

Regeneration of North Road, Durham

Report of Corporate Management Team

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Councillor Neil Foster Cabinet Portfolio Holder for Economic Regeneration

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Purpose of the Report

- 1 The purpose of this report is to:
 - Inform Cabinet of a proposal to regenerate North Road, Durham, through reallocation of Council owned land & property, improvement and alteration of transport infrastructure and third party land assembly;
 - Provide a commentary on discussions with land owners and agencies;
 - Inform Cabinet of the funding mechanisms available;
 - Seek in principle support to proceed with the project.

Background

- 2 The Council's Vision for Durham City is for sustainable economic growth, to be achieved by attracting additional businesses to the City, development of related infrastructure, new housing, associated transport and community facilities. Identified within the Regeneration Statement and the County Durham Plan, North Road is recognised as a significant gateway to the City and presented with the condition of the existing built environment in this location, presents a key regeneration opportunity.
- 3 Public consultation exercises have been carried out to understand public expectations for the North Road area, the main aspirations emerging from which were to; improve the links between the rail station and the city; improve the public realm and retail offer and to remove the bus traffic from North Road.
- 4 Further engagement with third party landowners to discuss these aspirations has confirmed their willingness to participate in a redevelopment scheme, if the Council were able to de-risk the project through property acquisitions and Highway alterations that could make the offer more attractive to the development market.
- 5 Given these aspirations, two principal areas of North Road were identified (shown in **Appendix 2**) for consideration as part of a possible scope to achieve this redevelopment of North Road; a 'core development zone' taking in the poorer building stock, bus station and A690 roundabout, along with a suggested zone for 'comprehensive consideration' to redevelop the Council controlled land adjacent to Milburngate, should the aspiration to remove or significantly reduce bus traffic from this location be realised.

- 6 To gain a firmer understanding of any likely appetite for redevelopment or investment, the project team has carried out an extensive soft market testing exercise. An online Market Consultation Document was published utilising the North East Procurement Organisation (NEPO) and extensive marketing of the 'development opportunity' across national property media and within the local North-East market, for a 6 month period between July 2012 and January 2013.
- 7 Whilst around 80 agents and developers obtained the document via the online portal, the Council received only one formal 'expression of interest' from a consortium of local landowners. Principal landowners of third party interests within the 'core development' site collaborated with a major town centre development company to propose a mixed-use scheme across North Road of approximately 300,000 sq/ft, incorporating a high footfall generator 'Anchor Store', such as a retail store or cinema operator, with associated smaller retail or restaurant operators at ground level and residential units on upper floors.
- 8 Upon reviewing the 'expression of interest', it was deemed indicative at best and did not provide an adequate level of detail on the redevelopment, transport implications, or provide any form of appraisal to provide the Authority with an understanding of financial implications associated with the redevelopment.
- 9 Based upon this position, work has been undertaken to consider the best way to bring forward the regeneration of North Road by resolving key risks or barriers to redevelopment and ensuring the overall development opportunity is more attractive to the commercial market. In order to achieve this position, DCC owned assets and underperforming key pieces of infrastructure have been examined in order to find ways to kick start the wider project.

Current Position

Land Assembly

- 10 The existing bus station plot provides a significant development opportunity for a large floor plate retailer within the city centre, in that it is an unusually large and extensive flat area cut into the natural slope. The introduction of an 'Anchor Store' in this location and relocation of the bus station could create the footfall required to step change the offer of North Road, enabling over 200,000 sq ft of mixed retail and office floorspace in this and adjacent land holdings. This location provides the opportunity to minimise the visual impact of a large building, given the intervisibility of the site to that of the World Heritage Site (WHS) whilst providing a more pedestrian friendly public realm 'place' and retail environment.
- 11 Hopper House has been allocated within the Council's Asset Disposal Programme. The building incorporating the Hopper House site also incorporates two third party landowners, Age Concern House and Metcalfe House, both of whom have commenced initial negotiations with the Council in the interests of a wider regeneration project. Land ownership is shown on **Appendix 3**.
- 12 The A690 carries high volumes of traffic directly through the intended redevelopment area and the poor pedestrian infrastructure further exacerbates the connectivity from the Railway Station with the rest of the City. As the main vehicular movements are largely east / west across the city; traffic congestion would not be significantly affected by the replacement of the roundabout with a controlled crossroad junction. Along with the inclusion of the Hopper House site, this infrastructure alteration would create a much

larger development plot of a sufficient mass to encompass a relocated and improved bus station, without need to affect the Grade II listed Methodist Church.

- 13 Allocating and assembling the land as set out in paragraphs 10 to 12 will allow the public's aspirations and the Council's economic objectives to be realised through improving the links between the rail station and the city, improving the public realm and retail offer in this area and reducing the bus traffic on North Road.

Transport

- 14 Based on these aims, a transport design has now been commissioned internally for a revised junction layout and to ensure that the operational capacity, passenger safety and routing implications for a new bus station could be realised and managed effectively within this plot. An initial concept is shown in **Appendix 4**.
- 15 It is proposed that the design will incorporate a modern passenger waiting area, space for retail outlets and welfare facilities for operators. The operational capacity is being designed to incorporate the existing practice within the bus station as well as inclusion of some services currently operating from North Road/Milburngate. The potential to include coach drop off/pick up facilities is also being investigated.
- 16 The proposed layout would create a gateway and arrival point to the city from the rail and bus stations, with improved footbridge connections and considered public realm design providing an open 'place'. The design of the junction control system would be integrated with the City's proposed urban traffic management system 'SCOOT' (Split Cycle Offset Optimisation Technique) and provide better pedestrian connections with the rail station via designated controlled crossing points.

Acquisition and Displacement

- 17 The Accommodation Team are currently redeploying 70 staff from Hopper House as part of their agreed strategy. This asset will be emptied and fully decommissioned by August 2014.
- 18 Prior to commencement of the physical works, agreement to acquire both third party properties must be achieved. Investigations and informal negotiations have begun with the owners of Age Concern and Metcalfe Houses regarding the acquisition of their buildings. Both have indicated they are prepared to continue these negotiations with the Council to allow the wider regeneration of the area, but would require interim arrangements putting in place to allow continuity of their businesses. To ensure clarity and parity for all parties, both land owners have been advised that the Council's methodology for valuation and negotiation will be based on compulsory purchase order (CPO) terms.
- 19 Although in Durham County Council ownership, the existing Bus Station site carries a number of conditions within its Title with regard to future development of the site. The Conveyancing Team have produced a full Title report and are investigating the implications of this to de-risk the development of this land and property. A future report will advise the Council of the costs and legal implications of the outstanding risks identified later in the year when they are confirmed.

- 20 It should be noted that the Council's legal team has strongly advised that a CPO mechanism is progressed alongside the third party negotiations to safeguard all parties. Should a CPO be required to acquire the properties, then a report to Council to resolve to utilise CPO powers will be submitted following the normal planning process.

Financial Implications

- 21 The scheme will require the Council to incur costs but should also result in the receipt of income. The costs and income will relate to both capital and revenue.

Capital Expenditure

- 22 The Council will need to incur costs for the following:-

- (i) Purchase of land and buildings (Age Concern and Metcalfe Houses)
- (ii) Demolition and site assembly
- (iii) Highways alteration and development
- (iv) Construction of new bus station

- 23 In addition to the above the Council will also forego the forecast capital receipts from the sale of Hopper House which was previously estimated to be £1m.

The estimated capital costs are as follows:-

	£
Project Development and site preparation	1,200,000
Highways alterations	1,000,000
Construction of new bus station	4,000,000
TOTAL CAPITAL COST	6,200,000

- 24 The costs associated with project development and site preparation of £1,200,000 can be financed from the current Accommodation Strategy capital budget. A budget for the remaining £5m has been submitted into the MTFP(4) process and was approved by Cabinet on 12 February 2014 and Council on 26 February as part of the budget setting process.

Capital Receipt

- 25 Although the Council will be required to forego the £1m capital receipt there is an opportunity to generate further capital receipts as part of overall development. The following opportunities are possible:-

- (i) A receipt from the development of the current bus station site
- (ii) A contribution to the capital development costs from other land owners or beneficiaries from the bus station site
- (iii) A receipt from a Council land holding adjacent to Milburngate

- 26 The risks and issues associated with the development of these sites are considered later in the report. It is hoped however that any capital receipt received will help to offset the lost capital receipt from the Hopper House site.

Revenue Expenditure/Income

- 27 Revenue expenditure will be incurred as part of the development e.g. legal costs associated with the project development and site preparation, but it is

expected that these will be met from within Regeneration and Economic Development Service budgets.

- 28 It is hoped however that the Council would receive additional revenue income in the future from the following:-
- (i) Enhanced business rates from the planned retail development on the current bus station site; and
 - (ii) Additional business rates and council tax receipts from the possible development in the Comprehensive Development Zone
- 29 If the scheme is given approval, the Council will also benefit from beneficial Public Works Loans Board rates on £5m of borrowing. Approval in this regard was received on 30 October 2013 from the Treasury.

Core Development Site – Risks and Issues

- 30 This project does have the effect of moving the bus station a small distance further away from the existing retail core of the City, however a newly constructed bus station and Highway improvements could provide the first phase in unlocking a major retail redevelopment in North Road, allowing the Council a cleared development asset to kick start this regeneration. Officers have held discussions with the landowners and all are in agreement that there is a need to redevelop the area, with two of the principal landowners keen to enter into a joint venture with the Council to achieve the maximum redevelopment potential. Discussions regarding this next phase of redevelopment remain in their infancy and will need to be taken forward in due course. The commercial implications of the wider North Road project will be presented in a future report.
- 31 Public Realm works will be key to providing a more pedestrian friendly 'place' and retail environment. A newly developed 'North Place' will also provide a more respectful setting for the Grade II listed Methodist Church and help to draw the Public through a revitalised North Road. It is envisaged that these works can be delivered as part of a joint venture with the third party landowners once the initial transport and Highway works are completed.
- 32 Once the Highway alterations and new bus station are operational, in order to realise a capital return for the vacated area of land there is a condition placed upon the Council by One North East who provided the grant to acquire the bus station site in 2005 and fronting buildings (22-26 North Road) in 2007 that:-
- any financial uplift accruing from the disposal shall be payable to One North East.

The Homes & Communities Agency (HCA) has now inherited these funding obligations and considers this as a contingent asset in their portfolio. In order to extinguish this condition, they have proposed that any future receipt from land sales relating to the bus station project are shared proportionally in line with the prospective levels of investment from each of our respective organisations.

- 33 A financial overage condition placed upon the Council restricts the use of the existing bus station site on a reducing % until 2026. Based on the current open market valuation of the site, advice received from internal and external legal professionals suggests that this is not envisaged to have a significant financial effect on the project.

- 34 Public realm works are to be delivered as part of a joint venture with the third party landowners/developers once the initial transport and Highway works are completed. It is envisaged that the costs of this will be included within the development agreements made.
- 35 Creation of a development plot upon the vacated bus station site and joint venture with the adjacent landowners will significantly increase the available floorspace to accrue business rates and could see a rateable value increase with the expected higher quality offer in the area. The bus station buildings will not be subject to empty shop rates as tenants will remain insitu throughout the initial Highway and bus station works.
- 36 The full risks and implications of these issues will be presented as part of a future report to Cabinet.

Comprehensive Development

- 37 In order to unlock the undeveloped land adjacent to Milburngate and to realise the public's aspiration to have bus traffic removed from North Road, significant changes to the bus service routing would be required. The transport design commission has identified that to do so would place an unacceptable load on the surrounding Highway Network and the design is therefore concentrating on reducing the bus traffic on North Road instead.
- 38 A reduction in bus traffic would potentially allow the reconfiguration of the existing bus laybys adjacent to the area shown in **Appendix 2** as the 'comprehensive' development zone, although alteration to the routing of services may increase the walking distance to some passengers. This area is within the control of the Council and the principal landowner adjoining this site has expressed an interest to examine a joint venture with the Council to achieve the maximum redevelopment potential of this land. Should the transport implications allow, there will be a capital receipt resulting from this redevelopment. A previous planning application for this area was rejected at planning committee in 2009 due to impact on adjacent listed buildings and Highway implications. The proposal incorporated 71 student flats on 3 no. upper floors, 3 no. ground floor retail units and lower ground floor restaurant.

Next Steps

- 39 In order to move the project forward, the Project Team will be undertaking the following next steps:
 - Complete the transport design and progress with the works to replace the Highway infrastructure as a first phase in the redevelopment, including public consultation.
 - Solve or mitigate the legal and financial conditions placed upon the future land use of the existing bus station site.

- Refresh the land and property valuations previously carried out by the Council's Assets Team across all ownerships within the red line boundary of the project.
- Commence formal valuation and negotiation with third party owners within the red line boundary based on CPO terms; initially focussing on the acquisition of the 2 properties adjacent to Hopper House.
- Commence and complete the planning process in advance of production of a Tender for a design and build contract for the new bus station.
- Continue to engage with landowners to progress proposals for redevelopment, should the transport project be approved, to create a commercially attractive development opportunity that is feasible and viable to the investment market from the cleared bus station site.
- A Members Briefing has taken place and liaison with stakeholders is ongoing. A public consultation is to be arranged for late April/early May in a public venue on North Road. Further consultations and briefings will take place as the proposals develop, as well as through the planning process.

Recommendations and reasons

40 Cabinet are recommended to;

- Give in principle support to the scheme and agree to the progression of a project as detailed in paragraph 39 to achieve a revitalised gateway to the city with improved public realm, retail and pedestrian connectivity to key transport services by replacing the A690 roundabout with a controlled junction; relocating the bus station and associated routing within North Road and Milburngate, subject to financial resolution of the outstanding negotiations and public consultations.
- Agree to the use of a methodology based on market value, backed by CPO terms, to investigate, value, negotiate and acquire the land and property required to facilitate this redevelopment.
- Delegate authority to the Corporate Director Regeneration and Economic Development to acquire by agreement the property detailed in paragraph 22, in consultation with the Cabinet Portfolio Holder for Economic Regeneration.

A future report to Cabinet will be produced detailing the full costs and benefits to the Council and asking for full approval to the scheme.

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Appendix 1: Implications

Financial – Expected acquisition and demolition costs are expected to be in the region of £1.2m this budget is allocated within the approved Office Accommodation budget – spend profile to be approved at MOWG in May 2014. Capital development costs of £5m were approved at 12 February Cabinet as part of MTFP(4). Capital receipts issues are covered in the report.

Other financial implications for the wider project will be detailed in a future report.

Staffing – Staff time.

Risk - A corporate risk profile summarises risks as follows;

- Land acquisition and legal mechanisms
- Transport design & analysis work - provision of an adequate and acceptable design to be concluded and accepted by officers
- Future land use & implications
- Future Joint Venture/Development Agreement
- Planning Permissions

Equality and Diversity – Considered design will provide better pedestrian connectivity with key transport gateways to the city.

Accommodation – The proposal includes Council owned Hopper House which has been identified on the Asset Disposal Register.

Crime and Disorder- Considered design of a new bus station can work to reduce anti social behaviour currently experienced within the North Road area and existing bus station.

Human Rights - None

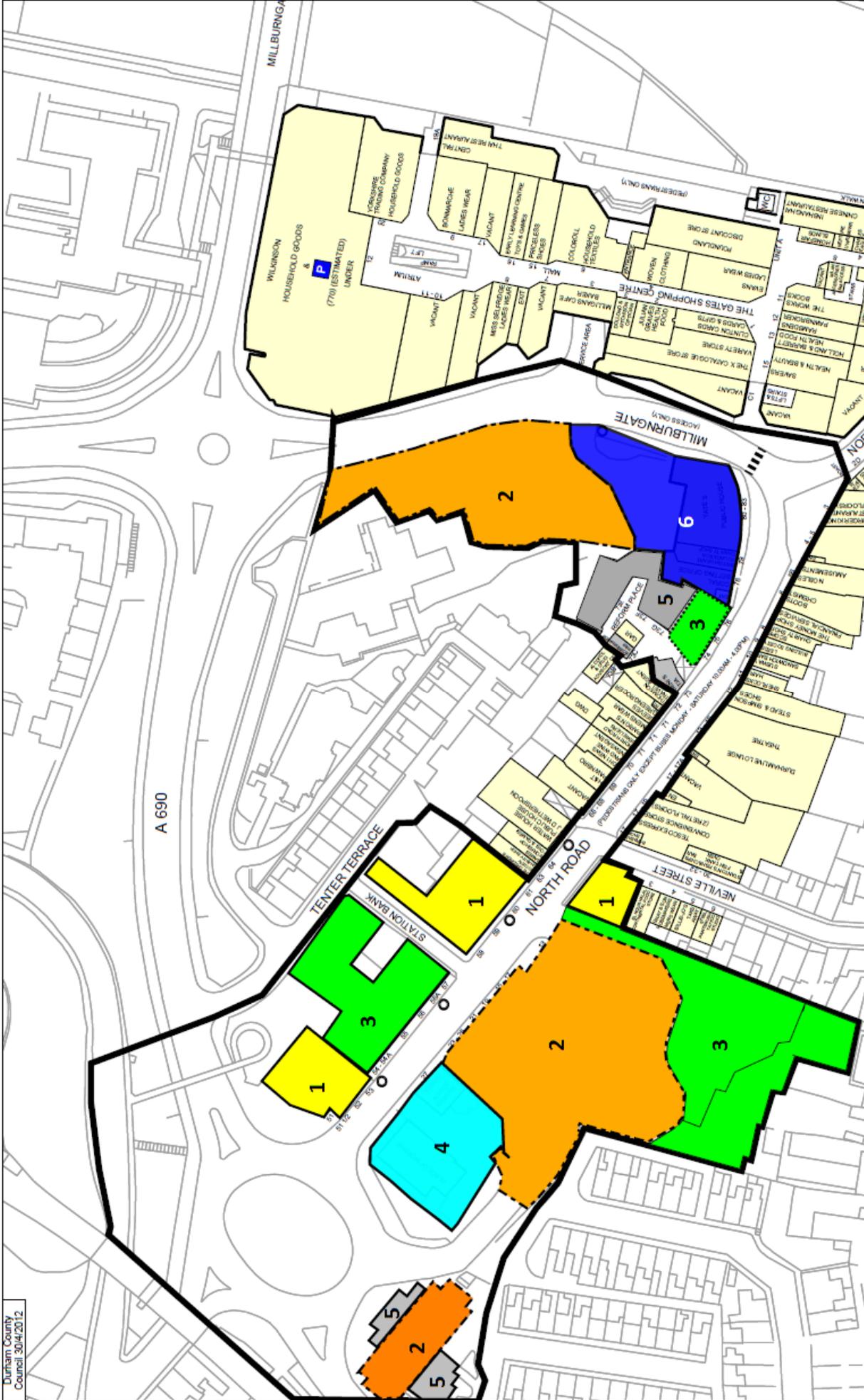
Consultation - Consultation exercises have been carried out with the public, landowners, potential businesses and business providers in the locality. Although unplanned - any prospective listed building demolition consents would require further consultation with Public & stakeholders. A communications & consultation plan has been established moving forward with relevant milestones identified.

Procurement – Procurement will be carried out through Durham County Council's standard procedures. The procurement team have been involved with production of the Market Consultation Document. Transport design and construction work will be carried out in house with the bus station design & build contract to be awarded following appropriate procurement.

Disability Discrimination Act – All new design will adhere to DDA recommendations.

Legal Implications – CPO powers may need to be invoked at a future point should informal negotiations indicate this is required. Any agreement on future Joint Venture/Development Agreements for the wider redevelopment of the area will require detailed legal input.

Appendix 3: Land Ownership in North Road, Durham City



1	TJD Property	4	North Road Methodist Church
2	Durham County Council	5	Information available on request
3	Rocktree Group	6	Mr & Mrs Ward

Appendix 4 - North Place Concept Design



Excerpt from draft transport design document. Please note this design proposal is purely indicative at this stage.