

Appendix 1

TOWN CENTRE REGENERATION STRATEGY DENNY TOWN CENTRE

OPTIONS APPRAISAL

1.0 INTRODUCTION

- 1.1 It was expected under the current development agreement that Henry Boot would submit a detailed planning application by 27th May 2011, acquire the balance of the interests and deliver the new town centre. However before Henry Boot initiates this process they require a commitment from a foodstore operator. Unfortunately, despite an ongoing discussion with operators, as at September 2011, no serious interest has been secured. As the planning application was not submitted by 27th May 2011 either party can now resile from the development agreement. The Council therefore has to consider the options available to deliver the regeneration project. The options (summarised in the Table 1 attached) are:-

1. **Henry Boot Led: Await commitment from a Foodstore operator.**
2. **Falkirk Council Led: Phased development.**

2.0 Option 1: Henry Boot Led: Await commitment from a Foodstore operator

- 2.1 This option continues the Council's partnership arrangement with Henry Boot as detailed in the development agreement and adopts the current outline of the masterplan. It includes the following:

- Council's 5 residential sites worth £1.9m to be transferred to the developer.
- A requirement for the Council to provide a maximum funding balance of £4.5m.
- Developers profit reduced.
- Upfront development cost of £12.6m to be the responsibility of the developer.
- Development risk in the management and delivery of the scheme is the responsibility of the developer.
- Falkirk Council's outlay to date on acquisitions and demolition of £800,000 to be repaid by Henry Boot.

- 2.2 The Council approved this option last year. Although the overall cost of a Council led development could be lower than this developer led option, significant up front capital funds were required for delivery. The risks associated with delivering and managing the project were also considered to be excessive. In addition, Henry Boot agreed to reduce their developer profit level which the

District Valuer considered to be extremely low. The District Valuer confirmed that the financial appraisal provided by the developer for this option represented 'best value' to the Council at that time given the economic climate. As a means of assisting the progress of this option, Henry Boot has suggested that the Council might take a rental guarantee of the foodstore element if required, to the value of £6.7m maximum. This would enable Henry Boot to proceed with the development. However a requirement to provide a rental guarantee offers no additional benefit to the Council and it is suggested that this option be declined.

3.0 Option 2: Council-Led: Phased Development

3.1 This option could be initiated on termination of Henry Boot's interest in the scheme. The Council would lead this development and would need to find the capital and staff resources to take forward the project on its own. It is assumed that a foodstore cannot be found at this stage and rather than delay progress in the regeneration of Denny Town Centre, a first phase is taken forward as outlined in the plan attached creating two cleared sites to be marketed in the future. The site at the north end of the town centre could be marketed at an early stage and on an ongoing basis to attract an early interest from an investor/foodstore to benefit from an integrated approach to overall project development, the receipt helping to support the Council's funding requirements. The second site on Duke Street could be marketed once the Council's commercial development block is completed. The implications of this option are:

- Council's 5 residential sites worth £1.9m continue to be owned by the Council.
- There would be no requirement to pay a developers profit or funding guarantee.
- Delivers first phase of the regeneration scheme.
- Upfront capital costs to be met by the Council, estimated at £5.95m.
- Council staff resources need to be provided to lead the scheme.
- Two cleared sites available for subsequent disposal.
- Council accepts developer risks, e.g. cost over-runs.
- Falkirk Council's initial acquisition and demolition outlay of £800,000 would not be reimbursed by Henry Boot

3.2 The main issues with this option are that the Council will be required to fund the development costs of £5.95m through its capital programme and it provides only one phase of the scheme. On conclusion, the Council would hold the new development worth approximately £1.5m and two cleared sites which subject to future demand, are estimated to be worth £1.1m.

4.0 CONCLUSION

4.1 The cost to the Council of progressing the regeneration scheme will vary depending on which option is chosen as outlined in the table below:-

	Option 1	Option 2
Initial Acquisition costs incurred (would be reimbursed by HB)		-£0.8m
Up Front Capital Cost	£Nil	-£5.95m
Capital Cost to Council on Completion	-£4.5m (max)	£Nil
Capital cost to Council of Residential site transfer	-£1.9m	£Nil
Development Value to the Council on Completion	£1.1m (Incl. Library)	£3.7m (Incl. Library)
Total Deficit to Council	-£5.3m (max)	-£3.05m

- 4.2 Although the deficit to the Council identified above is substantially lower with Option 2, there are clear advantages at the current time in keeping the initial cost to the Council as low as possible. Option 1 identifies no initial capital cost to the Council with a maximum future Council commitment of up to £4.5m plus the 5 residential sites currently valued at £1.9m. There are no risks of additional cost to the Council as the delivery of the project and risks lies with the developer. The second option is Council led therefore although the table identifies predicted costs, values and therefore Council deficit, the Council is at risk of costs increasing affecting the scale of the Councils financial input. Option 1 identifies a worst case position whereas the Council led option is based on predicted values rather than worst case.
- 4.3 Notwithstanding the risks to the Council outlined above with regard to Option 2, the project faces fundamental constraints at the current time due to market conditions affecting the interest shown from foodstore operators. Henry Boot will not progress their scheme (Option 1) without a commitment from a foodstore operator.
- 4.4 As there is no substantive interest from a foodstore operator at this time there is clear concern that there is no certainty of timescale for the delivery of Option 1 or if it would be delivered at all given that it is subject to third party commitment out with the control of both the Council and developer. The option of entering into a rental guarantee offers no additional benefit to the Council. The Council is committed to the regeneration of Denny Town Centre within a reasonable timescale and cannot delay the project to await foodstore interest. It is therefore clear that the best available option is Option 2 providing the opportunity to progress the phased redevelopment of the town centre without the requirement to await a foodstore operator commitment.