

Cannock Town Centre Levelling Up Fund

Committee:	Cabinet
Date of Meeting:	12 June 2024
Report of:	Head of Economic Development and Planning
Portfolio:	Regeneration and High Streets

1 Purpose of Report

- 1.1 To update Cabinet on the progress made to date with delivery of the Cannock Town Centre Levelling Up Fund (LUF) project and to confirm the necessary permissions and delegations to support the second phase of development being brought forward at pace.

2 Recommendations

- 2.1 That Cabinet note the progress made on delivery of the project.
- 2.2 That Cabinet agree to the project scope for the second phase of town centre regeneration as set out in 5.7 below and the **CONFIDENTIAL APPENDIX**.
- 2.3 That, subject to approval of the Project Adjustment Request (including a request for an extension of time) from the Department for Levelling Up, Homes and Communities, Cabinet approve permission to spend up to £8,750,000 from the capital programme allocation in respect of those works identified in 5.23 below.
- 2.4 That Cabinet decides whether it wishes the Council to accept a surrender of head leasehold interests and acquisition of a freehold interest in commercial properties in Cannock town centre, as set out in the **CONFIDENTIAL APPENDIX** to facilitate the delivery of phase 2 of the town centre regeneration scheme, subject to Department for Levelling Up, Homes and Communities approval of the PAR (including a request for an extension of time) and VAT advice.
- 2.5 That Cabinet notes and endorses the withdrawal of the Compulsory Purchase Order (CPO) for Cannock Town Centre.

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- 2.6 That Cabinet delegate authority to the Head of Economic Development and Planning in consultation with the Deputy Chief Executive - Place, Deputy Chief Executive - Resources, Head of Law and Governance and Portfolio Leader for Regeneration and High Streets to finalise all matters relating to the surrender of the head leaseholds and vacant possession process, subject to DLUHC approval of the PAR which includes a request for an extension of time.
- 2.7 That Cabinet delegate authority to the Head of Economic Development and Planning in consultation with the Deputy Chief Executive - Place, Deputy Chief Executive - Resources, Head of Law & Governance, Portfolio Leader for Regeneration and High Streets and the Levelling Up Fund Programme Board to take all steps to implement phase 2 of the programme within the agreed scope and budget. Should Cabinet be minded to progress with phase 2 (subject to DLUHC approval of the PAR which includes a request for an extension of time) members should be aware that there will be no available capacity or capital to deliver other projects across the district.
- 2.8 If Cabinet agree (based on the information in point 5.13 and subject to the recommendation in point 2.3) to proceed with accepting the surrender of the head leaseholds; freehold purchase and demolition programme; to approve proceeding with a competitive developer procurement process for the appointment of a preferred developer to deliver re-development opportunities for Cannock town centre; the detail of which will be subject to a future report to Cabinet.

Reasons for Recommendations

- 2.9 A significant amount of work has been completed to inform the detail of the second phase of this project. Detailed costings and design work have illustrated which elements of the original scheme were deliverable within the LUF funding timescales.
- 2.10 Colleagues from the Department for Levelling Up, Homes and Communities (DLUHC) have confirmed that planning and subsequent implementation of phase 2 of the Cannock Town Centre Regeneration programme should be progressed at pace.
- 2.11 The commercial transactions referred to in 2.4 will enable the Council to secure vacant possession ahead of proposed demolition works. Due to the Council negotiating agreements with the relevant landowners, the Council no longer needs to pursue a Compulsory Purchase Order (CPO) through to public inquiry.

3 Key Issues

- 3.1 In June 2022 Cabinet resolved to pursue a Compulsory Purchase Order (CPO) in respect of land required to facilitate the regeneration proposals for Cannock Town Centre. The need to pursue a CPO has had a significant impact on the

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programme which then impacts on deliverability by the LUF spend deadline. Officers have worked with the design team to undertake a review of the scheme.

- 3.2 The review considered project budget and costings, programme, deliverability, development mix and outputs have been reviewed. This process resulted in two distinct phases of development being identified, the first of which was reported to Cabinet on 28 March 2024 where permission to spend was granted.
- 3.3 The first phase of works includes activity within the current footprint of Cannock Shopping Centre. These works were capable of progressing in advance of phase 2 but remain part of the wider vision for the town centre.
- 3.4 By approving phase 2 works (subject to DLUHC approval) the Council will enable the creation of an investment opportunity (subject to the information provided in 5.13) for the private sector within Cannock town centre.
- 3.5 Should Cabinet be minded to progress with phase 2 (subject to DLUHC approval) members should be aware that there will be no available capacity or capital to deliver other projects across the district and that if they choose not to proceed then the remaining LUF budget will be lost.

4 Relationship to Corporate Priorities

- 4.1 The Cannock Town Centre Levelling Up Fund transformation supports delivery of the following priorities within the Council's Corporate Plan 2022-26:
 - i) Economic Prosperity
 - ii) Health and Wellbeing
 - iii) Responsible Council

5 Report Detail

Scope of the Project

- 5.1 In October 2021 the Council secured £20m from the first round of the Levelling Up Fund (LUF) to support an ambitious and transformational town centre regeneration scheme that would deliver:
 - i) Re-development of the former Multi-Storey Car Park and Indoor Market Hall site; creating a new cultural hub which includes the refurbishment of the Prince of Wales Theatre.
 - ii) Business workspace linked with the leisure hub as part of the same mixed-use building.
 - iii) Creation of the Northern Gateway, removing the existing subway and connecting the town centre to the bus station and Beecroft Road car park via new high quality public realm and commercial space.

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- iv) Bike hub, storage, hire and repair within a dedicated new facility to encourage active sustainable travel.
 - v) Enabling work to pay for demolition and clearance works to unlock land for the scheme.
 - vi) New service access arrangements at street-level for existing tenants with servicing rights with removal of existing roof-top servicing to facilitate re-development of the existing shopping centre.
 - vii) Retirement living complex.
- 5.2 At the point that the LUF funding bid was submitted the total cost of the scheme was £44m with a deadline for spending the LUF element of funding by 31 March 2025. In addition to the £20m LUF award at its meeting in February 2022 the Council committed a further £17.2m with the remaining £6.8m anticipated to be met by an unsecured private sector investor in respect of the retirement living complex.
- 5.3 This level of Council investment was necessary to deliver a strong Benefit-Cost Ratio (BCR) which was a prerequisite to securing the LUF award. As the project has progressed through to detailed designs up to date cost plans have been produced and with the volatility of both construction costs and inflation the total project as originally set out is not currently deliverable within the previously approved budget. Alongside this the CPO process has impacted on the delivery programme.
- 5.4 To address concerns around land availability, cost control and deliverability officers have been working closely with DLUHC colleagues over the last six months to agree a deliverable alternative scheme, the first phase of which was approved by Cabinet on 28 March 2024.
- 5.5 DLUHC have clarified with the Council that the original spend deadline for the LUF grant of 31 March 2025 relates to demonstrating substantial progress by 31 March 2025.
- 5.6 The second phase of delivery relates to a wider area within the town centre which brings forward a different scheme to that originally envisaged. Phase 2 is now focussed on creating a future redevelopment opportunity that will attract significant investment in Cannock town centre.
- 5.7 The scope of works for Phase 2 is as follows:
- i. Acquisition and demolition of the Forum Shopping Centre
 - ii. Acquisition and partial demolition of retail units along Church Street, Market Street and Market Hall Street
 - iii. Public realm works

The acquisition and demolition of commercial and retail units as set out on the plan at **APPENDIX 1** is required to facilitate future re-development of the town centre.

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- 5.8 The rationale for this phase of works is best explained in the context of the original funding bid. The Levelling Up Fund proposal set out an ambition to deliver urban regeneration and placemaking for Cannock town centre, repurposing the central area of the town centre, and addressing long term decline. The funding was intended to deliver highly visible transformational change and act as a catalyst for the longer-term revival of the town centre.
- 5.9 Since the funding was awarded in 2021, the town centre has seen further decline with just one tenant operating in the Forum Shopping Centre and an increase in vacant units along Church Street. Most notably, Boots and Barclays Bank have recently closed which is further impacting on footfall within the town centre.
- 5.10 To ensure that the Council can deliver against the ambitions of the Levelling Up Fund project and to ensure that the Levelling Up Fund can be fully committed (£9m has been committed via phase one); the Council has entered into negotiations with the long leasehold owners of the Forum Shopping Centre and retail units along Church Street and Market Hall Street plus the freehold owner of the former Barclays Bank building in Market Place (site plan attached in **APPENDIX 1**).
- 5.11 The long leasehold interests are within the Council's freehold ownership but in order to get control of the properties the Council will need to agree terms with the leaseholders for them to surrender their leasehold interests back to the Council. The relevant leases are:
- (i) Forum Shopping Centre - currently on a long lease with 88 years unexpired at a peppercorn rent.
 - (ii) Church Street/Market Hall Street - Retail units on a long lease with 75 years unexpired (though the leaseholder has an option to renew the lease until 2149). The Council currently receives 26% of the net rent received by the leaseholder from its subtenants. Even if all of the properties are vacant the Council will currently still receive £30,000 per year.
- 5.12 The Council also has the option of acquiring the freehold interest in the former Barclays Bank building in Market Place. The Council currently has no legal interest in this unit but its acquisition is necessary to facilitate the Council's future redevelopment proposals.
- 5.13 The Council's design team has developed an outline masterplan for the site which could be used as a basis for a future development brief and/or planning application which could inform a developer procurement exercise with the aim of securing a development partner. Cabinet should note that it is not guaranteed that the Council would be successful in appointing a development partner for any future scheme and the site could sit empty for many years. However, by doing nothing, there is a risk that the town centre will further decline and suffer from a lack of investment.

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- 5.14 It is anticipated that a future cleared site will be attractive for a mix of uses including residential (market housing or retirement complex), commercial and business / educational workspace. There is the potential for a scheme to create active frontages to Church Street linking town centre uses to St. Luke's Church.
- 5.15 Negotiations have concluded, and advice has been provided by the Council's commercial adviser Savills as to the cost of acquiring these interests. Cabinet should note that the Council would be acquiring above market value and subsidy control advice has been obtained to demonstrate that the Council is acting in accordance with relevant subsidy control legislation.
- 5.16 Since January 2024 officers have been working closely with the DLUHC Discovery team to accelerate delivery of town centre regeneration. Following site visits and a review of the commercial case for Phase 2 the Discovery Team have suggested that phase 2 could be considered for funding via the Levelling Up Fund grant monies, subject to a formal Project Adjustment Request (PAR). The LUF Project Adjustment Request (PAR) process concludes, depending on the magnitude of the change proposed, with a decision by Ministers. Should Cabinet be minded to progress with Phase 2, the PAR will be submitted by the Council to DLUHC. Whilst there is a commitment from DLUHC to issue a decision within a set period, the announcement of the General Election means that the timescale for a decision cannot be confirmed yet.
- 5.17 DLUHC have confirmed that officials will be able to review the PAR in advance of the final decision-making process and officials would welcome the submission of a PAR at the earliest opportunity on the understanding that decision making is suspended during the pre-election period. Alongside this, work can progress in terms of procurement and acquisition of the Forum, with the remaining acquisitions subject to DLUHC approval, however the Council would only seek to acquire the Forum should DLUHC approve the entirety of Phase 2.
- 5.18 Two of the ten units within the Forum are still leased. One tenant has already vacated their premises and the Council is in advanced negotiations with this party with the view to agreeing a compensation package. The Council is in negotiation and has an agreement in principle with the tenant still in occupation for them to vacate their unit on terms to be agreed. The Council would aim to get the centre prepared for demolition as soon as possible after taking ownership, with the view to appointing a demolition contractor as soon as practicable.
- 5.19 In relation to the Church Street/Market Place units. Three units (former Boots, Barclays Bank and former Nightclub) are already vacant. There are two other tenants in occupation which the Council would need to relocate to secure vacant possession. The aim will be to agree a negotiated position with these tenants and relocate them to alternative premises within the town centre. A budget provision has been allocated within the LUF budget to fund these costs.
- 5.20 Cabinet should note that the units along Market Hall Street would not be earmarked for demolition and would be retained by the Council as commercial

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lettings and managed externally. The Council will need to consider whether to retain these units long term or to consider onward disposal to a third party.

- 5.21 Cabinet is therefore asked to approve the proposals to purchase the Forum Shopping Centre and adjacent retail units on Church Street with the view to demolishing these units to create development sites for the future and act as a catalyst for the transformation of the town centre. In addition, Cabinet is asked to approve the proposals to purchase retail units along Market Hall Street and Market Place. The plan in the **CONFIDENTIAL APPENDIX** identifies the relevant units. Should approval from Cabinet be granted; **properties will not be acquired until DLUHC has determined and approved the PAR.**
- 5.22 Subject to finalising agreements to acquire the units, the Council will no longer need to progress a Compulsory Purchase Order (CPO) process for Cannock town centre. Therefore, having regard to the imminent risk of public inquiry costs being incurred, the Leader approved an urgent decision to formally withdraw the CPO and notify the Secretary of State of the Council's decision; reducing further costs and reputational risk of participating in a public inquiry (scheduled for late July).
- 5.23 The following programme for Phase 2 demonstrates that whilst substantial progress by March 2025 is achievable this is a challenging programme. As such a request for an extension of time will form part of the Project Adjustment Request to DLUHC. Quarters quoted relate to financial years:

Milestone	Timescale	Notes
Commercial units for demolition		
Complete acquisitions	Q2 2024/5	
Achieve vacant possession	Q3 2024/5	
Secure planning permission for demolition	Q4 2024/5	Preparatory work already being undertaken
Appointment of demolition contractor and works commence on phased basis	Q4 2024/5	Combined procurement with Phase 1 works

Commercial units for retention		
Complete acquisitions	Q2 2024/5	
Public Realm Works		
Finalise design	Q2 2024/5	
Secure planning permission for works	Q3 2024/5	
Appointment of contractor and works commence	Q4 2024/5	

Permission to Spend

5.24 Cabinet are asked to agree permission to spend for the LUF capital works to deliver the land acquisitions, demolitions, and improvement works for each of these elements is set out below.

Work Package	Estimated Cost £
Acquisition of commercial units (leasehold and freehold interests and securing vacant possession)	£3,800,000
Demolition and associated compliance works	£1,600,000
Public realm works	£3,000,000
Contingency @ 10% on works costs	£350,000
TOTAL	£8,750,000

5.25 On the basis that the costs quoted above are estimates subject to inflation and detailed procurement, Members are asked to provide permission to spend £8,750,000 from the capital programme in respect of the Phase 2 land assembly and works. With the approval of phase 2, the Council will be able to commit £18m of capital spend towards Cannock Town Centre regeneration.

5.26 Following a recommendation from the Council’s commercial advisor, Savills, Cabinet are asked to agree permission to spend to cover compensation costs plus professional fees and associated legal costs to achieve vacant possession of the relevant units within The Forum Shopping Centre and Church Street. Details of this and the supporting information around acquiring

head leases for The Forum and Church Street/Market Hall Street/Market Street properties are set out in the **CONFIDENTIAL APPENDIX**.

- 5.27 There will be additional revenue budget implications as a result of delivering the phase 2 works. Whilst tenants continue to occupy units within the Forum and the retail units on Church Street, the Council would remain liable for all costs associated with managing and maintaining these units until vacant possession is obtained and demolition works commence. Some of the revenue costs can be quantified and will create a pressure on the Council's budget. Other costs are unquantified at this stage and further work will need to be undertaken to quantify these revenue costs to the Council.
- Business rates liabilities for 2024/5 associated with units on Church Street /Market Hall Street/Market Place and the Forum Shopping Centre - based on rates for the current financial year the void rates liability is estimated at £101,361 for the period prior to demolition (less income of £124,557 based on existing tenancies) and chargeable at £28,529 per month (less income of £10,958) until demolition works commence.
 - Service charges - the Council would be liable for service charges on any units that are vacant - it is estimated that the service charge liability for void units is £47,822.
 - Costs in relation to the management of the retained units along Market Hall Street. It is anticipated that the Council will need to bear the cost of any landlord improvements required to the properties. An initial estimate for external support on tenancy management, facilities management and utilities costs is £57,000.
 - Security costs - based on the indicative programme set out in 5.22 the Council should secure ownership of those units earmarked for demolition by Q2 2024/5 with demolition programmed to commence Q4 2024/5. During demolition, as part of the insurance requirements placed on the contractor, the responsibility for security arrangements moves away from the Council. For the intervening 7 months security costs are estimated in the region of £30,000.
 - Insurance - Whilst construction specific insurance will be required, in the first instance from acquisition an average figure of £120 per property has been applied (including insurance premium tax). The additional annual insurance cost is estimated at £2,280.
 - Income generated through ongoing letting of Market Hall Street properties. A schedule of existing tenancy arrangements is included in the

CONFIDENTIAL APPENDIX. Cabinet should note that a number of these tenancies are due to end in 2025 / 26 and the Council will be responsible for negotiating lease renewals and/or securing new tenants.

- The demolition of The Forum and Church Street units will remove a liability to the Council and risk to the Council in terms of structural and security issues and any further mothballing costs.
- Until full building surveys and maintenance records are received an assumption has been made that the service charges already in place are sufficient to cover any repairs or maintenance however this position may change.

5.28 The opportunity to deliver phase 2 of the project needs to be considered against the need to deliver regeneration for Cannock town centre and the Council's challenging financial position going forward. Cabinet should note that progressing phase 2 will be a significant programme of work and create significant risks to the Council, both reputational and financial. Should Cabinet be minded to progress with phase 2 members should be aware that there will be no available capacity or capital to deliver other projects across the district.

5.29 Cabinet should note that officers are looking at options to fully utilise the £20m of LUF funding, this will be subject to a further report to Cabinet.

6 Implications

6.1 Financial

The review of the programme scope has resulted in a phased approach to delivery. The council has a capital budget of approximately £27 million pounds available in relation to the revised LUF project, this includes £20 million of LUF funding, £6.6m of council funding and £0.4 million of UKSPF.

In respect of this funding the Council has spent or allocated funding to date including phase 1 of £10.234 million.

The report seeks permission to spend for phase 2 of £8.7 million, based on the overall requirement of a 20% match contribution to the levelling up grant used this would give a grant usage for LUF including costs to date and phase 1 of £15.187 million and £3.797 million of council funding and UKSPF.

It should be noted that to ensure this grant can be claimed from Levelling Up the council will need to be mindful of the current grant deadline of the end of March 2025 and that as set out in paragraph 5.16 there is a requirement on the Council to submit and receive approval of a Project Adjustment Request before all works can be committed.

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As well as the challenging deadline for capital spend there is also a significant implication in respect of the revenue budgets.

The known net additional revenue costs are set out in the table below, it should be noted that these do not include any potential maintenance costs which may be required as there is no condition survey information available on the properties at this time, we also do not know what type of lease is held by the current tenants in respect of repairs.

	Pre demolition cost (assumed June to December)	Post demolition Annual cost 25/26	Post 25/26 annual (assume units not relet at tenancy end dates)
	£'000	£'000	£'000
Passing rent	(126)	(143)	(15)
Current budgeted income	33	57	57
Vacant business rates liabilities	134	49	97
Service charge (empty units- cabot only)	28	13	23
Management of units	33	29	29
Security	30	-	-
Insurance	2	2	2
Net additional revenue cost	134	7	193

As can be seen from the table above this gives an additional net cost to the Council of £134,000 prior to demolition for the period of seven months, any delay from December will give an additional cost of £19,000 per month. With regard to the tenancies currently let there are only two out of the eleven units which will remain with the council post demolition (subject to any other party taking them on) that have a lease end date later than 2025/26 financial year, the additional cost to the Council should these not be relet is £193,000 per annum.

The phase 1 report also had additional revenue costs for the council of £41,000 in relation to business rates and reduced car parking income of approximately £4,000 per week, at present we are still not able to quantify the timeframe for those works.

6.2 Legal

The Cannock Town Centre Regeneration programme is already identified within the Council's capital programme but Cabinet approval is required for permission to spend.

As the Levelling Up Fund award is a grant Officers need to ensure that all associated grant conditions are monitored and met.

All elements of procurement must follow the relevant procurement rules when

awarding contracts.

6.3 Human Resources

The Council has procured project management services to ensure that the project delivers to budget and on time, the cost of which will be covered via existing budgets. Further specialist services in relation to commercial and legal advice, demolition consultancy and design / planning have been procured to support the delivery of the project.

It should be noted that any other regeneration projects to be managed by the Economic Development team will impact on capacity available to deliver this programme.

6.4 Risk Management

A full risk register is managed as part of the established governance arrangements and forms part of the quarterly performance returns submitted to DLUHC.

The greatest risk to the Forum and Church Street demolition project is cost control. Given the unpredictability of inflation and the costs of construction an additional contingency has been built into the cost plan (enclosed as a **CONFIDENTIAL APPENDIX**).

The timescales for spending the LUF capital contribution have been impacted significantly by the CPO process however DLUHC's position on this has now been clarified to an expectation of contractually committed spend by 31 March 2025. Confirmation has been received that DLUHC will not seek to clawback any monies that have been properly incurred in terms of delivering the programme, ensuring that the Council can proceed with pace and with confidence.

The demolition works proposed will impact on neighbouring businesses and pedestrians accessing the town centre. Alternative access routes, communication plans and on-site signage will all be used to mitigate the impacts, however, there remains a risk of compensation claims during the works. This short-term risk has to be balanced against the long-term benefits of the regeneration scheme.

Acquiring properties that may become vacant whilst owned by the Council creates a potential additional revenue burden to the Council. The maximum potential liabilities that would be created have been considered as part of the rationale for acquiring the properties. Details of this are set out in the **CONFIDENTIAL APPENDIX**.

All of these risks have been considered in the context of the benefits that the project as a whole can deliver for Cannock Town Centre. If the Council were

unable to implement this LUF supported scheme it may impact the Council's ability to secure future funding meaning that any regeneration of the town centre, and the associated positive outcomes for the local economy and community, would rely wholly on private sector investment which is not currently forthcoming.

6.5 Equalities and Diversity

An Equality and Impact Assessment is in place for the project - there are no direct implications for this report.

6.6 Health

It is recognised that a redevelopment of this scale will have significant impacts on many of the wider determinants of health and the Project Delivery Team will work with colleagues and partners to ensure opportunities to reduce health inequalities are maximised.

6.7 Climate Change

This report relates primarily to land acquisition and demolition works rather than construction however climate change will be considered where appropriate within the procurement process.

7 Appendices

Appendix 1 - site plan

Confidential Appendix

8 Previous Consideration

Cabinet: 2 February 2022, 16 June 2022, 15 June 2023, 28 March 2024

9 Background Papers

None

