of 60% (ie £3m on total cost of £5.1m). However, this would only provide one commercial unit to enable Greggs to relocate back with one residential apartment above. The remainder of the Market Place site would be left cleared and hoarded until developed out at a future date.

The LEP has confirmed at the Bedlington Project Board on 3rd March 2022 that such a reduction in scope would be considered as a radical change to the original scheme with significantly reduced outputs and on this basis the Getting Building Funding would be at risk. As the GBF funding has already been drawn down against phase 1 and the demolition works for phase 2, then there would be a potential clawback of £2m.

In addition, Advance Northumberland are obligated to enter into a new loan agreement with the Council in relation to the £1.88m sunk costs for the site acquisition. The letting revenue from the Phase 2 units is the assumed funding source to make the relevant loan repayments. By reducing the scope to a minimum level, only 25% of the estimated

revenue would be achievable leaving a shortfall for Advance of approximately £70k per annum.

Option 3 - Request additional LEP funding: This option has been explored with the LEP at a meeting on 21 January 2022 who have confirmed no additional funding is available for this scheme.

Option 4 - Request additional NCC grant - Preferred Option: As the development is of a speculative nature for Advance with no retail or residential tenants currently lined up except for Greggs, the Advance Board consider the risk of entering into a further commercial loan to cover the funding shortfall is too great and therefore Advance is seeking additional grant funding from the Council of £2,045,268 to complete the scheme.

5.10 Preferred Option and Revised Expenditure Profile

The overall current budget for the project is £5,418,490 as detailed in the table below (of which £2,095,787 has been spent to date). The preferred option will see the completion of the redevelopment of Bedlington Market Place by March 2024 at a total cost of £7,463,758 which is an increase of £2,045,268 proposed to be funded through an additional NCC grant.

EXISTING BUDGET				
	2021-22	2022-23	2023-24	TOTAL
Phase 1	£590,000	£1,074,904		£1,664,904
Phase 2		£1,263,000	£2,490,586	£3,753,586
TOTAL COST	£590,000	£2,337,904	£2,490,586	£5,418,490
NCC Grant	£590,000	£2,128,490		£2,718,490
Get Building Grant		£150,000	£1,850,000	£2,000,000
Advance Northumberland		£59,414	£640,586	£700,000
TOTAL FUNDING	£590,000	£2,337,904	£2,490,586	£5,418,490

REVISED BUDGET				
	2021-22	2022-23	2023-24	TOTAL
Phase 1	£1,256,975	£328,601		£1,585,576
Phase 2	£382,813	£4,264,205	£1,231,164	£5,878,182
TOTAL COST	£1,639,788	£4,592,806	£1,231,164	£7,463,758
NCC Grant	£0	£4,173,180	£590,578	£4,763,758
Get Building Grant	£1,639,788	£360,212		£2,000,000
Advance Northumberland		£59,414	£640,586	£700,000
TOTAL FUNDING	£1,639,788	£4,592,806	£1,231,164	£7,463,758

5.11 The additional NCC grant for 2022/23 will be funded utilising monies from other strategic projects in delay which will be replaced in future years from the Strategic Regeneration Projects unallocated budget to deliver the schemes when they are in a position to progress as per the table below:

Bedlington Town Centre					
Scheme	2022-23	2023-24	2024-25	Total	
Bedlington Town Centre Redevelopment	1,454,690	590,578	0	2,045,268	
Strategic Regeneration Projects	0	-590,578	-1,454,690	-2,045,268	
Place Programme	-454,690	0	454,690	0	
Hadrian's Wall Programme	-500,000	0	500,000	0	
Hexham Town Centre Redevelopment	-500,000	0	500,000	0	
Net Budget Impact	0	0	0	0	

5.12 When the scheme funding was first approved in January 2021 Advance received state aid/subsidy control advice from DWF LLP who advised that the provision of the public sector funding to the Phase 2 development is a State Aid and must therefore be awarded in a compliant manner. Advance have been asked to provide updated advice to reflect the proposed increase in grant funding and any approval to the additional funding will be subject to a State aid / subsidy control compliant solution being identified and met.

CSG Recommendation

5.13 Although the Group supported the proposal to complete the Bedlington Town Redevelopment, it did have reservations regarding the significant increase in construction cost and the speculative nature of the Phase 2 build out by Advance in the current market conditions. However taking into consideration the risk of Get Building Grant clawback, Cabinet is recommended to approve an increase in grant funding of £2,045,268.

Implications

Policy	The capital programme is part of the Medium-Term Financial Plan 2022-26. The plan supports the Corporate Plan.
Finance and value for money	The report outlines proposed project allocations and amendments to the approved Capital programme. The financial implications of these proposals are outlined in the main body of the report.
Legal	There are no direct legal implications.
Procurement	In line with all other capital expenditure, the additional spend will be subject to the Council's recognised procurement procedures.
Human Resources	Not applicable.
Property	The properties affected by the proposals are identified in the main body of the report.
Equalities (Impact Assessment attached) Yes <input type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/>	Not applicable.
Risk Assessment	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.
Crime & Disorder	There are no Crime and Disorder implications.
Customer Consideration	There are no Customer Considerations.

Carbon reduction	Carbon Reduction measures have been considered within each project.
Health & Wellbeing	There are no Health and Wellbeing implications.
Wards	All wards.

Background Papers:

Medium Term Financial Plan 2022-26

Report sign off:

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

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