

Economy & Growth Committee

14 November 2023

Royal Arcade Phase 2, Crewe

Report of: Peter Skates, Acting Executive Director - Place

Report Reference No: EG/18/23-24

Ward(s) Affected: Crewe Central ward.

Purpose of Report

1. To allow committee to further consider the position on the delivery of Phase 2 of the Royal Arcade development scheme in Crewe town centre and the options for the next steps, so that a preferred option can be agreed and progressed.
2. The report primarily relates to the Council's Corporate Plan:

Aim: *Green - We will lead our communities to protect and enhance our environment, tackle the climate emergency and drive sustainable development*

Priority: *A thriving and sustainable place - A great place for people to live, work and visit.*

Executive Summary

3. The Council has previously taken several decisions relating to redevelopment of the Council-owned Royal Arcade site in Crewe town centre, which forms a key element of its wider Crewe town centre regeneration programme.
4. A development agreement between the Council and Peveril Securities Ltd (PSL) had been entered into in October 2020, which would deliver a scheme in two phases.
5. Phase 1 of the redevelopment, comprising a new bus station and multi-storey car park, is well advanced and is expected to be completed in Spring 2024.

6. Phase 2 of the Royal Arcade scheme, comprising the proposed commercial elements, was expected to commence following the completion of Phase 1. At the point that the development agreement was entered into, this was viable. However, since that point, viability has been seriously impacted by the Covid pandemic, post-Covid construction cost and supply issues and other economic influences.
 7. An explanation of the issues and options to take forward redevelopment of the site is provided.
 8. The report recommends that the committee:
 - note the assessment of the current viability challenges of Phase 2 of the Crewe town centre Royal Arcade redevelopment scheme ('Phase 2'), and consider the options for future use/development of the site;
 - establish a 'member reference group' for the purpose of further consultation with elected members and delegate responsibility, where necessary, to the Executive Director – Place and Director of Governance & Compliance to:
 - > advance plans for meanwhile uses (Option 4) and undertake further assessment of options for 'meanwhile' uses for the site, including commissioning feasibility studies, etc.;
 - > procure/appoint third parties and/or enter into lease agreement(s) with parties for an initial period of up to five years for the operation and occupation of the site, with a Council option to extend;
 - > utilise the remaining budget in the Council's Medium Term Financial Strategy already allocated to the Crewe Town Centre Regeneration Programme, and/or other Towns Fund grant allocations, for the purposes of implementing the preferred option(s), including the procurement/purchase of any works, equipment, infrastructure and professional services.
 - > continue to explore alternative funding opportunities for the scheme as originally proposed (Option 1) and review options for the longer-term development of the site (Option 3), including undertaking public consultation and viability assessment.
- subject to the Budget Policy & Framework Procedure Rules and Finance Procedure Rules set out in the Council's constitution; and
- delegate responsibility to the Executive Director – Place and Director of Governance & Compliance to, where necessary and at the appropriate time, terminate the Council's development agreement

with Peveril Securities Ltd (PSL) and to take any decisions necessary related to this.

RECOMMENDATIONS

The Economy & Growth Committee is recommended to:

1. Note the assessment of the current viability challenges of Phase 2 of the Crewe town centre Royal Arcade redevelopment scheme ('Phase 2'), and consider the options for future use/development of the site;
2. Establish a 'member reference group' for the purpose of further consultation with elected members and delegate responsibility, where necessary, to the Executive Director – Place and Director of Governance & Compliance to:
 - a) advance plans for meanwhile uses (Option 4) and undertake further assessment of options for 'meanwhile' uses for the site, including commissioning feasibility studies, etc.;
 - b) procure/appoint third parties and/or enter into lease agreement(s) with parties for an initial period of up to five years for the operation and occupation of the site, with a Council option to extend; and
 - c) utilise the remaining budget in the Council's Medium Term Financial Strategy already allocated to the Crewe Town Centre Regeneration Programme, and/or other Towns Fund grant allocations, for the purposes of implementing the preferred option(s), including the procurement/purchase of any works, equipment, infrastructure and professional services.
 - d) continue to explore alternative funding opportunities for the scheme as proposed (Option 1) and review options for the longer-term development of the site (Option 3), including undertaking public consultation and viability assessment.

subject to the Budget Policy & Framework Procedure Rules and Finance Procedure Rules set out in the Council's constitution; and
3. Delegate responsibility to the Executive Director – Place and Director of Governance & Compliance to, where necessary and at the appropriate time, terminate the Council's development agreement with Peveril Securities Ltd (PSL) and to take any decisions necessary related to this.

Background

1. The Royal Arcade site is a council-owned site in Crewe town centre, which was purchased in 2016. The Council's intention was to redevelop the site to deliver a new mixed-use development with a leisure focus, 'anchored' by a new cinema.
2. Reflecting national changes in retailing, the approach recognised the shift in online and out-of-town retailing and was intended to help diversify the town centre offer, providing a wider range of attractions for people to visit.
3. The scheme forms a key part of a much larger £100m+ town centre regeneration programme that incorporates over 20 projects, mainly delivered by the Council, with funding secured from the Government's Future High Streets Fund, Towns Fund, UK Shared Prosperity Fund as well as other sources such as the National Lottery Heritage Fund and the council's own budgets. This funding is being used to help diversify uses in the town centre, creating other amenities that help to drive footfall of local residents and visitors.
4. In October 2020, following a procurement process and commercial negotiations, the Council entered into a development agreement for the Royal Arcade site with Peveril Securities, with a scheme expected to be delivered in two phases – Phase 1 being a new bus station and multi-storey car park, and Phase 2 being the commercial elements of scheme.
5. Phase 1 is well advanced and is expected to be completed in Spring 2024, taking account of some anticipated delays due to an incident on the site in June 2023. The bus station will be a significant improvement of the previous arrangement, with an enclosed concourse/waiting area and public toilets. The 389-space car park will provide a cleaner, safer environment for users, creating new capacity and freeing-up other surface car parks in the town centre to support their regeneration (e.g., Lyceum Square – Ly², Oak Street – YouthZone, Delamere Street – residential).
6. Phase 2 was expected to commence following the completion of Phase 1. At the point that the development agreement was entered into the scheme was viable and was expected to achieve the developer's minimum financial return of 15%. This was in the context of, and under the assumption that, market conditions and build cost inflation post the Covid 19 Pandemic would not be materially different to those which existed before the outbreak. However, over the following three years, the commercial development sector has been significantly impacted, with:
 - a) sustained double-digit inflation in construction costs, with material costs forecast to increase further, albeit at a reduced rate of growth;

- b) institutional investors withdrawing from purchasing town centre schemes without a 'gilt-edged' security base – all schemes of this nature are now requiring more public sector investment/ commitment;
 - c) a decline in town centre investment values by some 20-25% over the past two years due to the deterioration in investor sentiment;
 - d) the cost-of-living crisis hitting consumer confidence and, as a result, retail/leisure spend is adversely challenged. This has made tenants/operators less confident, reduced demand and competitive tension for space, and occupiers are willing only to take on new space on terms advantageous to their business. They therefore continue to seek cheaper rents, longer rent-free periods, and high levels of contributions towards their fit-out;
 - e) market and investment confidence in Crewe impacted by uncertainty around the delivery of HS2 High Speed Rail, and subsequently the cancellation of HS2 by government.
 - f) the war in Ukraine and wider economic concerns continue to be a destabilising force to market sentiment with little prospect for the foreseeable future that investor demand for town centre leisure led mixed use schemes will improve without significant additional public investment; and
 - g) increases in interest rates which along with a more cautious bank lending sector has adversely affected the cost and availability of finance for development.
7. Together, these are impacting heavily on the viability of commercially led leisure and retail developments, not just in Crewe, but across the UK. Throughout this period Peveril Securities, and their development managers, Cordwell Property, have been proactive in engaging with the Council. This includes identifying a new cinema operator after Empire Cinemas withdrew during the pandemic, as well as identifying means of reducing the growing viability gap by exploring other development options and funding mechanisms.
8. Through this dialogue, and taking the advice of the council's appointed advisers, Cushman & Wakefield (commercial property) and Browne Jacobson (solicitors), officers have regularly updated Economy & Growth committee up to this point, at which four options have now been identified for Phase 2.

Option 1: Proceed with the development – but identify other sources of public sector funding to address the viability gap.

Option 2: grant a 12 - 24 month extension to the existing development agreement with Peveril Securities to let the market settle and provide a temporary meanwhile use.

Option 3: Terminate the development agreement and consider the potential for a smaller scheme and/or alternative uses, including potential sale/lease (e.g., housing, hotel, offices), other council/public sector development opportunities, or retain some/all for public use (e.g., public space/park).

Option 4: Terminate the existing development agreement and seek to use the site as an urban/ pocket park or other 'meanwhile uses'. 'Meanwhile uses' are temporary uses for land/properties that are expected to have a longer-term development outcome. They are frequently used to add vibrancy to town centres through a range of different commercial and non-commercial activity. Their temporary form can allow for quicker changes to the type of use and so be more responsive to local demand and provide opportunities for seasonal activities.

9. It is noted that some of these options are not mutually exclusive (e.g., Option 4 - a 'meanwhile' use could still allow for Option 3 - longer term options for development of the site.

10. Officer's assessment of these options is provided in Table 1 below.

Table 1: Options assessment

Option	Officer advice <i>(Legal implications identified in Appendix 3 – Part 2).</i>	Proposal
<p>Option 1 Proceed with the development – but identify other sources of public sector funding to address the viability gap.</p>	<p>Officers have engaged with other bodies including Government to explore the potential of other funding sources that support the development as proposed but none have been identified at this stage. Given the economic climate it is felt that this is unlikely to change in the near future, although opportunities may arise as a result of the Government's decision to cancel Phase 2 of HS2.</p>	<p>Continue to explore external funding opportunities but not proceed with the development.</p> <p>Representations are being made to government following the decision to cancel HS2 and seek mitigation for the loss of investment to Crewe and wider Cheshire East. Supporting the development of Phase 2 would be an important mitigation.</p>
<p>Option 2: grant a 12-24 month extension to the existing development agreement with Peveril Securities to let the market settle and provide a temporary meanwhile use.</p>	<p>Officers have engaged with Peveril to allow them to identify how the proposed scheme could be delivered, without any public funding, within the next 24 months. Although Peveril have been proactive in exploring opportunities and models of delivery, they are unlikely to satisfy the terms of</p>	<p>Terminate the development agreement with Peveril Securities.</p>

	the development agreement in terms of viability.	
Option 3: Terminate the development agreement and consider the potential for a smaller scheme and/or alternative uses, including potential sale/lease (e.g., housing, hotel, offices), other council/public sector development opportunities, or retain some/all for public use (e.g., public space/park).	<p>Officers' view is that:</p> <p>a) a smaller scheme may be capable of being delivered, but retaining a cinema 'anchor' may actually be less viable with a smaller scheme, unless the form of construction is a low-cost option;</p> <p>b) a smaller scheme may be capable of being delivered, albeit likely to require public sector funding to achieve a level of commercial viability. Retaining a cinema 'anchor' may compound the viability challenge due to the high fit out costs and operator expectations over leasing incentives. This position is unlikely to change even if the form of construction is a low-cost option;</p> <p>Officers have also been engaged with other public sector partners to explore the scope for locating new public sector facilities on the site. It is noted that this site could potentially have accommodated other projects, such as the History Centre or the Youth Zone, but the timing of these projects now rules these options out, as they are committed to other locations in the town centre. There has been some positive interest in other uses, however, such as healthcare, particularly given a national policy preference to deliver Health and Wellbeing Hubs in accessible public locations. This continues to be explored.</p> <p>In considering this option further, the Council would be required to:</p> <p>i) undertake further market testing, to understand the scope for different uses and any viability gap; and</p> <p>ii) undertake further consultation with residents, to understand the appetite for different uses on this site.</p>	<p>Not to proceed with a new procurement for a commercial scheme at this point, but to monitor the national and local economic/fiscal position such that a commercial scheme may become viable without public sector funding.</p> <p>Also, to continue dialogue with public sector partners, to explore the scope for creating new public sector facilities on the site which may also improve the viability of commercial uses if formed as part of the same development.</p>
Option 4: Terminates the existing development and seek to use the site as an urban/pocket park or other 'meanwhile' uses.	Officers have researched the opportunities that would be considered suitable 'meanwhile' uses (i.e., capable of being established on site within 6-12 months of being vacated), this has included engaging with a number of specialist designers and operators active in creating 'meanwhile' uses. A range of options are available, although all will require	<p>To undertake further feasibility to explore 'meanwhile' use options, models, and viability further, potentially through a competitive or collaborative approach between different parties.</p> <p>Realistically, medium term meanwhile uses would require more work in terms of planning,</p>

	<p>initial capital funding (e.g., infrastructure, purchase of temporary structures and equipment). Some would require revenue funding also to address maintenance, security, etc, which would be more of a budgetary challenge for the council.</p> <p>The consensus view is that the Phase 2 area should be sub-divided into 2-4 different zones which could accommodate a combination of different, but linked, uses including play/recreation/seating space, medium-term commercial space alongside more flexible leisure space (temp ice rinks, trampolines). Officers also recognise the importance of designing spaces suitable for all, including girls/young women, children and older people, where there is currently a lack of facilities in the town centre.</p>	<p>procurement, delivery, so it may be necessary to provide a shorter-term solution ahead of the meanwhile uses being implemented.</p> <p>Knee-high wooden fencing posts may need to be installed to replace the hoarding panels. However, a pedestrian route through from the junction of Victoria Street/Queensway through to the entrance of the new MSCP should be created to improve accessibility. This should be a smooth flat surface, ideally illuminated to promote safety and usage.</p>
--	--	---

11. This report recommendations primarily focus on option 4 (i.e. authorise officers to consider the ‘meanwhile use’ options identified and progress in developing proposals for meanwhile uses on the site, covering a period of up to five years), whilst continuing to investigate other opportunities for funding of the original scheme (option 1) and exploring opportunities for alternative forms of development (option 3).
12. In recent weeks, Crewe has received the disappointing news of the cancellation of HS2 north of Birmingham. Undoubtedly, this has an impact on opportunities for the future regeneration of the town centre, but a large number of projects are coming forward to implementation through funding from the Future High Streets Fund and Towns Fund.
13. As stated, the Government’s decision to cancel HS2 will have a significant impact on future investment in Crewe, and strong representations are being made to Government which may present an opportunity to secure additional funding for the town centre. So, option 1 would remain as a potential option.
14. The Council has previously taken several decisions relating to redevelopment of the Council-owned Royal Arcade site in Crewe town centre. These are summarised in Appendix 1.

Consultation and Engagement

15. The original objectives for the Royal Arcade development form part of the Crewe Town Centre Regeneration Delivery Framework which was informed by public consultation in 2015. Since then, there has been further consultation through the development of the Crewe Town Investment Plan (2021) and prior to the hybrid planning application for Royal Arcade (2021).
16. Officers have provided regular confidential verbal updates to the Economy and Growth Committee, Leader, and Corporate Leadership Team.
17. Officers have engaged with a range of third parties in developing the 'meanwhile' proposals, and these will be tested further with key stakeholders.
18. Longer-term development options for the site will be the subject to further feasibility assessments and public consultation.

Reasons for Recommendations

19. The Council is aware that leisure sector occupier interest in Crewe is robust, with a cinema operator and other leisure and restaurant operators actively considering taking leases in the scheme. However, sustained double-digit inflation in construction costs and increases in interest rates has adversely affected the cost and availability of finance for development. Set against the terms of any prospective occupation – including the rent likely to be realised, this evidences a significant financial viability gap.
20. Terminating the development agreement with Peveril Securities Ltd at this point would render unlikely any similar development being delivered on this site in the next five years.
21. The site will continue to be used as a site compound to facilitate the on-going construction of the adjacent Phase 1 scheme, at least until Spring 2024. Without any further intervention the site will remain cleared to ground with a loose aggregate finish. The perimeter hoarding will be removed, and it is expected that knee-high timber fencing be installed around the perimeter.
22. Council officers have engaged, on a confidential basis, with a range of third parties that have experience in designing and operating 'meanwhile' uses in similar locations. There are unique elements to each, which are commercially sensitive, but also common ones, including:
 - (b) a need for a clear objective for meanwhile uses; in this case to generate activity and footfall to add to the town centre offer in a prime location that is highly accessible to local residents;

- (c) ensuring an accessible route between the town centre core (to the east of the site) to the MSCP and bus station, by creating an additional pedestrian route between the two areas.
 - (d) a combination of uses, rather than a single use, with a combination of fixed dwell spaces and animated spaces;
 - (e) a need to ensure that dwell spaces are designed in a manner that are attractive and safe for all groups and cannot be dominated by a single group, with particular reference to spaces for girls.
 - (f) a need to actively manage and/or curate uses on the site with at least some elements changing throughout the year;
 - (g) a recognition that there will be both initial capital outlay and on-going revenue implications, but that if these costs are not funded by the council, then there is a need for a more commercial model operated by one or more third parties, so that they can generate income to cover any costs;
 - (h) a commercial model would require a lease of around five years with a nominal rent and a capital investment by the Council in basic infrastructure to enable meanwhile uses (e.g., surface, utility connections, power, water, drainage).
23. It is the intention that proposals will be developed further, including a more detailed assessment of feasibility, operational models, financial implications, and risks. Approximately £1m of capital funding remains in the Council's Medium Term Financial Strategy already allocated to the Crewe Town Centre Regeneration Programme, and it is intended that some or all of this funding and/or other grant allocated within relevant Towns Fund projects be used for the purposes of implementing the preferred option(s), including the procurement/ purchase of any works, equipment, infrastructure and professional services. It is recommended that more detailed options and proposals are consulted upon further with a 'member reference group'.

Other Options Considered

24. An assessment of the main options is provided in Table 1. An additional option is 'do nothing.' This would have significant implications for the Council, including:
- (i) Costs associated with holding a site, e.g., statutory compliance, health, and safety, maintenance, and security; and

- (j) Reputational implications for the council in relation to residents, businesses, and investors in failing to utilise a key property asset in a prominent location.

Implications and Comments

Monitoring Officer/Legal

- 25. If the Council wishes to terminate the Council's development agreement with PSL so that Phase 2 is not proceeded with; the Council's lawyers Browne Jacobson have indicated that under the terms of the Development Agreement the Council is free to do so without any penalty costs arising; though costs may be incurred in relation to securing the site once PSL has relinquished control.
- 26. If when it comes to considering the future of the site, the Council wishes to engage with any third parties to facilitate any "meanwhile use;" Legal needs to review the same and advise alongside the Procurement team on any implications arising under and in compliance with the procurement regulations; as well as any requisite property advice.

Section 151 Officer/Finance

- 27. After phase 1 of the project has been completed there is £1m that remains in the budget. Given the Council's current financial situation, costs need to be kept to a minimum to make the site safe whilst a decision is made on its future. Only expenditure that is classed as essential should be considered at this time.
- 28. Any decision made should result in the best outcome for the Council as a whole and other options for the site should be considered in line with the mitigations listed in the First Financial Review Report due at Corporate Policy Committee on the 5 October 2023. This includes a review of the Council's for disposal or to be re-purposed to help mitigate the current financial pressures.
- 29. At present, there are no costings in the report for the options listed above (table1). Detailed costings, including both capital and revenue implications for the council, would need to be provided before Finance can make a full assessment of each option and whether the options are viable or not. Any decisions would have to be affordable for the Council and form part of the Business Planning process for the 2024/28 Medium-term Financial Strategy and approved at Full Council in February 2024.

Policy

- 30. The report primarily relates to the Council's Corporate Plan:

Aim: Green - *We will lead our communities to protect and enhance our environment, tackle the climate emergency, and drive sustainable development*

Priority: A thriving and sustainable place - *A great place for people to live, work and visit.*

Any proposed development in Crewe town centre has a significant impact on the local communities; they provide a location and facilities best served by public transport and the highway network, and so are considered key by residents, whether they be accessing them for retail, leisure, or other purposes. Town centres are also central to residents' sense of place and play a significant role in people's social history and community well-being.

Equality, Diversity, and Inclusion

31. The recommendations in this report have no immediate or direct equality, diversity, or inclusion implications, although some specific meanwhile uses being explored may require an Equality Impact Assessment to understand how particular groups of residents/visitors can access or utilise any public facilities.

Human Resources

32. The recommendations in this report have no human resource implications.

Risk Management

33. Delivering a short-medium term use for the site will involve additional time (for consultation, design, etc.) and cost (capital cost, revenue maintenance). Also, in creating a new public space, albeit temporary, there may then be a future need to consult on disposal of public open space, to enable any future redevelopment options.

Rural Communities

34. The recommendations in this report have no direct implications for rural communities, although it is recognised that there is a strong relationship between small-medium sized towns and their rural hinterland, from the perspective of both consumers, retailers, and businesses in their supply-chain.

Children and Young People including Cared for Children, care leavers and Children with special educational needs and disabilities (SEND)

35. The recommendations in this report have no immediate implications for Children and Young People including Cared for Children, care leavers and Children with special educational needs and disabilities. However, the options identified in this report could have significant opportunities for

children and young people. These will be more fully considered as proposals are developed.

Public Health

36. The recommendations in this report have no direct implications for public health, but it is expected that any future development will, overall, have positive impacts on the wellbeing of Cheshire East residents, particularly those reliant on public transport to access services.

Climate Change

37. The recommendations in this report have no direct or immediate implications for climate change but it is expected that any future Phase 2 development will, overall, help the Council to reduce its carbon footprint and achieve environmental sustainability by reducing energy consumption and promoting healthy lifestyles.
38. Phase 2 already has outline planning consent with a condition that at least 10% of the energy supply of the development shall be secured from decentralised and renewable or low-carbon energy sources.

Access to Information	
Contact Officer:	Jez Goodman Development & Regeneration Delivery Manager jez.goodman@cheshireeast.gov.uk
Appendices:	Appendices 1, 2 3 and 4 - Not for Publication by virtue of paragraphs 3, 5 and 7A of Part 1 of Schedule 12A of the Local Government Act 1972.
Background Papers:	None