

Agenda Item 8

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Ward (s) affected	Leatherhead North Leatherhead South	Key Decision	Yes
Subject	Recommendations arising from the Development Strategy and Viability Study and next steps for the Swan Centre, Leatherhead		
Recommendations			
<p>(1) That the recommended Master Plan for the Swan Centre is approved; and</p> <p>(2) That £30,000 be allocated from the Regeneration Reserve for the purpose of undertaking soft-market testing with potential delivery partners and sourcing associated specialist legal and financial/tax advice to mitigate market and delivery risk.</p>			

<p>Executive Summary</p> <p>Following the decision of Cabinet on 27 June 2017, officers in the Investment and Regeneration team commissioned Cushman Wakefield Debenham Tie Leung Ltd to undertake the Development Strategy and Viability Study (Study) for the Swan Centre.</p> <p>The Study has determined a recommended potentially viable mix of uses for the Swan Centre. This responds to market conditions, specifically the challenges faced by UK High Streets and an updated potential market position for Leatherhead. It also considers the constraints of the site, the functionality of the existing Swan Centre and MVDC's property ownerships.</p> <p>Following a number of architectural and financial appraisals, a recommended Master Plan for the Swan Centre has been developed.</p> <p>In light of the ongoing challenges faced by retail and wider economic uncertainty, it is recommended that a period of soft market testing is now undertaken with a number of potential development partners who specialise in this field. This would test the market appetite for partnering with MVDC ahead of committing to a potentially lengthy and expensive procurement process, and inform the likely legal and commercial structures available to implement such a redevelopment scheme.</p>

Corporate Priority Outcomes

PROSPERITY - A vibrant local economy with thriving towns and villages

The proposed Master Plan is for a phased remodelling of the Swan Centre as a catalyst to revitalise the High Street. This is a key component to drive the transformation of Leatherhead Town Centre and the proposals support the market-town culture.

The Cabinet has the authority to determine the Recommendations

1.0 Background

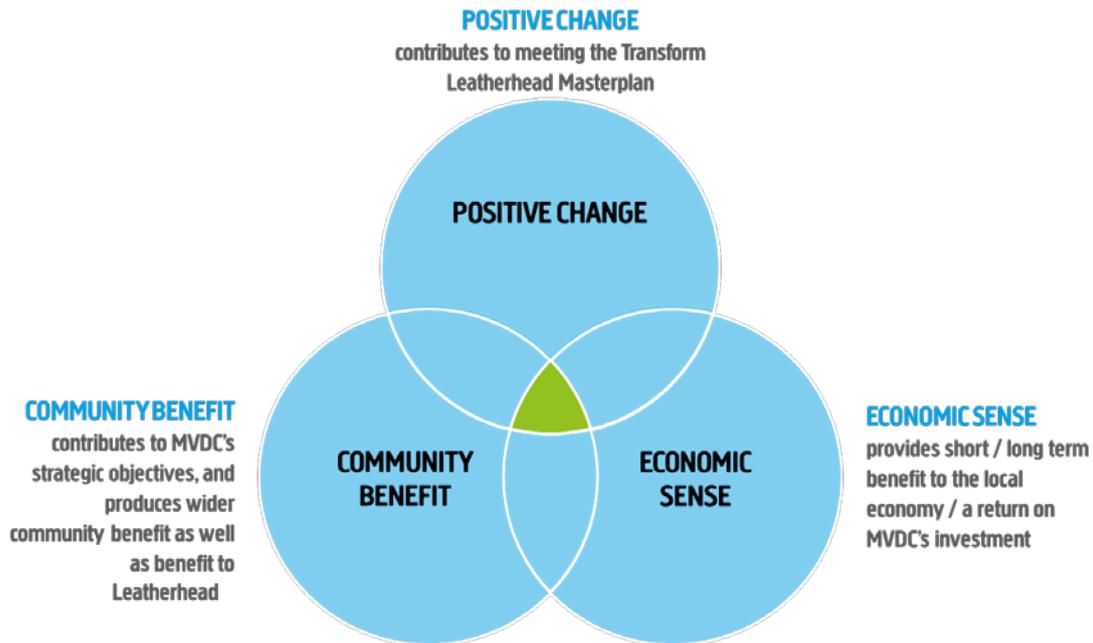
1.1 The Transform Leatherhead Masterplan adopted by the Council in July 2016 identified a number of core areas for significant development / regeneration within the town and sets out:

- The ambition for the High Street Retail and Leisure Quarter is to enhance its role as the heart of the town and a focal point for the majority of the retail and leisure offer.
- The Swan Centre dominates the retail offer in the town at present and is a key anchor to the wider historic High Street.
- The short-comings of the Swan Centre need to be addressed through remodelling of the centre and other development to establish a stronger anchor role for the eastern end of the High Street.

1.2 There are three considerations which inform the approach to project delivery:

- Positive Change: meeting the Transform Leatherhead Masterplan
- Economic Sense: benefit to the local economy and a return on investment
- Community Benefit: contribution to MVDC's strategic objectives and benefitting Leatherhead and the wider community.

1.3 The optimum outcome is represented by the area shaded green; however some projects may deliver against two of the three considerations.



- 1.4 In June 2017, the Executive approved the allocation of up to £190,000 from the Transform Leatherhead Reserve to commission a Development Strategy and Viability Study (**Study**) for the Swan Centre, with supporting surveys.
- 1.5 The core objective of the Study was to deliver a robust, evidenced based, fully researched and viable development option for the Centre as a catalyst to revitalise the High Street.
- 1.6 The Study was tendered in accordance with public procurement legislation and MVDC's corporate standing orders and included a detailed brief and rigorous quality assessment criteria. The tender process attracted 9 detailed submissions from multi-disciplinary teams of varying price and quality. The Most Economically Advantageous bidder was Cushman Wakefield Debenham Tie Leung Ltd, who was awarded the contract in May 2018.
- 1.7 The multi-disciplinary team comprised Cushman & Wakefield (C&W), CGL architects supported by Conisbee Engineers. The team demonstrated an excellent understanding of the challenges faced by town centres, and offered a senior team with extensive experience in repositioning town centres by re-purposing secondary retail centres.

2.0 Methodology

Occupier Study

- 2.1 A study was carried out to identify the likely future occupier base for the Swan Centre in response to the changing function of town centres (**Occupier Study**).
- 2.2 The Occupier Study highlighted an ongoing polarisation between prime and secondary centres with key comparison retailers (e.g. fashion brands) only focusing on the top 50 UK retail locations, due in part to the growth of multi-channel retail. The implication for Leatherhead is that these retailers will consider that the local catchment is adequately served by Guildford and Kingston supplemented by on-line shopping.

- 2.3 The catchment, demographics and economic data were further reviewed to understand the spending potential of the population. The results were excellent indicating a strong and affluent catchment of approximately 370,000 people within a 20 minute drive-time and a net catchment of over 52,000 people within 10 minutes. The available spend was higher than the national average but highlighted leakage to competing centres.
- 2.4 To encourage this spend back to Leatherhead, the Swan Centre needs to deliver a unique offer with a greater variety of uses. The future retail offer should be focused on the 'fundamental shop' to serve a local, lower but more frequent consumer spend. This can be supplemented by independent retailers with an interesting local offer, a local market featuring local produce and introducing a greater mix of uses including leisure, further food and beverage outlets, residential and office/co-working space supported by high quality public spaces and quality managed parking to create a 'unique selling point' and deliver on the definition of Leatherhead as a 'modern market town'.
- 2.5 Interest has been expressed from a hotel operator for a 70 bed hotel and from a number of cinema operators.
- 2.6 The Occupier Study concludes that the combination of these uses is complementary and will create vitality and footfall, create a Swan Centre which is sustainable in the long-term and will act as a catalyst to improve the town centre.

Parameter Study

- 2.7 The potential for the additional space to be accommodated within the site constraints, taking into consideration scale, height, massing and open space was examined (the **Parameter Study**). The Parameter Study was informed by:
- an independent measured survey undertaken to allow use of accurate CAD drawings with site levels; and
 - a further desktop structural survey was undertaken to consider the structural capacity of all the areas of the Centre, highlighting the potential of the existing structure for redevelopment, and outlining the limits that could be imposed without further reinforcement.
- 2.8 The planning framework for Leatherhead and the wider MVDC area was considered and confirmed that the plan-led documents promote development which sustains the vitality and viability of Leatherhead. National planning policy is supportive of integrating new housing within town centres and as part of new retail developments.
- 2.9 Proposals for development need to be considered in the context of the surrounding Conservation Areas. Development needs to respect the scale and grain of surrounding buildings specifically within the High Street and listed buildings. Any glimpsed views through gaps in the High Street should not show bulky blocks.
- 2.10 Future design phases (before planning stage) will need to mitigate bulky massing and seek to replicate a series of separate buildings through a mix of design, materials and height.
- 2.11 The view of the Swan Centre from Leret Way has potential for improvement, subject to respecting the surrounding residential properties.
- 2.12 Any proposed loss of retail floorspace needs to be considered in the context of a wider mix of uses to create wider vitality and viability ahead of updated planning policy.

- 2.13 It is recommended that vehicular access be retained from Leret Way, with enhanced pedestrian access from Leret Way to improve links through to the High Street from the residential areas to the north of the Swan Centre. Existing servicing arrangements have been considered.
- 2.14 The Swan Centre is currently served by a 280 space multi-storey car park. Although the short-term improvement works have been well received, there is the potential for more structural intervention to further improve circulation, plus a single storey extension to increase capacity to approximately 400 cars. Surrey County Council's parking standards and shared parking policies have been considered as part of the development of the recommended Masterplan.

Architectural Feasibility Studies

- 2.15 Three Architectural Feasibility Studies were prepared to evaluate three different redevelopment scenarios. These scenarios built on the Occupier study and the Parameter Study and are summarised below:

Option 1	Partial reconfiguration of South Mall to include F&B, introduction of first floor cinema and offices, 70-bed hotel fronting Leret Way, two storeys of residential, improved parking, roof top vineyard garden.
Option 2	Reconfiguration of all malls, reduced foodstore, ground floor cinema, first floor offices, 70-bed hotel fronting Leret Way, two storeys of residential, improved parking, roof top vineyard garden.
Option 3	Demolition and rebuild with foodstore, cinema, retail, F&B, new car park, offices at first floor, six storeys of residential plus roof top vineyard garden.

- 2.16 Option 3 was included to respond to and test the often expressed suggestion from the public during the development of the Transform Leatherhead Masterplan that the Swan Centre be demolished and rebuilt.
- 2.17 Financial appraisals were undertaken, and this demonstrated that Option 3 (Demolish and Rebuilt) was not viable and, given the site constraints, was not architecturally sensitive. Option 2 required reconfiguration of the foodstore, which has a long unexpired lease term, and as a result any reconfiguration is not currently viable or deliverable.
- 2.18 Figure 1 on the following page summarises the various mixes and quantum of uses evaluated, filtered and refined by way of the Occupier Study, the Parameter Study, the Architectural Feasibility Study and the financial appraisals.

Use	Existing size / sq. ft.	Potential size / sq. ft.	Option 1	Option 2	Option 3	Recommended Masterplan Size / sq. ft.	Commentary
Retail	47,000	40,000	30,000	40,000	1,500	40,000	Include a wider range of small units (500 – 1,500 sq. ft.)
Food and Beverage (F&B)	4,400	10,000	20,000	10,000	13,000	10,000	Up to 4 units proposed
Food store	44,000	20,000	44,000	15,000	13,000	44,000	A 20,000 sq. ft. food store would result in a more 'local' concept; the Masterplan proposes to retain the existing food store due to the length of the unexpired lease terms
Cinema	N/A	10,000 – 20,000	30,000 (7 screens)	30,000 (7 screens)	15,000 (5 screens)	15,000	5 – 7 screens were considered; the Masterplan proposes 5 screens
Offices	12,300	10,000-12,000	12,000	12,000	15,000	12,000	Potential co-working facility
Residential	N/A	40,000 – 320,000	67 units 40% affordable	90 units 40% affordable	280 units 40% affordable	40,000	Approx. 50 units (depending on mix) with 40% affordable
Hotel	N/A	25,000	70 bed	70 bed	-	25,000	70 bed hotel
Community / Unique use	4,500	10,000	30,000 rooftop vineyard	40,000 rooftop vineyard	15,000 rooftop vineyard	10,000	Potential rooftop vineyard garden
Car parking	280 spaces	401 spaces	401 spaces	401 spaces	398 spaces	401 spaces	Single storey extension to complement new mix of uses

Figure 1 – Potential mix and quantum of uses

2.19 As a result of that iterative process, C&W arrived at the recommended Master Plan mix and quantum of uses. This represents a hybrid of Options 1 and 2 with the foodstore unaltered as illustrated below in Figure 2 and the mix and quantum of uses highlighted in bold in Figure 1 on the previous page:

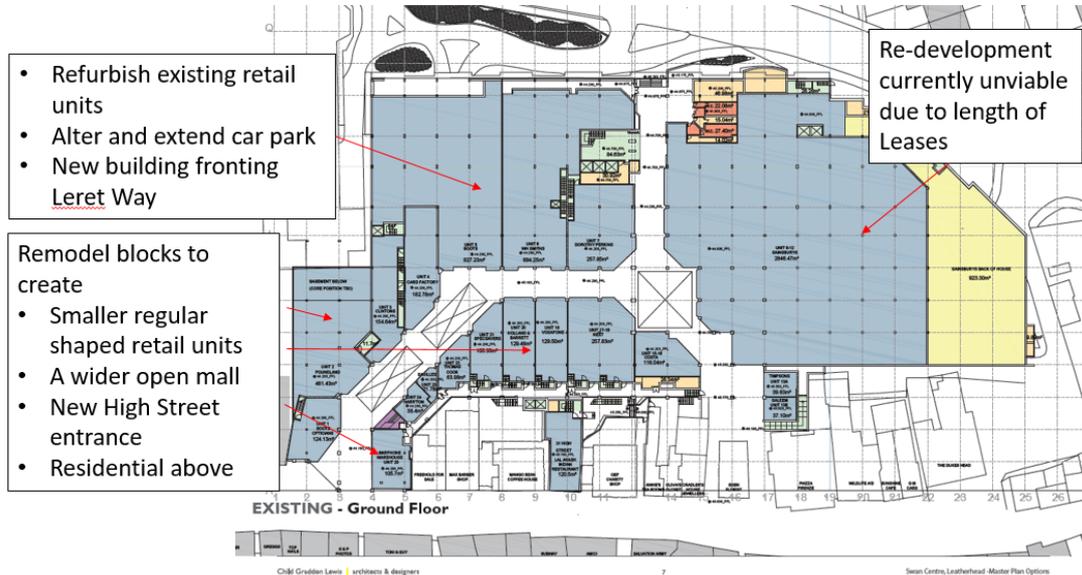


Figure 2 – Potential redevelopment option

3.0 Funding and Delivery Risk Options

3.1 To maximise control, it is anticipated that MVDC will need to retain an interest in the Swan Centre. To mitigate development and delivery exposure, MVDC would look to secure a development partner. This is consistent with the decision taken by Cabinet in July 2016. The requirements of both parties are summarised in Figure 3 below, which identifies the key objectives of both parties, the risks and mitigations.

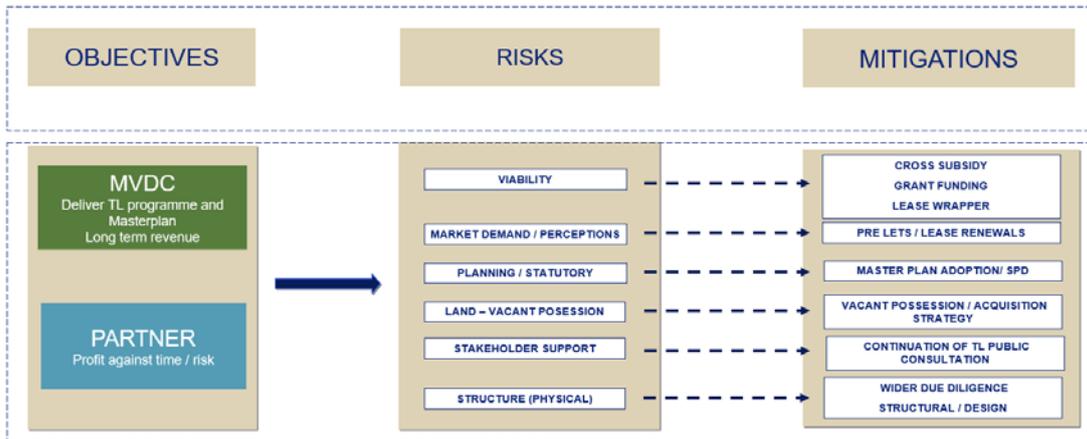


Figure 3 Risks and Mitigations

3.2 In light of the ongoing challenges faced by the retail sector and wider economic uncertainty, it is recommended that a period of soft market testing is now undertaken with a number of potential development partners who specialise in this sphere. This would test the market appetite for partnering with MVDC ahead of committing to a potentially lengthy and expensive procurement process, and inform the likely legal and commercial structures available to implement such a redevelopment scheme. It will also inform considerations as to the optimum timing for commencing such a procurement process as there are a relatively limited number of specialist developers

in this field, and if they are already participating in other known or anticipated projects, may not have the capacity to participate in another.

- 3.3 The cost based on indicative estimates received to date of appointing an agent to support officers in undertaking a structured soft-market testing process is £30,000.
- 3.4 In relation to funding, the Cabinet approved the submission of an Expression of Interest in relation to the nomination of Leatherhead for inclusion in the Future High Streets Fund at its meeting on 5 February 2019. The Future High Streets Fund is likely to be many times oversubscribed, and the supplementary guidance published on 7 February 2019 states that ‘where there is a high volume of Expressions of Interest [MHCLG] may take into account factors such as ensuring a geographical spread of impact and wider economic considerations’, all of which further reduces MVDC’s prospects of success. Other opportunities for grant funding will continue to be explored.

Financial Implications

- 3.5 A summary of the Regeneration Reserve allocations since the Regeneration Reserve was established in 2016, together with a statement of the unallocated funds is set out below:

Regeneration Reserve Account (Feb 2019)	£	£
Original allocation from general revenue reserves		1,000
Add: Benefit from 2015/16 NNDR Pool	541	
Benefit from 2017/18 NNDR Pool	261	
Potential benefit from 2018/19 NNDR Pilot*	800	1,602
Less: Claire/James House viability/planning	-820	
Swan Centre development strategy	-190	
Housing Ready, affordable housing report	-30	
Transport data collection and modelling study	-84	
Other minor commissions	-50	<u>-1,174</u>
Remaining reserve		<u>1,428</u>

*2018/2019 NNDR Pilot Benefit will not be confirmed until May 2019

- 3.6 MVDC is also going to be in a NNDR Pool in 2019/20, so will receive a further benefit in May 2020; however the amount is not yet known and looking forward, it is impossible to predict what will happen to this pooling mechanism, after the new local government funding regime is implemented in 2020/21.
- 3.7 If the recommendations in this report are approved, the Regeneration Reserve will be reduced to £1,398,000. It should be noted that the Regeneration Reserve is also required to fund other work streams within Transform Leatherhead, such as the wider Riverside Park, transport improvements and a development brief/masterplan for Red House Grounds/Bull Hill. There may also be calls upon the Regeneration Reserve to pump prime initiatives in Dorking or elsewhere in the district.

Legal Implications

- 3.8 If the recommendations in this report is approved, any contract with an agent to provide support and advice on soft-market testing will be below the threshold at which the full public procurement requirements apply; but will need to be procured in accordance with MVDC's contract standing orders.
- 3.9 Any further legal implications arising from the future implementation strategy for the Swan Centre Masterplan will be addressed at the time that detailed terms and structures are known.

4.0 Options

Option 1 – Recommended

- (1) Approve the recommended Master Plan for the Swan Centre; and
- (2) Allocate £30,000 from the Regeneration Reserve for the purpose of undertaking soft-market testing with potential delivery partners and sourcing associated specialist legal and financial/tax advice to mitigate market and delivery risk.

Option 2

Do nothing

Option 3

Approve the recommended Master Plan but do not allocate any further funds from the Regeneration Reserve

5.0 Corporate Implications

Monitoring Officer commentary

The Monitoring Officer confirms that all relevant legal implications have been taken into account.

S151 Officer commentary

The work undertaken so far has identified a wide range of options for potential regeneration of the Swan Centre, and has dismissed many of those options on the basis of engineering, architectural, planning or financial considerations. This has resulted in a favoured option, which is recommended for endorsement.

However, there are only a small number of potential private sector partners who specialise in this sort of regeneration, and it is not clear, given current market conditions, whether any of them would be in a position to partner with MVDC to deliver this scheme in a commercially viable way.

To achieve this, any partner would need confidence that the scheme could deliver sufficient value to:

- cover the costs of construction;
- provide the Council with either a replacement income stream for its current rent income, or an equivalent capital receipt; and
- generate a sufficient profit margin to justify the risks involved.

This knowledge could be acquired through a full procurement process to obtain a Development Partner. However, such a process would take around 18 months, and cost upwards of £0.2m. It is therefore sensible to undertake a much shorter/cheaper, (£30k), 'soft marketing testing' exercise aimed at identifying the likely level of private sector interest in this scheme, before any decision is made to proceed to a full blown procurement process.

The results of this exercise, to be reported back to Cabinet in June, will therefore be fundamental in understanding the financial viability of this scheme, in the current climate, and hence determining the next steps in the Swan Centre regeneration.

Risk Implications

Option 1 – Approve both recommendations (Recommended)

This option will provide continued evidence of MVDC's intention to deliver Transform Leatherhead and to thereby improve the Swan Centre as a catalyst to revitalise the High Street.

As set out in the body of the report, this will enable the timing, financial and legal structures required by the market to bring forward the concepts set out in the Masterplan to be tested with potential development partners before undertaking a procurement/selection process.

Option 2 – Do nothing (Not Recommended)

This will not deliver on the objectives of Transform Leatherhead and risks reputational damage to MVDC in terms of its ability to deliver transformational change.

Option 3 – Approve the Masterplan (recommendation (1)) only (Not Recommended)

Option 3 will not enable further progress towards implementation of the Master Plan.

Equalities Implications

Whilst there are no equalities implications directly related to this report, an equalities impact assessment would be undertaken prior to carrying out any improvements to the Swan Centre as proposed by Recommendation (4). As a service provider we are under a duty to make reasonable adjustments to assist disabled people (s29 (7) Equality Act 2010).

Employment Issues

There are no employment issues arising from this report. From a resourcing standpoint, successful implementation of the recommendations set out in this report will call upon resources from of a number of in-house teams, including Financial Services, Legal Services, Procurement, and Communications, not just the Investment and Regeneration team.

Sustainability Issues

No sustainability issues have been identified.

Consultation

The long term development options have been formulated based on feedback from the Transform Leatherhead Masterplan consultations, informed and updated by the current market and occupier trends in retail and best practice as to management of place.

The mix of uses and the movement away from including larger retail units as an anchor and the introduction of residential and employment space has been explained and discussed at the Autumn Forum in October 2018 and accompanying Member and Community Reference Groups. There will be a further update at the Spring Forum on 7 March 2019. An update on the recommended mix and quantum of uses will form part of that discussion with Member and Community Reference Groups on 28 February 2019.

They will also be discussed with Tenants of the Swan Centre as part of the regular tenants' forum at the end of February.

Communications

Redevelopment and improvement of Swan Centre is part of the Communications plan for Transform Leatherhead. A draft press release has been prepared to accompany this report.

Background Papers

None.