

Report to:	Cabinet	Date: 22 March 2022
Subject:	Approval of Bury town centre regeneration joint venture with Bruntwood and acquisition of the Mill Gate estate	
Report of	Leader and Cabinet Member for Finance and Growth	

Summary

1. On 17 November 2021 Cabinet approved in principle the Council entering into a joint venture with Bruntwood for the purposes of acquiring and developing the Mill Gate estate as part of the regeneration of Bury town centre.
2. This report makes the case for the acquisition and the joint venture in the context of the regeneration of Bury as a whole and our aim to improve the lives of local people and the Bury economy. This report, and the accompanying Part B report, sets out the specialist advice the Council has received on the terms of the acquisition, the joint venture and the results of due diligence on the asset and proposed commercial arrangements.
3. Members are asked to note that subject to their approval to this report, the acquisition will take place prior to the next Cabinet meeting.

Recommendation(s)

That Cabinet:

1. Approve entering the joint venture vehicle with Bruntwood in accordance with the commercial terms included within Part B of this report.
2. Approve the acquisition of the Mill Gate estate in accordance with the commercial terms included within Part B of this report,
3. Approve the funding arrangements for the acquisition in accordance with the terms set out in Part B of this report.
4. Delegate any further approvals relating to additional due diligence work to the Chief Executive in consultation with the Monitoring Officer and Section 151 Officer.
5. Instruct the Monitoring Officer to enter into and complete all necessary documents to give effect to the acquisition and the delivery of this proposal through the joint venture partnership.

Reasons for recommendation(s)

1. To create a delivery vehicle that is funded through commercial rental receipts, to develop the Mill Gate estate and unlock new opportunities for employment, leisure, serviced offices, food and beverage outlets and hundreds of new affordable homes whilst positively contributing to efforts to support the economic resilience of the town centre. The Mill Gate estate developments will also create enhanced public realm areas.
2. To avoid the shopping centre being acquired by an 'income-investor' who would potentially extract surpluses from the centre for short term gain rather than re-investing in the estate. To secure its long-term future, thus necessitating public sector intervention further down the line at potentially great cost. In many locations Local Authorities end-up under enormous pressure to intervene when a facility is being mis-managed, and often this will require a premium above market value to be paid and a series of rectification works following potentially many years of neglect.
3. Bury Town Centre Masterplan identifies further development opportunities to the south of Angouleme Way as well as other areas of Bury East ward. The acquisition of the Mill Gate estate will also facilitate physical reconnection and attract investment that will have a positive impact on the surrounding communities.

Alternative options considered and rejected

1. Council to not act and leave the matter to market forces. This option was rejected because if the shopping centre were to be purchased by a third party, they may not be motivated to reinvest income to maintain the centre to a high standard. This may contribute to the condition of the centre declining, thus resulting in a further detrimental effect on the wider town centre.
2. Working with the vendor was originally an option, assisting in their search for a development or investment partner. However, this was discounted as an option as the vendors desired disposal timeframe.
3. Council to purchase the Millgate estate for strategic development without a partner. This was discounted as the Council does not have sufficient in-house capacity or expertise to deliver on this scale and level of ambition.

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1. Background

- 1.1 This report updates Members on the work carried out following the November Cabinet meeting. The due diligence has taken slightly longer than envisaged but is now complete. Accordingly this report presents for approval the financial and legal terms for both the acquisition and the joint venture with Bruntwood. The commercial details of both are within the report at Part B of this agenda.
- 1.2 The acquisition will involve the Council acquiring additional interests in the Mill Gate estate, these matters will be subject to commercial negotiation. Full details are set out in part B of this report.

2. Strategic Case for Acquisition

- 2.1. A comprehensive case for the Council to acquire the Mill Gate estate was set out in the report considered by Cabinet in November last year. It is important to restate the key reasons as the basis of the recommendation that Cabinet now approve the commercial terms of the transaction.
- 2.2. The goal of the Let's Do It strategy, the ten year strategy for the Borough, is for Bury to stand out as a place that is achieving faster economic growth than the national average, with lower than national average levels of deprivation. Delivering that goal will require each of the Borough's town centres to be successful drivers of economic growth. This is particularly true of Bury town centre as the Borough's main retail and commercial centre attracting trade from across the north of Greater Manchester and beyond.
- 2.3. The growth of on-line shopping, amplified by Covid, presents a fundamental challenge to the future sustainability of the town centre. The Council and its partners are meeting that challenge with a bold plan to underpin physical retail by diversifying the reasons why people are drawn to Bury town centre and to increase footfall. That plan is the Bury Town Centre Masterplan.

- 2.4. The key concepts of the Bury Town Centre Masterplan were approved by Cabinet at the same meeting that the principle of acquiring the Mill Gate estate was approved last November. Cabinet subsequently approved a draft of the Masterplan for the purposes of consultation on 15 December. Since then there has been extensive consultation on the Masterplan and the final version, amended in the light of comments received, was approved by Cabinet at its last meeting on 9 March.
- 2.5. One of the most important character zones established by the Masterplan is the Retail Heart which includes Mill Gate, the Rock shopping centre and Bury Market. The Masterplan identifies opportunities to consolidate and diversify the current Mill Gate retail offer with the addition of new residential, leisure uses, serviced offices and food and beverage uses. The acquisition of the centre and the joint venture with Bruntwood provide the control, investment and expertise to deliver those opportunities.
- 2.6. The Masterplan creates the means to coordinate the development of Mill Gate with the wider public and private investment already secured for Bury town centre, including:
- the new Metrolink station and transport interchange;
 - the new Bury Market Flexi Hall;
 - the Bury Town Centre Business Improvement District, subject to the ballot currently underway;
 - the new centre for health innovation and related technologies at Bury College;
 - the new hotel development on the site of the former Fire Station; and
 - phase two of the Chamber Hall industrial site.
 - The strategic coordination of these current initiatives will provide the context to attract future public and private investment to support the delivery of the Masterplan as a whole.
- 2.7. The acquisition of Mill Gate and the joint venture with Bruntwood will also make a significant contribution to the Let's Do It strategy goal of lower than national average levels of deprivation. The acquisition and joint venture give the Council and Bruntwood the levers to shape the future of Mill Gate as part of the wider Masterplan and to help connect the economic success of the town centre to the adjacent neighbourhoods, particularly parts of East Bury which contain some of the deepest and most enduring levels of deprivation in the Borough.
- 2.8. At its meeting on 11 January Cabinet approved the creation of a Bury Town Centre Advisory Panel, with terms of reference which will enable the Council to bring the redevelopment of Mill Gate together with the wider range of projects described above to produce the maximum benefit to the economic future of the town centre and the maximum social and economic benefit for the people living in the surrounding communities.
- 2.9. The current owners have decided to dispose of their interests in the Mill Gate estate as soon as possible. If the Council does not intervene to acquire the centre at this time there is a risk of it is being acquired by an income investor who will potentially extract surpluses from the centre for short-

term gain rather than investing in the estate. In these circumstances the regeneration opportunities set out above would be much more difficult, if not impossible, to achieve.

3. Acquisition Price

- 3.1 A factual report has been provided by CBRE setting out the valuation of the acquisition. This report is essential to ensure that the Council is achieving value for money and responsible use of public money. This report sets out a range of valuations for the centre based upon the rental income and future lease assumptions, physical state of the asset and any associated capital costs to rectify and maintain the centre. Legal due diligence on title and survey reports have informed this report. The valuation is appended to Part B of this report.

4. Strategic Case for the Joint Venture

- 4.1. On its own the Council does not have the capacity or capability to deliver the regeneration of the Mill Gate estate. As explained in the report to Cabinet on 17 November, Bruntwood bring decades of experience in city and town centre development and successful place making schemes. The joint venture will bring Bruntwood's skills and resources to enable efficient and effective delivery of the development outputs described in section nine of this report.
- 4.2. Bruntwood are also a successful commercial organisation with a moral purpose and they have made a significant contribution to cutting edge social, cultural and environmental initiatives. As the Council's joint venture partner Bruntwood will play a leading role in the Advisory Board referred to in paragraph 2.8 above and in that way contribute to the wider place shaping of Bury town centre and the reduction of deprivation in East Bury.

5. Summary of completed Due Diligence

- 5.1 Since Cabinet approved the principle of acquiring the Mill Gate estate in November 2021, specialist expertise has been commissioned to advise the Council on the legal, commercial, and financial arrangements for the transaction. This advice has included detailed work on all aspects of due diligence.
- 5.2 The advice received and the outcomes of the due diligence work are summarised below and set out in detail in Part B of this report.

6. Asset Due Diligence

- 6.1 The Council commissioned CBRE to undertake a transaction management and execution advisory role to assist with the commercial aspects of the acquisition. This included advice and monitoring of shopping centre and occupational and investment markets. This work has included analysis of tenancy and income for the Mill Gate estate. The role has also included a

review of the technical due diligence and a commercial assessment of impacts of this advice.

6.2 CBRE have monitored the asset and provided ongoing advice as required.

6.3 Full details of the Commercial Asset Due Diligence are contained within Part B of this report.

7. Technical Due Diligence

7.1 MACE Limited were appointed to provide Technical Due Diligence advice in respect of the proposed acquisition. MACE have undertaken a full building survey of the property and also coordinated a number of further surveys to feed into a Technical Due Diligence report provided.

7.2 The surveys and assessments feeding into the overall technical due diligence were:

- 8. Building survey
- 9. Mechanical & Electrical survey
- 10. Phase 1 Geotechnical and Environmental report
- 11. Structural Engineers report on the multistorey car park

7.3 Copies of the technical report and other surveys undertaken are included within Part B of this report.

7.4 MACE have provided the following summary of their recommendations, these are fully set out in the Part B report and action taken following receipt of these reports. We are advised that there are no significant technical issues preventing the proposed acquisition.

8. Title Reporting

8.1 Addleshaw Goddard have been appointed as advisors to the Council. Significant work has been undertaken to review the titles and occupational leases on behalf of the joint venture partners. The title structure for the Mill Gate estate is complex and comprises of 18 separate titles a mix of leasehold and freehold. Full details of investigations into the title are included within Part B of this report.

8.2 The Council holds an interest in the head lease (eighty percent), the Council will be required to assign the lease to enable the purchase to proceed. The Council's interest as head lessor will be fully protected.

9. Joint Venture Due Diligence

9.1 Expert external advice has also been obtained to support the Council's assessment of arrangements for the joint venture with Bruntwood.

9.2 CBRE have provided further advice to the Council on joint venture structuring and agreement. This has included liaison with council officers,

council legal advisors and Bruntwood as to the best structure between the Council and Bruntwood.

- 9.3 Addleshaw Goddard have provided legal advice to the Council on the formation of the joint venture with Bruntwood, including advice on the joint venture agreement, the funding/loan structure along with the managed service agreement between the joint venture and Bruntwood.
- 9.4 Further advice on the joint venture has been provided by the Greater Manchester Combined Authority (GMCA).
- 9.5 Full details of the commercial and legal advice are included within Part B of this report.

10. Financial Due Diligence

- 10.1 GMCA have provided input and advice to the council in respect of the financial implications of the joint venture with Bruntwood.
- 10.2 The principles of the funding arrangements are as follows:
 - a. Joint venture formed between Bury Council and Bruntwood
 - b. Joint venture will borrow funds from Bury Council to fund acquisition
 - c. The Council will procure funding via Public Works Loan Board and charge the joint venture cost + a premium to reflect commercial loan rates. Cost will include interest plus minimum revenue provision.
 - d. The Council will secure its borrowing against the asset
 - e. The joint venture will utilise working capital and commercial revenue to fund development activity to planning stage
 - f. Land receipts will be generated from disposals with various options for recycling as capital or repayment of debt
 - g. Longer term it is envisaged that the Council will exit this arrangement in due course with options including commercial refinancing of the income producing asset
- 10.3 Advice has been given in respect of subsidy control issues and the applicability of the public procurement rules and their applicability to the managed services agreement. Copies of this advice are attached to the Part B report. Full details of the financial due diligence relating to the joint venture are outlined in Part B of this report.

11. Development Outputs

- 11.1 Bruntwood and Bury Council have commenced work on capacity planning and mapping out development opportunities across the Mill Gate estate. Whilst still in its infancy a masterplan is emerging based on the following principles:
 - Opportunity to improve Bury town centre, create new civic spaces / connectivity and complement Bury Market, the transport interchange and The Rock.

- Retaining all retailers in the Mill Gate who wish to remain and have viable businesses.
- Scoping development phases in the short term that require minimal intervention.
- Identify medium term development opportunities facilitated through active asset management.
- That Mill Gate Shopping Centre will remain an operational shopping centre throughout each development phase.

11.2 The Mill Gate estate extends to 15-acres with significant opportunities within its boundaries but also the ability to deliver transformational change across the wider town centre including:

- Improve town centre connectivity, improving footfall by facilitating a link between the rock and the transport interchange.
- Ability to reconsider some of the access roads to free land for placemaking.
- Create breathing space between the Market and the shopping centre through good quality public realm whilst unlocking potential investment opportunities.
- Ability to rationalise low or poor use of space, potential surplus land and yards to intensify use.
- Mixed tenure residential.
- Range of employment and commercial spaces.
- Community and civic hubs.
- Health and wellbeing facilities.

11.3 It is envisaged that the wider programme will be that of long-term stewardship to deliver the evolution of the town centre. Whilst the initial phases are envisaged to be delivered in the short term, the overall programme may take a decade or more to complete. The joint venture will continually develop its business plan, the development masterplan and construction programme. It is envisaged that the details of individual development phases will be submitted to the Regeneration Projects Board and/or Cabinet for approval at the appropriate points.

11.4 Whilst plans are evolving and subject to a number of assumptions, it is anticipated that several short-term phases of development will be brought forward. These plans include creation of improved pedestrian links between The Rock, Mill Gate and the transport interchange. Along with mixed-use development with residential above with retail and food and beverage units providing active frontages on the ground floor. The initial phases' plans also include visible improvements around the site signifying the regeneration of the Mill Gate estate.

11.5 Further longer-term phases are being worked up subject to de-risking of abnormal costs, vacant possession and potential selective demolition providing further opportunity for commercial space on upper floors and improved retail and food and beverage on the ground floor. This will seek to transform the visitor experience to this area of the Town Centre.

- 11.6 Subject to confirmation in due course, clarification of viability and constraints, the overall outline capacity of the entire estate has the potential to deliver a significant number of new homes on brownfield land. The quantum will vary depending on other commercial and civic functions included within initial phases however the estate has the potential to deliver a considerable supply of brownfield homes.

Links with the Corporate Priorities:

1. The regeneration of Bury Town Centre supports delivery of the Let's Do It strategy and the five themes that underpin the plan.
 2. The five themes all have a correlation to how we design our Towns. As we move towards a future in urban areas where people travel less, buy more locally, work and access local services, we need vital and liveable neighbourhoods. This means the Council must think carefully about neighbourhoods and how they can be either built or re-designed to work well. The five themes are summarised below and how they link into the vision for Bury Town Centre.
 3. Healthy Communities: The acquisition of the Mill Gate provides options for providing new community infrastructure including adult learning, civic facilities and other health related services will be a true connection to the community. The implementation of active travel, walking and cycling routes connecting people with local amenities and increasing the availability of public open space will enable the community in Bury Town Centre and surrounding suburban to reconnect and thrive.
 4. Carbon neutral: We need to use every opportunity to ensure that development in Bury Town Centre on our land is carbon neutral and prioritises active travel.
 5. Inclusion: making sure that everyone's voice is heard, this will absolutely be a focus through the Consultation of the regeneration work.
 6. Digital first: the full fibre roll out has enabled access to faster speeds and future-proofed infrastructure. This presents an excellent opportunity for the businesses and community with Bury Town Centre being the ideal location to cultivate new business growth, encourage start up SMEs, promote digital growth, and deliver tech enabled employment space.
 7. Inclusive Growth: the regeneration scheme at the Mill Gate in Bury Town Centre will include investment in physical infrastructure (roads, cycle ways and public transport); creating more flexible and innovative/digital workspaces to encourage more businesses to open and remain in Bury; to ensure residents have the best chance to access good jobs.
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Equality Impact and Considerations:

1. Under section 149 of the Equality Act 2010, the 'general duty' on public authorities is set out as follows:
 2. A public authority must, in the exercise of its functions, have due regard to the need to -
 - a. eliminate discrimination, harassment, victimisation, and any other conduct that is prohibited by or under this Act.
 - b. advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it.
 - c. foster good relations between persons who share a relevant protected characteristic and persons who do not share it.
 3. The public sector equality duty (specific duty) requires us to consider how we can positively contribute to the advancement of equality and good relations and demonstrate that we are paying 'due regard' in our decision making in the design of policies and in the delivery of services.
 4. If proposals are brought forward to Cabinet in due course for comprehensive redevelopment, a full resident and wider community engagement strategy will be included.
 5. Our Corporate Plan 2022/23 sets out key themes, principles, and deliverables to support the Borough of Bury as it recovers from the local impact of the Covid-19 pandemic and builds a better and brighter future for our population, communities, and businesses.
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Environmental Impact and Considerations:

1. Bury Town Centre is a highly sustainable location, with a major transport interchange which links to the 100-station Manchester Metrolink system, the town centre is also a major bus hub for north Greater Manchester and contains significant cycling and walking infrastructure.
 2. The Mill Gate estate occupies a 15.2-acre brownfield site in the centre of the town. This presents the opportunity to introduce a significant residential capacity in the heart of a highly sustainable town-centre, one which is not car-dependent.
 3. The Shopping Centre itself is of a certain age and the opportunity for refurbishment and redevelopment will enable the estate to reduce its carbon footprint over time.
 4. The Council has pledged to be Zero Carbon by 2038. We will be mindful of this when redeveloping the Mill Gate Estate.
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Assessment and Mitigation of Risk:

Risk / opportunity	Mitigation
Risk: Consideration of acquisition	Council has received external valuation and strategic advice on the development potential that supports assessment of value for money.
Risk: Choice of JV partner	Bruntwood have an extensive track record of successfully delivering regeneration projects that transform urban areas .
Risk: Formation of joint venture	The joint venture will be formed prior to the acquisition of the Mill Gate estate. This has been subject to independent legal advice regarding the Council's powers to enter in to Joint Venture arrangements.
Risk: Borrowing risk	Any Council lending is secured against the asset. The council can secure income in the event of default. Consideration is proportionate to the alternative land value. Appropriate loan guarantees will be in place.
Risk: Commercial income Voids increase, and tenants depart, reducing commercial rental income and limiting development expenditure	The joint venture will ensure the current asset, letting and property management arrangements are kept in place to maintain continuity and high standards. The JV will work with existing and new tenants to ensure the centre occupation levels are maintained. Where vacancies do appear, consolidation of space will create development opportunities and will be considered for redevelopment. Following receipt of planning and confirmation of viability, land disposal capital receipts will replace commercial rental income through debt repayment options.
Risk: Development risk	Development opportunities will be identified based on local planning policies.
Opportunity: Hundreds of brownfield homes	Higher density housing developments will unlock hundreds of new homes on brownfield land. The Council will ensure that any residential development will include a mix of tenures and typologies to meet demand.
Opportunity: New employment opportunities	The creation of new commercial spaces will unlock new economic growth.

Legal Implications:

The council can rely on the general power of competence set out in s1 of the Localism Act 2011 and/or its power to invest under s 112 of the Local Government Act 2003 in entering into these legal arrangements.

Extensive legal due diligence has taken place in relation to the title and the occupational leases. Addleshaw Goddard Solicitors have been instructed and have provided detailed legal advice on the legal model, subsidy regime and the applicability of the public procurement regulations in relation to the managed services agreement. Copies of this and draft legal arrangements are appended to the part B report.

Arrangements to assign the head lease are being undertaken to enable the transaction to take place.

Financial Implications:

With the support of external experts and colleagues at the Greater Manchester Combined Authority extensive due diligence has been undertaken in relation to the acquisition price of the Mill Gate estate and the business plan for the joint venture. The acquisition will be via a loan drawn down from the public works loan board. This has been built into the Councils capital programme.

Once the various development phases are complete there will be further income to the Council in the form of additional business rates and Council tax. This will be built into future iterations of the medium term financial strategy once timing and types of dwelling have been determined.

Background papers:

Please list any background documents to this report and include a hyperlink where possible.

Report to Cabinet 18th November 2021 – Acquisition of the Mill Gate estate Bury

Please include a glossary of terms, abbreviations and acronyms used in this report.

Term	Meaning
jv	Joint venture