



COUNCIL CABINET
14 February 2024

ITEM 11

Report sponsor: Councillor Nadine Peatfield,
Cabinet Member for City Centre, Regeneration,
Culture and Tourism
Report author: Catherine Williams, Head of
Regeneration and Major Projects

Future High Street Fund (FHSF) Programme Update

1 Purpose

- 1.1 To update Cabinet on the projects comprising the Future High Streets Fund (FHSF) programme.
- 1.2 To outline changes required to deliver these projects, seek approval to these changes and delegate authority for finalisation of Grant Funding Agreements and required changes to the capital programme.

2 Recommendations

- 2.1 To approve the revised proposals to the FHSF Programme as described in paragraphs 4.1 to 4.38 and the confidential report for:-
 - Eastern Gateway Revised (Derbion) scheme
 - Eastern Gateway (Cathedral Quarter) scheme
 - Connecting Works
- 2.2 To delegate authority to the Strategic Director of Communities and Place following consultation with the Director of Financial Services, Director of City Growth and Vibrancy and the Cabinet Member for City Centre, Regeneration, Culture and Tourism to sign a revised Memorandum of Understanding (MOU) governing the Future High Street Fund programme funding, subject to approval of a Project Adjustment Request ('PAR') by the Department for Levelling-Up, Housing and Communities (DLUHC).
- 2.3 To approve the revised profiled budget and funding for the Eastern Gateway and Connecting Works schemes as detailed in the confidential report, and updates to the capital programmes required by Financial Procedure Rules, subject to recommendation 2.1 and DLUHC approval of the PAR and revised FHSF spend deadline.

- 2.4 To approve capital grants and delegate authority to the Strategic Director of Communities and Place following consultation with the Director of Financial Services, Director of City Growth and Vibrancy and the Cabinet Member for City Centre, Regeneration, Culture and Tourism to negotiate and enter into grant funding agreements for Eastern Gateway (Derbion) and Eastern Gateway (Cathedral Quarter), as set out in the confidential report, subject to completion of satisfactory due diligence, subsidy control compliance and PMO assurance.
- 2.5 To approve the £0.442m corporate capital receipts that are released from the Eastern Gateway scheme on the capital programme, as explained at para 7.5, are transferred back to corporate capital receipts to be used for the flexible use of receipts to support transformation.
- 2.6 To delegate authority to the Strategic Director of Communities and Place, following consultation with the Director of Finance Services, to agree the detailed project content including resolution of any operating and revenue budget implications before implementation of the Connecting Works project.

3 Reasons

- 3.1 Key themes in Derby's City Centre Ambition include re-purposing the city centre to encourage greater footfall and improving the quality of public spaces. Supporting the Eastern Gateway and Connecting Works projects will significantly improve the environment including the re-purposing of semi-derelict Victorian buildings to create much needed commercial space, retaining a growing local company in the city, bringing more jobs to the city centre and improving property values in the city to address systemic market failure.
- 3.2 On Eastern Gateway (Derbion), wider economic conditions and market forces have thwarted previous schemes for the site, therefore financial support for a physically smaller scheme is now requested that still delivers some of the FHSF outputs against a lower requirement for FHSF funding.
- 3.3 The reduction in scope and cost of the Eastern Gateway (Derbion) scheme has provided the City Council with an opportunity to support the Eastern Gateway (Cathedral Quarter) project. This project extension is strongly aligned with the City Centre Ambition and the original FHSF bid area and delivers significant benefits in the form of increased footfall, jobs and homes as well as much needed re-purposing of heritage buildings after many years of neglect.
- 3.4 The changes to the budget and funding on the Council's Capital Programme and the proposed grants to Derbion and the company behind the Cathedral Quarter project require approval by Council Cabinet to comply with the Council's Contract and Financial Procedure Rules.
- 3.5 To fulfil the requirements of the Future High Streets Fund funding award and associated business case and retain the full £15m FHSF funding allocation and benefits to Derby.

4 Supporting information

Background

- 4.1 In December 2020 the Council was successful in securing £15.034m Future High Streets Fund (FHSF) to deliver transformational change on the high street, drive economic growth, increase vibrancy, and support the recovery of the city centre. Cabinet approved the FHSF programme and allocations to projects in February 2021, and a revision to the Eastern Gateway project in September 2022. A Memorandum of Understanding is in place to govern the use of this funding which has all been received in advance of the original spend deadline of March 2024.
- 4.2 The transformation of the Market Hall is the largest FHSF funded project with an allocation of £9.430m from the total of £15.034m. This project is being delivered by the City Council and is progressing well. There are no proposals to adjust the capital programme or amount of FHSF funding to this project.
- 4.3 This report concerns the other two elements of the FHSF programme; Eastern Gateway and Connecting Works. The current approved capital programme contains the following for these schemes:

Element	Total Budget £m	FHSF element £m
Eastern Gateway (Derbion)	5.502	5.060
Connecting Works	0.544	0.544
Total	6.083	5.604

- 4.4 The Eastern Gateway project was designed to tackle the poor-quality streetscape around the junction of Morledge and East Street by assisting the owner of the Derbion Shopping Centre to enable the creation of a public boulevard and the construction of a new food store (as explained in para 3.2).
- 4.5 Finally, to complement the Market Hall project and to link it to Eastern Gateway, 'Connecting Works' envisages the installation of parklets by the City Council to make Exchange Street and East Street more attractive and in doing so encourage movement in a northerly direction from the Derbion shopping centre towards the Market Hall and Cathedral Quarter.

Proposed changes to Eastern Gateway

- 4.6 It is proposed that the 'Eastern Gateway' project should comprise two elements – Eastern Gateway (Derbion) and Eastern Gateway (Cathedral Quarter). Together they form a project that delivers significant benefits to the city centre and complements other initiatives that have recently been completed (Becketwell, Condor apartments) and are in construction (Market Hall and the Becketwell Performance Venue).

- 4.7 The Eastern Gateway (Derbion) project continues to be led by Derbion, forming part of their two-pronged approach to enhancing the value of their asset over the short and long term and in doing so, deliver benefits to the city through attracting new investment, crucially in homes and city centre public open space that we need to fulfil Local Plan targets.
- 4.8 Derbion's strategy is to progress their Eagle Quarter planning application comprising the long-term delivery of up to 850 homes on a larger site comprising both the former Eagle Market and Derby Theatre sites. It is estimated that approximately 350 homes could be accommodated on the Eastern Gateway (Derbion) site.
- 4.9 The Eagle Quarter redevelopment proposals are however subject to planning consent (it is currently subject to Secretary of State 'call-in') and of it proving to be viable.

Eastern Gateway-Revised Derbion Scheme

- 4.10 Derbion's short-medium term proposals for the site are as follows:
- Dismantle the existing façade of the former Eagle Market and replace it with a 'kinetic' wall (a curtain walling system that consists of small stainless-steel discs that move in the wind and provide an attractive surface to project illuminated images).
 - Create an urban garden that provides space to sit and enjoy.
- 4.11 Within the former Eagle Market building, Derbion will undertake works to remove the market stalls, isolate utilities and carry out minor works to create a clear floor. There is a possibility of a 'meanwhile use' by them being identified but no work has been undertaken by Derbion to assess costs and benefits.

Eastern Gateway- addition of Cathedral Quarter scheme

- 4.12 The applicant plans to acquire a series of buildings in the Cathedral Quarter with a number of these being currently being vacant and in poor condition.
- 4.13 The applicant's proposals are to re-purpose the buildings to create space for a range of commercial uses (office, retail / food and beverage) and residential. At the heart of the project is a plan to relocate a local firm that wants to move from existing premises to restored heritage buildings in the city centre that will help them recruit and retain staff.
- 4.14 Further space within the buildings provides the opportunity to accommodate apartments and ground floor retail / food and beverage space.
- 4.15 The location of the site also provides opportunities to create new public spaces that will help boost the wider Cathedral Quarter.

- 4.16 In September 2023 Cabinet approved in principle a secured loan of £1.3m to the same applicant to support Phase One of the development, comprising the acquisition of the properties within the Cathedral Quarter. Cabinet delegated authority to negotiate and agree final terms to make the loan advance and this is in progress.
- 4.17 The proposals in this report are to provide funding towards the Phase 2 costs of the development covering the proposed upgrading of the site and buildings, funded by FHSF.

Connecting Works

- 4.18 The Connecting Works proposals provide an opportunity to improve links and the quality of the public space from Derbion Shopping Centre to the Market Hall. The PAR included a transfer of £0.067m FHSF from the Connecting Works scheme to the Eastern Gateway scheme to ensure the full estimated scheme costs falling to the Council are covered by FHSF for the revised Eastern Gateway proposals.
- 4.19 The current intention is to provide green spaces within the streetscape for the public to enjoy. These have proved successful in other British towns and cities in improving streets and introducing visual interest.
- 4.20 A Management Plan is currently being developed to support the proposals and to ensure the risk of implementation including potential revenue costs implications are mitigated.
- 4.21 Once finalised the project will proceed (subject to receiving formal approval). If the matters are not resolved new proposals will be developed.

Project viability and funding

- 4.22 On Eastern Gateway (Derbion), Derbion has prepared a cost estimate for the project
- 4.23 The total costs are estimated to be £4m of which £3m will come from FHSF.
- 4.24 Derbion has stated that they will commission further work to design and cost the proposals once they have greater certainty on both the Council and DLUHC supporting their proposals.

- 4.25 As part of the Council's due diligence on the Eastern Gateway (Cathedral Quarter) scheme, three pieces of work have been commissioned:
- An 'Open Market' valuation (undertaken by Avison Young) of the target properties. This work is required as part of the additionality assessment described below as well as providing the City Council with a degree of assurance that the value of the property provides the Council with adequate security in the event of loan default.
 - A development appraisal (undertaken by Avison Young) that provides an independent assessment of the overall viability of the project and whether the project delivers 'additionality' (i.e. whether the proposed public intervention is required to deliver the outputs projected).
 - An assessment of the financial standing of the applicant to ensure whether they have the financial resources to deliver the project.
- 4.26 Avison Young have completed a Red Book valuation of the target properties and provided relevant advice, to support the use of the properties as associated security for the Council's proposed loan funding to the applicant.
- 4.27 Avison Young's appraisal of the applicant's financial forecasts provides the Council with the following assurance:-
- The applicant's estimates of construction costs and other costs (professional fees, development finance) are reasonable.
 - The applicant's estimate of the value of the completed properties is reasonable.
 - The quality of commercial office accommodation proposed is significantly higher than existing supply.
 - The overall cost of the project (incl. profit) exceeds the value of the completed asset by £2 million

Funding Agreement

4.28 On Eastern Gateway (Derbion) a new grant funding agreement will need to be drafted and signed to reflect the changes to the project. These are as follows:

- A FHSF capital grant of up to £3m will be made available to contribute to the cost of the urban garden project.
- An approved scheme design and commitment to specify materials that are consistent with those used in East Street, Morledge and the TCF works to Traffic Street.
- An advanced grant payment of £250k was drawn down when the previous scheme grant agreement was active, and will be treated as an advance payment in the new grant agreement, with a clawback provision requiring it to be repaid if the project does not proceed. The second and third tranches will be paid as follows:
 - Tranche 2. £650k on confirmation of full control of the site
 - Tranche 3. £2.15m linked to the monthly valuations of demolition and construction works (likely from June 2024 to March 2025).
- No potential for windfall profits is envisaged from the scheme as none of the space that is created that can be 'rentalised'. For this reason, it is unlikely that development 'overage' will accrue to the owner. This is a change to the previous retail scheme where a grant overage clause was agreed as the project delivered retail accommodation that was rented.
- That the contractor appointed to undertake the works will be from a public sector framework and be based on framework rates.
- Compliance with grant monitoring ('M&E') and financial reporting requirements

4.29 The Council will seek the following safeguards:-

- That the urban garden will remain open to the public and be maintained entirely at the expense of the owner of the shopping centre.
- That in the event of the redevelopment of the urban garden, any future development includes the provision of public amenity space within the scheme of similar size, quality and maintenance arrangements.
- That any proposed night-time illumination of the kinetic façade by Derbion (or its successors) provides opportunities for the display of locally generated content.

- 4.30 On Eastern Gateway (Cathedral Quarter), a new grant funding agreement will be created. Heads of Terms already agreed include the following pre-grant award conditions:-
- Evidence will be provided by the developer to demonstrate that they have sufficient funds to finance the purchase of the site and the costs of the works.
 - Sight of the agreement for lease to the main (office) occupier.
 - Award of planning approval (incl. s.106) and Listed Building consents.
 - FHSF capital grant of up to £2m will be paid to contribute to the capital cost of works eligible for support.
 - Compliance with grant monitoring ('M&E') and financial reporting requirements
- 4.31 Further safeguards have been proposed that would allow the Council to consider clawback of grant monies in specific circumstances. Examples of these include:
- If the applicant fails to physically complete the project by 31 March 2025
 - If the applicant fails to deliver agreed outputs
 - The level of spend projected by the applicant fails to materialise (subject to reaching agreement on a suitable way of reporting this)
- 4.32 Finally, the drawdown of grant to the applicant will be based on the following:-

Tranche	Amount	Milestone	Payment trigger / Evidence
1	£1.0m	Purchase of the site, execution of the lease and signing of JCT.	Proof of site purchase, execution of lease with proposed occupier and signing of JCT.
2	£0.75m	Occupation of the main office space and completion of roof repairs to part of the target properties.	Physical inspections of fit out of main office accommodation and roof repairs. Physical occupation and transfer of staff.
3	£0.25m	Completion of the project or earlier at the discretion of Derby City Council	Notification by the applicant and/or evidence that works to a specified value of has been expended on the property

Project governance

- 4.33 The Project SRO and Project Manager report regularly to the FHSF Project Board
- 4.34 The Council's PMO will be fully briefed on the proposals subject to their acceptability by Cabinet. Together these will provide sufficient governance.

Programme Milestones

- 4.35 The current project milestones for the Eastern Gateway (Derbion) project are as follows:-

Eastern Gateway (Derbion) milestones	Target date
DLUHC approval (max 20 days from start of process)	9 February 2024
Cabinet decision on whether to go ahead	14 February 2024
Planning application prepared and submitted	End March 2024
PMO assurance	tbc
Enter into conditional grant agreement	End March 2024
Planning approval decision	26 May 2024
Start of construction of façade and urban garden	August 2024
Full Completion of Scheme	Feb 2025

- 4.36 On the Eastern Gateway (Cathedral Quarter) project:-

Eastern Gateway (Cathedral Quarter) milestones	Target date
DLUHC approval (max 20 days from start of process)	9 February 2024
Cabinet decision on whether to go ahead	14 February 2024
PMO assurance	tbc
Enter into conditional grant agreement	March 2024
Commencement of works to office space	March 2024
Occupation of office space	May 2024
Full Completion of Scheme	Feb 2025

- 4.37 On Connecting Works, subject to agreement on the management arrangements for the parklets within the City Council the following milestones are envisaged

Connecting Works milestones	Target date
DLUHC approval (max 20 days from start of process)	9 February 2024
Cabinet decision on whether to go ahead	14 February 2024
Management Plan agreed	21 February 2024
Final designs agreed	Mid March 2024
Placing of parklets order	End March 2024
Completion - Parklets delivered, installed and planted	June 2024

Project Risks

- 4.38 A detailed risk register for the Eastern Gateway (Derbion) scheme is maintained by the Project Team and reported to Project Board. A summary of those risks is noted in the private report.

5 Public/stakeholder engagement

- 5.1 The development of the FHSF bid and finalisation of the programme involved engagement with key city centre stakeholders through the Derby Economic Recovery Steering Group (DERS) network.
- 5.2 Eastern Gateway (Derbion) and Eastern Gateway (Cathedral Quarter) have both involved close working with both applicants.
- 5.3. The proposals for the Connecting Works project once finalised will involve engagement with the Business Improvement Districts.

6 Other options

- 6.1 The requirement of DLUHC to be able to demonstrate spend by end of March 2025 rules out the development of wider options for the use of funding allocated to the Eastern Gateway project.

7 Financial and value for money issues

- 7.1 The current approved capital programme includes the following for Eastern Gateway (Derbion) and Connecting Works

CURRENT APPROVED BUDGET	EASTERN GATEWAY						CONNECTING WORKS	
	Cost £m			Funding £m			Cost £m	Funding FHSF £m
	Grant- Derbion	DCC costs	Total Cost	FHSF	Corporate Capital Receipts			
Actual to 2022/23	0	0.053	0.053	0.053	0		0.007	0.007
2023/24	4.897	0.110	5.007	5.007	0		0.537	0.537
2024/25	0.442	0	0.442	0	0.442		0	0
TOTAL	5.339	0.163	5.502	5.060	0.442		0.544	0.544

- 7.2 Cabinet is asked to approve the revised profiled capital budget and funding as shown in the confidential report, and to update the capital programme for the changes, subject to recommendation 2.1 and DLUHC approval of the PAR and revised FHSF spend deadline.

- 7.3 These changes reflect the PAR submission, pending approval by DLUHC. The PAR also includes spend reprofiling up to March 2025 instead of March 2024. DLUHC gave FHSF recipients the opportunity to request spend reprofiling into 2025/26 provided that certainty of delivery could be evidenced including spend being fully committed by September 2024
- 7.4 The proposed changes to the capital programme have not at this stage been incorporated into the Capital Programme included in the 2024/25 Budget report on this agenda. The capital programme will be updated accordingly if Cabinet approve the recommendations outlined in this report.
- 7.5 The proposed changes as detailed in the confidential report, remove the previous Council funding to supplement the FHSF grant, and fully commits the FHSF grant funding. Cabinet in September 2022 approved an additional of £1.742m to the Eastern Gateway scheme funded by corporate capital receipts to deliver the previous proposed scheme. Cabinet in September 2023 approved a reduction to this by £1.3m, which was transferred to Other Regeneration Loans to fund the separate loan to the applicant (Cathedral Quarter) for Phase 1 land acquisition. A sum of £0.442m remained on the Eastern Gateway scheme capital budget which is now not required and has been removed in the proposed revised budget. Cabinet is asked to approve the £0.442m corporate capital receipts that are released from the Eastern Gateway scheme on the capital programme are transferred back to corporate capital receipts to be used for flexible use of receipts to support transformation.
- 7.6 The two elements of the Eastern Gateway scheme are being delivered and operational owned by the private sector and as such they will be contributing FHSF match as follows, subject to final due diligence on the development appraisal for the Eastern Gateway (Cathedral Quarter) scheme:
- Derbion £1.0m
 - Cathedral Quarter £8.5m

There will be no ongoing operational or financial implications for the Council from these two schemes. There are, however, £0.068m of abortive capital costs from the previous Eastern Gateway scheme that will be removed to revenue in 2023/24 and have been included in the Quarter 3 Revenue Monitoring position reported separately on this agenda.

- 7.7 However, there are potential operating and revenue budget implications for the Council if parklets are introduced as part of the Connecting Works. These will need to be mitigated before the approval of parklets as part of the Connecting Works scheme.

- 7.8 On value for money, as part of the Council's FHSF PAR submission to DLUHC a detailed review of the programme was commissioned in the light of the proposed changes to the Eastern Gateway and Connecting Works projects as well as the increased costs for the Market Hall project. The work was undertaken by economic consultants Amion and concluded that the overall Benefit Cost Ratio ('BCR') was 2.0:1 which DLUHC considers to be 'high'

8 Legal implications

- 8.1 On the grant agreements for both Eastern Gateway projects, Derby City Council's Legal Team will produce draft agreements based on Heads of Terms that have been subject to negotiations between the Project Team and applicants.
- 8.2 On Subsidy Control, Derby City Council's Legal Team has reviewed the Eastern Gateway (Derbion) project and stated that *'this Project does not represent a subsidy for the purpose of the Act and therefore no further assessment is necessary.'*
- 8.3 On Eastern Gateway (Cathedral Quarter) external advisors consider that the project *'constitutes a lawful subsidy and should be uploaded onto the subsidy database'.*
- 8.4 Derby City Council's Legal Team are also advising on the agreeing the terms and form of agreement used to document the proposal.

9 Climate implications

- 9.1 The Eastern Gateway (Derbion) project will improve the urban environment at a key gateway into the city centre. Within the financial and practical constraints of the project, the Council will work with Derbion to maximise natural, green elements of the urban garden and to introduce Sustainable Urban Drainage Systems ('SUDS') to reduce surface run off. Opportunities to incorporate low carbon measures into the design of the Eastern Gateway project will be explored with Derbion during their design development period.
- 9.2 The Eastern Gateway (Cathedral Quarter) provides an opportunity to transform unused redundant space into housing and commercial space and in doing so address wider carbon related issues linked to climate change. These include:
- Empty and under-used property represents a loss of 'embedded carbon' (argument being that new space provided requires carbon to produce)
 - Locating homes and economic activity in central locations provides greater opportunity to live and work in close proximity and in doing so use adopt more sustainable forms of transport.
 - A strong city centre provides a focal point for bus operators to plan viable routes in a way that dispersed peripheral, low density urban development does not.

- 9.3 Connecting Works provides an opportunity for greenspace to be located within a dense streetscape. Part of the proposals will include interpretation of the parklets providing an opportunity to engage the public in the challenges associated with adapting cities to increasingly higher temperatures and greater fluctuations in climatic conditions.
- 9.4 A Climate Change Impact Assessment of the proposed changes to the FHSF programme has been carried out focusing on the Eastern Gateway .

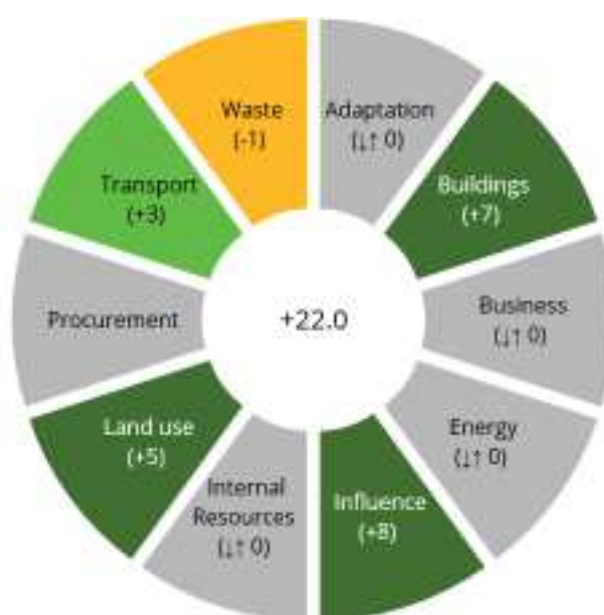
The impact assessment shows strong positive scores associated with 'Buildings' both in terms of their re-use as well as the provision (in the case of Eastern Gateway) the provision of green infrastructure.

Positive impacts are considered likely in the area of 'influence' as both interventions have the power to shift perceptions of the city centre in the eyes of citizens, landowners and prospective future investors. There is also scope for a strong positive impact on how stakeholders view the city council's ability to work effectively with partners.

Further positive impacts are likely around the linked impacts of 'land use' and 'transportation' where both projects have the potential to reverse damaging trends of private sector disinvestment in the city's core. Doing so should assist in maintaining the primacy of the city centre within the Derby conurbation and in doing so support its ability to act as a viable public transport node and in doing so counter the risk of worsening car dependency and therefore avoid the externalities associated with such a trend.

Negative impacts are relatively minor. These include the possibility that an indeterminate amount of the waste arising from the building works may not be recyclable.

The overall position is summarised below:



10 Socio-economic implications

- 10.1 The FHSF Programme is aimed at addressing the decline in the city centre, a process that has seen the closure of shops and services that has impacted all socio-economic groups.

11 Other significant implications

- 11.1 When combined with the opening of the Performance Venue, the re-opening of the Market Hall, the changes proposed in this Cabinet Report provide an opportunity to give a further boost to the revival of the city centre.
- 11.2 Both the Eastern Gateway projects are geared to signal to citizens, property owners, developers and investors the opportunity that the city centre represents for sustainable growth and in doing so reduce the long term requirement for public sector investment.

This report has been approved by the following people:

Role	Name	Date of sign-off
Legal	Emily Feenan	25 January 2024
Finance	Alison Parkin	25 January 2024
Service Director(s)	Tammy Whitaker	25 January 2024
Report sponsor and Service Director	Cllr. Nadine Peatfield	
Other(s)	Catherine Williams	

--