



SOUTH
KESTEVEN
DISTRICT
COUNCIL



Finance, Economic Development and Corporate Services Overview and Scrutiny Committee


21 February 2023

Report of Councillor Kelham Cooke,
Leader of South Kesteven District
Council

Grantham Future High Streets Fund February 2023 Update

Report Author

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Purpose of Report

To update the Committee on progress in delivering Grantham's transformational scheme being funded via central Government's Future High Streets Fund.

Recommendation

It is recommended the Finance, Economic Development and Corporate Services Overview and Scrutiny Committee:

- 1. Agrees to receive a further update report later in the year as costs become more certain and for this to be included in the Work Programme**

Decision Information

Does the report contain any exempt or confidential information not for publication? Yes

What are the relevant corporate priorities? • Growth and Our Economy

Which wards are impacted?
Grantham St Wulfram's,
Grantham St Vincent's

1. Implications

Taking into consideration implications relating to finance and procurement, legal and governance, risk and mitigation, health and safety, diversity and inclusion, staffing, community safety, mental health and wellbeing and the impact on the Council's declaration of a climate change emergency, the following implications have been identified:

Finance and Procurement

- 1.1 Whilst it was anticipated the programme delivery would be largely delivered in the final year (2023-24) it was envisaged a greater amount of spend would be resolved in 2021-2022 and 2022-2023. However, this has not proved possible as the programme is predominantly reliant on delivery and engagement by third parties. This has taken significantly longer to achieve than anticipated during the funding bid phase.
- 1.2 The Council received the 2021-2022 Future High Street Fund (FHSF) allocation of £1,161,422 in June 2021 and did not require the proposed second tranche of funding for 2022-2023. Subject to the signing off the Year 3 Memorandum of Understanding, the Council will be in receipt of the final tranche of funding, £4,394,620 by June 2023. The capital budget is set out in Table 1, showing actual spend for 2021-2022, projected outturn for 2022-2023 and 2023-2024 budget.

	2021-2022	2022-2023	2023-2024	Total
Capital	£39,382.70	£378,642.51	£5,138,016.79	£5,556,042

- 1.3 The Council's contribution to the FHSF supports the activities of the Town Team. It funds the employment costs of the Engagement Manager and the footfall monitoring for Grantham town centre which is a requirement of The Department for Levelling Up, Housing and Communities (DLUHC's) Monitoring and Evaluation procedures.

This budget provides promotional materials, such as lamppost column banner campaigns, event costs, small scale projects and digital marketing.

- 1.4 For 2023-2024 and 2024-2025, the budget contains funding to commission support to develop and deliver a model for self-financing of the Town Team beyond the lifespan of the Council's funding contribution. This revenue funding is illustrated in Table 2.

	2021-2022	2022-2023	2023-2024	2024-2025	Total
Revenue	£5,000	£63,267	£144,715	£166,110	£379,092

Completed by: Richard Wyles, Chief Finance Officer

Legal and Governance

- 1.5 The FHSF Work Programmes have been brought forward as a result of successful submissions and have regular input from legal professionals as appropriate with regard to land ownership, asset transfer, grant agreements and other areas, projects adhere to Procurement and Financial Regulations.

Completed by: Graham Watts, Assistant Director of Governance and Monitoring Officer

Risk and Mitigation

- 1.6 The day-to-day administration of the FHSF is supported by the FHSF Programme Manager. Governance and management arrangements have been developed in line with SKDC criteria.
- 1.7 The Risk Assessment identifies the risks and impacts across the programme and proposed mitigation. The Risk Assessment is regularly reviewed by the FHSF Project Board and as part of the programme monitoring arrangements. Risk assessments are reviewed on a regular basis by DLUHC through the Monitoring and Evaluation process.
- 1.8 For each risk identified, mitigation and control measures have been identified to reduce the risk to an appropriate level and are being implemented. A copy of the Risk Assessment is available on request.

Diversity and Inclusion

- 1.9 The formation of a Town Team including the Grantham Shareholders will be from a wide stakeholder background, ensuring that a representative voice will be heard to support future plans for the town.

- 1.10 The design of the public realm improvements will consider use and accessibility issues to ensure the proposed improvements enhance the visitor experience for all users of Grantham town centre.

Climate Change

- 1.11 Proposals will encourage sustainable transport choices and will improve walking and cycling environments. Building retrofits will be undertaken to an optimised standard which will minimise carbon emissions and energy spend.
- 1.12 Whilst there are identified limitations, the upper floor grants project is aiming for the new units created to achieve an EPC C (energy performance certificate). To have an EPC of “C”, a property must have between 69 and 80 points on the Standard Assessment Procedure (SAP). This is a government-stipulated measure used by local energy assessors to judge a property's energy efficiency. Encouraging reuse and repurposing of existing buildings within the town reduces the impact of embodied carbon within those structures.
- 1.13 The redevelopment proposals of the strategic site and if deliverable, the wider LCR aspirations, will replace older less energy efficient buildings with more energy efficient new homes and other commercial buildings. Development partners will be encouraged to make these as energy efficient as possible, such as considering the use of highly efficient modular technology and if feasible, sustainable heating solutions and high-quality greening.

2. Background to the Report

- 2.1 South Kesteven District Council recognises consumer patterns are changing, with spending increasingly being switched to online and expectations of high streets changing. In the Corporate Plan (2020 to 2023), the Council seeks to establish best practice in supporting the retail environment and is taking forward its approach to place-shaping within the main market towns across South Kesteven. A key action is to identify funding and other opportunities to support the development of town centres and apply lessons learned. For Grantham, this is a targeted approach to specific packages of work aimed at delivering transformational change as part of the Future High Streets Fund (FHSF).
- 2.2 The Council worked hard to secure this funding and is working even harder to ensure the most is made of this once in a lifetime opportunity for residents. South Kesteven District Council was awarded £5.56 million (administered by the Department for Levelling Up, Housing and Communities - DLUHC) and will provide a total match contribution of £379,092 revenue funding to develop town centre leadership and promotional activities over the programme period. The capital programme runs until 31 March 2024, by which time all projects need to be completed and spend defrayed. The Council's funding covers up to 31 March 2025.
- 2.3 The FHSF programme, including the Council's match, enables the delivery of five individual projects, four specific infrastructure projects, programme management and the creation of a Town Team supported by an Engagement Manager. A

summary of the projects being delivered is set out below, with a plan showing individual scheme locations at **Exempt Appendix A**:

- (A) Station Approach public realm – improved pedestrian and if possible cycling access between Grantham Railway Station and the town centre (Station Road and 5-Arm Junction).
- (B) Market Place public realm improvements to create an open event space as a focal point for the town.
- (C) Strategic site acquisition to enable Station Approach Mixed-Use Development Stage 1.
- (D) Delivery of a grant programme to support the conversion of unused and underutilised upper floor retail space to residential accommodation.
- To create a Town Team comprising key stakeholders and representatives to help promote the town and provide leadership on the future of Grantham. The Town Team will be supported by the Grantham Engagement Manager.

2.4 The Committee last received a programme overview and update just over nine months ago (see **Background Papers**).

2.5 The remainder of this background section focuses on programme updates, which has been divided into seven subsets: Public realm projects; Strategic site acquisition; Station Approach Masterplan; Upper Floor Grants Programme; Grantham Town Team, Programme Support and Recruitment; and a summary of engagement with the Department for Levelling Up, Housing and Communities (DLUHC).

Programme Update Subset One: Public Realm Projects (Market Place and Station Approach)

2.6 Lincolnshire County Council's Highways team (LCC) have been working on the detailed design of two programme public realm projects. Updates on progress, along with identified risks, follow.

2.7 For the Market Place project, LCC's decision to reverse the proposed closure of the Conduit Lane to through traffic has meant aspects of the scheme have been redesigned to allow for vehicular traffic. Construction cost inflation has significantly impacted on this part of the scheme, with the global prices for aggregates (which this project is heavily dependent upon), having seen huge rises over the last 12 months. This cost issue is considered in more detail below.

2.8 For Station Approach, a significant part of Station Road is managed and maintained by London North Eastern Railways (LNER). In the period between bid submission and confirmation LNER undertook significant investment in the roads under their management and to their car parking infrastructure. These improvements have upgraded both the pedestrian and vehicular infrastructure around the station, thereby delivering a significant proportion of the Station Approach scheme (albeit the works were not what had been envisaged in the original bid submission).

- 2.9 The focus of this part of the programme is now to improve the LCC managed part of the Station Approach area, especially the 5-arm junction.
- 2.10 As part of the overall works, LCC have agreed to bring forward future maintenance and improvement works scheduled in the area to include re-surfacing onto Harlaxton Road, the upgrading of traffic signals to heritage signals, new lamppost columns and improving the footpath on the north side of Wharf Road onto the southernmost part of Westgate. These enhancements were not foreseen within the original scheme.
- 2.11 The key concern to project delivery is construction cost inflation. The original FHSF bid was submitted on cost estimates for both projects based upon prices provided by LCC in June 2020. LCC provided a range of costings defined as minimum, likely and maximum. The funding envelope the bid proceeded on was the “likely” estimate. However, these LCC costings are now almost three years old.
- 2.12 As the detailed design process has progressed, LCC have updated their costings. Table 3 illustrates the original quoted costs, the revised cost estimates and the variance.

Table 3: Lincolnshire County Council’s costings

	Minimum			Likely			Maximum		
	Original	Revised	Variance	Original	Revised	Variance	Original	Revised	Variance
	Station Approach	£527,100	£437,550	£89,550	£1,686,975	£559,584	£1,127,391	£2,445,000	£775,701
Market Place	£307,600	£1,205,517	-£897,917	£822,188	£1,558,083	-£735,895	£1,135,469	£2,283,839	-£1,148,370
TOTAL	£834,700	£1,643,067	-£808,367	£2,509,163	£2,117,667	£391,496	£3,580,469	£3,059,540	£520,929

- 2.13 The FHSF bid submission was based upon the “likely” cost at the time, which provided total funding of £2,509,163 for the two public realm schemes. Due to the reduction in scope of the Station Approach scheme, the likely cost for both projects are now below the allocated budget at £2,117,667, which provides a contingency sum of £391,496. However, the key concern with continued rising prices is the actual cost may be closer to the maximum amounts suggested or even exceed them. At the maximum quoted figure, the total price could be £3,059,540 which is £550,377 over budget.

Market Place – Pedestrianised

- 2.13 There is a more affordable way to deliver the Market Place scheme by pedestrianising the Market Place. This would result in a cost reduction by not delivering the Market Place scheme to an adoptable vehicular use standard. The costs of this option are illustrated in Table 4.

Table 4: Market Place – Pedestrianised		
Minimum	Likely	Maximum
£673,013	£875,435	£1,281,979

- 2.14 At the maximum cost level, this would give a total quoted spend of £2,057,680, offering a healthy budget contingency of £451,452. However, despite the pedestrianisation of parts of Grantham town centre being a confirmed strand of LCC’s recently published Grantham Transport Strategy (see **Background papers**), LCC are unwilling to move to pedestrianising the Market Place currently. This is in part, due to the Southern Relief Road not being fully open, meaning LCC are not able to assess the impact of this new road on town centre traffic.
- 2.15 In terms of refining costs, LCC are continuing to work with their preferred lead framework contractors on a value engineering exercise and plan to provide their final revised cost estimate early in March 2023. This cost will remain an estimate and actual cost certainty will not be known until the projects go out for contractor pricing later this year.
- 2.16 The rise in costs presents a severe risk to the deliverability of the public realm schemes. Unless capacity can be found elsewhere in the FHSF programme, the Council can provide no additional funding on these programmes should costings be higher than the budgeted amounts. Equally, LCC have been unequivocal they will not fund any additional spend requirements for the delivery of these two projects.
- 2.17 Additionally, and of greater concern, is LCC stating they will not accept any contractual risk on the schemes and will not commit to any contract where the budget puts them at risk of additional spend. In this regard and if projects are approved, LCC will tender through a preferred framework provider, on Station Approach (the smaller of the two schemes) first, to get price certainty before committing to the Market Place project. LCC will only commit to the Market Place scheme on the proviso there is no cost risk to them.
- 2.18 LCC have scheduled decisions on these projects to be taken to their Highways and Transport Scrutiny Committee in May 2023. The FHSF Programme Manager is liaising with Democratic Services to agree the decision-making route for South Kesteven District Council to align with this timeframe. As there has been a project change with the reduction in scope of the Station Approach scheme, agreement to a project adjustment will need to be sought from DLUHC.
- 2.19 Encouragingly, LCC have specified there is sufficient time within the FHSF programme to deliver both projects.

Programme Update Subset Two: Strategic Site Acquisition

- 2.20 The strategic site acquisition aspect of the programme has proven to be the most difficult to deliver and represents the highest risk. The key risk being the Council’s ability to gain powers of Compulsory Purchase to guarantee site acquisition. Whilst advice on the potential compensation implications was sought prior to submitting the funding bid, the procedural aspects of obtaining a Compulsory Purchase Order

(CPO) were not fully considered as the bid focussed principally on the financial aspects, outcomes and outputs.

- 2.21 Officers have taken advice from experts at Geldards LLP (Limited Liability Partnership) regarding the possibility of obtaining a CPO within the FHSF programme timeframe i.e. by 31 March 2024. Geldards have advised there would be insufficient time to develop and obtain a CPO within the programme timeframe. It is likely this would have taken up to four years to achieve and therefore undeliverable within the remaining FHSF programme timeframe. A further complication is attempting to obtain a new CPO would be prejudiced by the attempted CPO by LCC of a wider site in 2012.
- 2.22 Geldards liaised with the King's Counsel (KC) who acted on behalf of LCC during the CPO public enquiry, Richard Harwood of 39 Essex Chambers. The key reason the previously attempted CPO was unsuccessful was due to questions over the deliverability of the scheme proposed at the time. The KC advised any newly proposed CPO should be carefully considered and developed strategically so there is a very strong case as to why the CPO is required, along with firm evidence of the Council and partners ability to deliver the scheme to which the CPO relates.
- 2.23 The first phase of building a very strong case is to define the sites strategic importance for the regeneration and development of the town within planning policy. To progress this, the FHSF Programme Manager has liaised with the Council's Planning Team. As part of the current review of the Local Plan, in the recent Call for Sites process, the master planned site (developed by London and Continental Railways (LCR)) has been submitted and will go out for public consultation in March 2023.
- 2.24 Even though the delivery of a CPO is not an opportunity within the FHSF programme timeframe, this has not stopped attempts to acquire the site by agreement with the owners. In line with the 2012 attempted CPO, the site owners have been consistent in their approach to selling the property and mandating a like for like alternative site to carry on trading in Grantham. Following discussions, their requirements for a new site have been supplied for further consideration. In partnership with LCR, their consultants and a local agent supporting the Council, 12 potential alternative sites have been identified. These sites have been assessed by the owners and subsequently ranked in order of preference.
- 2.25 Due diligence was about to commence on these sites. However, it was announced the owners had sold the trading group, including the Grantham property to a Danish company. Officers and LCR have been liaising with the current owners to get updates on the current position. To date, nothing has been confirmed aside from what has been published in the press which is the sale will be completed in March 2023.
- 2.26 As the site acquisition is a programme high risk, alternative acquisitions have been considered by Officers and LCR. Approaches have been made to owners of other sites, also of strategic importance in the master planned area, to see if there is a possibility these sites could be secured. Some progress has been made by LCR and Officers and discussions are ongoing on these potential alternatives.

2.27 Overall, the site acquisition remains the highest risk part of the overall FSHF programme. The strategic case for a CPO will continue to be developed during the FHSF programme period, as will discussions with the current and new owners of the strategic site as well as potential alternative sites. Depending on progress with the strategic site, a further update will be brought to Members for a decision on how to proceed. If any alternative to the acquisition of the strategic site is considered, this will require sign off by DLUHC under the project change process.

Programme Update Subset Three: London and Continental Railways – Station Approach Masterplan

2.28 The comprehensive regeneration of the station approach area has been a long-standing ambition of the Council. Officers have formed a close partnership with LCR, the development delivery arm of the Department for Transport, to consider a wider regeneration area incorporating the strategic site and wider station area.

2.29 LCR, have developed a comprehensive masterplan incorporating approximately 5.76 hectares (14.26 acres) of land held in six ownerships, including the Council and Network Rail. The master planned area includes the strategic site and offers eight times the delivery opportunity of the strategic site in isolation.

2.30 The ambition and scope of the masterplan is significant and is currently split into northern and southern delivery zones. The overall masterplan is residential led, unlike previous schemes which provided more commercial space. In terms of the northern zone, when delivered, this will provide:

- New commercial space with 14 two-bed duplex apartments above
- 27 one-bed flats
- 72 two to three-bed houses
- The potential for a new hotel – 648m² (6,975ft²)
- Repurposed Victorian carriage works
- A small to medium sized enterprises (SME) workspace hub – 828m² (8,913ft²)
- New Station Square public realm

2.31 As the northern delivery zone incorporates the strategic site, LCR are undertaking detailed feasibility work, including soft market testing with a range of developers including Modern Methods of Construction (MMC) providers.

2.32 The southern delivery zone provides opportunities around the existing station infrastructure. When delivered this will provide:

- 63 one-bed flats
- 92 two to three-bed houses
- A new 400 space station car park with the potential for a new hotel/pub
- New light industrial 2480m² (26,695ft²)

2.33 The delivery of the masterplan is a long-term objective and will require a strong strategic partnership between the Council, LCR, Network Rail, and landowners who

wish to support the scheme. When delivered, the master planned area will provide significant new and much needed housing in an area which is largely underutilised and in need of visual updating. This new housing on the fringe of the town centre would provide more customers for town centre businesses. The promotion of the site would capitalise on new ways of working linking the fact that Grantham is an hour's rail commute to London.

- 2.34 To support delivery, Officers and LCR are working with other potential partners and funders including Homes England and have opened discussions with One Public Estate Lincolnshire.

Programme Update Subset Four: Upper Floor Grants Programme

- 2.35 The Upper Floor Grants programme is awarded at a grant rate of up to 50% per residential unit, to a maximum of £25,000. This grants scheme has progressed significantly since Members received their last FHSF update in May 2022.
- 2.36 Following the Expression of Interest phase, all 22 grants have been allocated over six properties and across four different owners. An update on individual project progress is set out in Table 5:

Address	Potential Units	Status
18-19 High Street	6	Detailed Design in progress
31-33 St Peters Walk	8	Detailed Design in progress
74a Westgate	1	Planning Decision pending
90 Westgate	4	Planning Decision pending
45 High Street	2	Planning Application pending
40 Westgate	1	Planning Decision pending

- 2.37 All projects are progressing well with the first planning decisions expected imminently. Applicants need to undertake a quotation/tender process before submission for approval of the final grant, following which the projects can start on site. The final submissions will be reviewed by the Officer Group and then forwarded to the FHSF Programme Board for decision. Grant awards of £200,000 or more will require Cabinet approval. Based upon the scheme progress to date, only one of the projects will be required to be referred to Cabinet.
- 2.38 Legal Services Lincolnshire have developed the Grant Funding Agreement and will undertake due diligence on the applicant and administer the legal agreement. It is critical the grant awards are processed as quickly as possible, not only to meet the programme deadlines, also due to construction cost inflation meaning quotation validity periods are much shorter.
- 2.39 All projects are currently on track to be completed prior to the FHSF programme deadline, 31 March 2024.

2.40 When completed, this part of the programme will provide the blueprint for how future town centre living can be delivered. The individual projects will provide high quality, energy efficient conversions, expected to command higher than normal town centre rental values. It is envisaged the higher property return will encourage owners and investors into the market and the provision of an increased number of high-quality residential units will give dedicated footfall and trade to town centre businesses.

Programme Update Subset Five: Grantham Town Team

2.41 The Grantham Engagement Manager started on the 21 November 2022 and will lead on the activities of the Town Team as set out to follow.

2.42 The Grantham Town Team is being established to:

- Act as the Champions of Grantham, promoting the town internally and externally
- Provide new ideas and concepts of how Grantham can develop in the future
- Support the development of a continuous programme of events and promotional activities
- Provide a sounding board for new policy and strategy to develop and regenerate Grantham
- Assist with generating funding and sponsorship for events and promotional activities

2.43 The Town Team is to be comprised of arrange of key stakeholders representing the broadest cross-section of the Grantham community, including business and community interests. The first meeting of the Town Team is scheduled for 6 March 2023. It is also envisaged that a wider Grantham shareholder group will be formed virtually to further enhance the consultative and collaborative nature of the Town Team for a sounding board for the development and promotion of the town. Representatives invited to join the Town Team have already collaborated with the Council during the Welcome Back Fund on the development of branding for Grantham.

2.44 At the inaugural meeting, a draft Action Plan (developed by Officers and approved by the Programme Board) will be presented for consideration. This is attached at **Appendix B**.

2.45 Once approved, the Action Plan will be progressed by members of the Town Team led by the Grantham Engagement Manager. To take advantage of and bring life to the infrastructure assets developed during the FHSF programme, the Town Team will operate for a further year i.e. until 31 March 2025. To keep the work of the Town Team going beyond the Council funded period, it will be a key part of the Town Team Action Plan to develop and implement ways in which it can be self-funded beyond its 2025 lifespan.

Programme Update Subset Six: Programme Support and Recruitment

- 2.46 A Programme Support Officer commenced work on the 31 October 2022 and will support the FHSF, UK Shared Prosperity Fund and High Street Heritage Action Zone.

Programme Update Subset Seven: Department for Levelling Up, Housing and Communities

- 2.47 The Programme Manager and Programme Support Officer meet with DLUHC funding delivery managers monthly to provide updates on progress and issues.
- 2.48 Since this Committee's last report in May 2022, two cycles of DLUHC programme Monitoring and Evaluation have been submitted (June and December 2022) along with an annual Statement of Grant Assurance. These reports are prepared by the Programme Manager and signed off by the S151 Officer and Chief Executive as the programme's Senior Responsible Owner. Officers are awaiting feedback on the December 2022 Monitoring and Evaluation submission.
- 2.49 Comfort should be taken the Council are not the only grant recipient who are experiencing difficulties with programme delivery, particularly around costs. In fact, DLUHC have confirmed over 50% of the FHSF programmes have submitted project change requests and are anticipating this will rise.

3. Key Considerations

- 3.1 In delivering under FHSF, the Council is committed to supporting a programme of monitoring and evidence that will last beyond the bid project.
- 3.2 Recent risks associated with abnormal inflation are being managed through usual project management processes, as well as with the regular funding body, DLUHC.
- 3.3 The FHSF programme must be delivered by 2023/2024. Match funding may support delivery in later years, however all FHSF monies must be spent by March 2024. Whilst spent funding is not at risk, as funds are issued under a Section 31 grant, there is pressure to deliver to spending profiles as agreed with the funder.

4. Other Options Considered

- 4.1 Significant progress has been made with the delivery of the FHSF in the preceding nine months since Members were last updated. Whilst there are future challenges anticipated, it remains key for the development and promotion of Grantham that this programme is delivered. Therefore, closing the programme and returning any unspent allocation received to DLUHC has been discounted as an option.

5. Reason for the Recommendation

- 5.1 The FHSF will provide infrastructure improvements to help unlock the potential of Grantham and assist in the promotion of the town as a place to live, work and visit. The reason for the recommendation is to ensure Members are aware of the FHSF programme, it's progress and any known implications arising.

6. Background Papers

- 6.1 *Grantham Transport Strategy* – Summary document produced by Lincolnshire County Council, published December 2022, available online at:
<https://www.lincolnshire.gov.uk/downloads/file/7215/grantham-transport-strategy-summary>
- 6.2 *Grantham Future High Streets Fund* - Report to Finance, Economic Development and Corporate Services Overview and Scrutiny Committee, published 3 May 2022, available online at:
<https://moderngov.southkesteven.gov.uk/documents/s34117/Report.pdf>

7. Appendices

- 7.1 Appendix A – Exempt plan showing individual scheme locations **not for publication**
- 7.2 Appendix B - Draft Grantham Town Team Action Plan