

# WEST NORTHAMPTONSHIRE COUNCIL

## CABINET

Tuesday 13 June 2023

### Cabinet Member for Economic Development, Town Centre Regeneration and Growth: Councillor Daniel Lister

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**Report Title** Update to the Northampton Railway Station Multi Story Car Park  
Proposal

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#### List of Approvers

<b>Monitoring Officer</b>	Catherine Whitehead	24/05/2023
<b>Chief Finance Officer (S.151)</b>	Martin Henry	24/05/2023
<b>Other Director</b>	Jane Carr	24/05/2023
<b>Communications Lead/Head of Communications</b>	Craig Forsyth	24/05/2023

#### 1. Purpose of Report

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- 1.1 The purpose of this report is to update Cabinet on the changes to the structure of the arrangements for a new Multi Story Car Park at Northampton Station that are being proposed since the previous report that was taken to Cabinet on this matter in December 2021.

#### 2. Executive Summary

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- 2.1 Since the new Northampton train station was opened in January 2015 there has been the intention to provide a MSCP due to the known undersupply of parking there. The development of the MSCP would free up land for the development of the wider site to provide a better gateway into the town while bringing forward brownfield development sites.

- 2.2 Network Rail (NR), Blocwork (NR's development partner), and the council have been working together to investigate the best mechanism to bring the MSCP forward. This would enable the wider site development which would support the continued economic growth and prosperity of the town and make significant enhancements to the overall environmental quality and pedestrian connectivity of the surrounding area.
- 2.3 In December 2021 West Northants Council (WNC) Cabinet approved entering into an Agreement for Lease and subsequent Lease for a new Multi Story Car Park (MSCP) at Northampton Railway Station. Since this time there have been significant changes within the economy which has impacted the proposed terms, structure and risk profile of the project that needs to be reported to senior officers.
- 2.4 Since December 2021 there have been significant changes within the economy which has impacted the proposed terms, structure and risk profile of the project. With the Bank of England base rate increasing, the financial terms for the project have changed with the commencing rent also increasing. For the project to still represent Value for Money, the assumed operating model has needed to be changed, along with other areas for the arrangements to continue to meet similar financial returns in the forecast in line with what was taken to Cabinet.
- 2.5 Further to this a new lease structure is proposed which has the potential to be advantageous to the council as it will allow the council to claim sale and leaseback relief (the "Relief") from SDLT.
- 2.6 The above lease structure will enable the construction works to be funded through a forward funding deal with a financial institution (such as Legal and General, M&G, Aviva, Canada Life). This type of funding structure relies on the council covenant strength, however it will mean that the council is exposed to car parking income risk throughout the duration of the Sub-underlease.
- 2.7 The updated financial model shows that the base case can still achieve the same level as profit the council could expect a net profit of £16.759m at the end of the 40-year term by the developer taking a lower level of profit, the council opting to operate the car park rather than commissioning a company to do this and through other mechanisms noted below.
- 2.8 The updated financial model has been run against a range of sensitivities to reflect potential changes to inflation and demand, the council continues to make a profit over the term in all but the most extreme of circumstances. A revised forecast setting out full analysis of the terms is included as a private appendix A.
- 2.9 Authority is sought to proceed on the new terms as set out within this report and to complete the arrangements, subject to these meeting or improving on the terms set out in this report.

### **3. Recommendations**

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- 3.1 Cabinet is asked to:
- a) Note the work undertaken since the cabinet report of December 2021.
  - b) Approve the terms as set out in the private Appendix A for entering into an Agreement for Headlease and subsequent Headlease, Agreement for Underlease and subsequent Underlease and an Agreement for Sub-Underlease and subsequent Sub-underlease of the new MSCP at Northampton Railway Station.

- c) Delegate authority to the Director of communities and Opportunities in consultation with Chief Finance Officer, the Monitoring Officer and the Cabinet Member for Economic Development, Town Centre Regeneration and Growth and Economy to take the final decision, take all necessary steps and complete the necessary documentation related to the new MSCP at Northampton Railway Station subject to (d) below
- d) Agree that the Council should only proceed with the proposed lease arrangements subject to the overall business case continuing to show a profit for the council. This will be assessed prior to entering into the agreements by the Head of Major Project and Regeneration.

### 3.2 Reason for Recommendations

- a) The proposal would help to achieve a number of key objectives including helping to meet an identified undersupply of car parking and providing a new income stream for the council. Meeting an undersupply of car parking at this site will support economic growth and the prosperity of the town and make significant enhancements to the overall environmental and pedestrian connectivity of the surrounding area. The recommendations enable the scheme to proceed, whilst there remain outstanding risks and interdependencies, without these approvals, the project could not continue at this stage.

## 4. Report Background

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- 4.1 A proposal for the council to enter a 40-year income strip arrangement was recommended as the best route for this, which would enable the construction works to be funded through a forward funding deal with a financial institution (such as Legal and General, M&G, Aviva, Canada Life).
- 4.2 Without the council's covenant strength, the car park proposal will not come forward as it would fail to achieve a minimum level of commercial return, and therefore is unlikely to attract a commercial delivery partner.
- 4.3 As well as the pure financial case for the delivery of the car park the project also has significant benefits of unlocking the wider station gateway. The current station car park and forecourt area do not create a good impression when arriving at the station and through the delivery of the MSCP space is freed up for new residential and commercial plots that will be able to come forward.
- 4.4 This approach was presented and agreed by cabinet at its meeting in December 2021 with the following terms agreed:
  - Maximum Lease term – 40 years
  - Maximum yield 2.6%
  - Inflation limits of a minimum of 1% and maximum of 4%
- 4.5 It noted that the next stage of due diligence would be undertaken by council officers alongside our professional advisors to complete the arrangements, subject to these meeting or improving on the terms set out in the report.

### Enterprise Zone agreement of Business Rate Retention

- 4.6 As the station sits within the Northampton Waterside Enterprise Zone (NWEZ) the business rate uplift is retained by the council, as the administrator of the NWEZ, and can be used on projects as agreed by the Northampton Waterside Enterprise Zone Board and the South East Midlands Local Enterprise Partnership (SEMLEP). It was recommended in the December 21 Cabinet report

(Appendix A) that the Council should only proceed with the proposed lease arrangements subject to gaining approval from the SEMLEP and Northampton Waterside Enterprise Zone (NWEZ) Boards that the business rates from the proposed development can be retained for use on the project.

- 4.7 The Northampton Waterside Enterprise Zone Board and SEMLEP Board agreed to this at the board meetings in May 2022.

### **Parking Demand**

- 4.8 A parking demand study was undertaken to support the December 2021 Cabinet decision which built in a medium-term impact of COVID-19 and it being assumed that over the long-term demand for rail travel and the associated car parking will continue. Figures for the demand returning to previous levels over the long term were built into the forecast.
- 4.9 It was noted that a further demand assessment would be undertaken in Spring 2022 to assess the recovery following the pandemic. This was delayed until Summer 2022, given further movement restrictions that were put in place during the winter of 2022/23, to provide a more robust picture of rail parking demand with the findings compared to what was anticipated within the December 2021 Cabinet report. While overall recovery was found to be strong their travel demand patterns have changed with a stronger leisure market and continuing weakness of commuter and business travel. Additionally, there appears to be a concentration of demand into Tuesday / Wednesday and Thursday potentially related to working from home being preferred on Monday and Friday.
- 4.10 The study was supported by direct traffic counts over a 4-week period in May / June 2022. This showed an average of over 5,000 total vehicle movements per day via the station approach road. A car park count at the start of the survey was used to develop overall occupancy, which was slightly higher than that reported by WMT. Weekday average occupancy was 47% with a maximum of 68%, whilst weekend average was 30%. This supports the overall trends of market recovery, particularly the midweek concentration of demand and the increase in leisure trips.
- 4.11 This report found that parking demand has continued to improve following Covid but at a slightly lower level than built into the forecast included in the previous report. A reduction in the forecasted demand for the car park was made to account for the changes set out within report with the anticipated first year income reducing from over £2m to £1.735m
- 4.12 A further update to this report (Appendix B) has been undertaken in March 2023 to get the up-to-date position. The results in the report are broadly positive showing demand recovering in line with the previous forecasts with further rail services now running, having been reduced since Covid. Although further services are now running it is still anticipated that it will take time for passenger behaviours to change because of the increased services.
- 4.13 A further condition is being included for a further demand study to be carried out ahead of the agreements being entered into to test that the parking demand has continued to recover in line with forecasts, if this is not achieved it will give WNC the opportunity to not proceed.

### **Impact from changes to interest Rates**

- 4.14 Following Russia's invasion of Ukraine there have been large financial implications with the Bank of England rapidly raising interest rate increases along with movement in the gilt rates – many of the institutional funds use UK Gilt rates as a proxy for certain types of financial mechanisms. The funding structure proposed for the MSCP is affected by gilt price changes. The institutional funders have found recent months very challenging in being able to value assets, however it is now

clear that the value of the car park has reduced which will drive up the annual headlease payment liability for the Council.

- 4.15 Please see further points in private appendix
- 4.16 As well as the changes set out in the private appendix there have also been significant increases to costs due to the high levels of construction inflation. Most of the pressure for the cost increases was able to be accounted for within inflation allowances, however some of the cost increases has needed to be met through an increase to the build cost.
- 4.17 The Council have worked hard to value engineer the position to help mitigate a reduction in the “margin of safety” (income vs cost) some of which has been bridged by alternative operational arrangements.
- 4.18 To value engineer the position various areas have been looked at and agreed:
- the developer has reduced the amount of profit they are taking from the scheme from 12% to 10%
  - following conversations with Assets, it has been agreed that the council will manage the car park in house and so the level of profit built in for an operator has been taken out.
  - agreed changes to the structure of the agreements to enable a more tax efficient structure for the council reducing the SDLT (Stamp Duty Land Tax) liability to WNC by £326k. This has reduced the amount of borrowing required to help offset the commencement rent.
  - The business rates cost of £125k pa has been removed from the financial model up to 2038 in line with the approvals from the NWEZ and SEMLEP Boards, as noted in para’s 4.6 and 4.7 above.
- 4.19 The updated financial position is summarised in the private appendix.
- 4.20 Blocwork have continued to progress the design development, planning application and legal agreements at their own risk since the Cabinet Decision with the planning application now submitted for the scheme. They are optimistic that with planning approval and completed legal agreements, with only a limited number of conditions, that the Investment market will offer a keen yield, that when alongside the other changes to the financial arrangements listed above mean that the financial profile submitted as part of the December 2021 cabinet decision can be met.
- 4.21 WNC has included conditions that will still need to be met which include:
- Requirement for further demand assessment being required ahead funding being drawn down and construction commencing. This condition will state that parking demand will have needed to recover in line or better than in the demand report included with the December 2021 Cabinet report.
  - Overall project IRR is maintained at 15% IRR and that revenue for the first 10 years is at least £3.7m. This will act as a keen financial hurdle rate with the IRR protecting the 40-year return and the 10-year revenue figure ensuring that the surplus isn’t anticipated later in the term of the agreement.
- 4.22 The developer considers that given the legal agreements are very advanced and that the scheme will have full planning permission that it is likely that the financial hurdle rate could be achieved in the

summer. This is a significant risk given the current economic uncertainty but if the rate is not able to be achieved in the coming months, then the package can be taken back to the market later in the year when base rates may have stabilised, or hopefully started to fall.

#### **Revised lease structure**

- 4.23 Revised lease structure set out within the private appendix.

#### **Further matters – wider scheme benefits**

- 4.24 As part of the negotiations Network Rail has agreed to address the lack of lift or ramp at the front of the station subject to the car parking gaining approval. A proposal for a new ramp has been developed and will be progressed on agreement. This will help encourage both sustainable transport access (cycles) and equity of access for people with mobility difficulties.
- 4.25 Blocwork continues to engage a range of interested parties in the phase two scheme, with residential proposed that could begin construction immediately after the MSCP is complete.
- 4.26 Public access to and around the site would be improved, with a cycling hub also proposed as part of phase two as well as the taxi rank/drop-off to the station being improved as part of the Master planned scheme.

#### **Alternatives considered**

- 4.27 It was considered to no longer proceed with the project given the change in the yield that is required to still be financially worthwhile for the council to proceed. This was discounted as the current yield still achieves a return that would generate a profit rent for the council over the life of the lease in most scenarios tested as well as enabling the wider regeneration of the station area.

## **5. Implications (including financial implications)**

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### **Resources and Financial**

- 5.1 The base model retains the overall surplus to the Council WNC of £16.759m by the end of the 40 years which equates to an IRR (Internal Rate of Return) of 19.72% which represents a reasonable level of return.
- 5.2 Given the council were previously assuming that the car park would be run by an operator in the previous financial model taken to Cabinet this still leaves a healthy level contingency/margin for the Council on top of the £16.759m anticipated profit.
- 5.3 The model is built on a number of assumptions, all of which are best estimates. The two biggest elements are the head lease payments and the car parking income.

### **Sensitivities**

- 5.4 A full range of sensitivities that have been tested are set out in the private Appendix A showing the relative impact on the potential return to the council. These demonstrate while there is a breaking point when the car park will not generate a surplus for the council

that in most tested circumstances the new MSCP is expected to provide the council with a surplus.

## **Legal**

- 5.5 The Council has broad powers to invest in and deliver infrastructure within its area to support economic growth and its specific service responsibilities.
- 5.6 The lease provisions will need to meet the specific circumstances which enable Network Rail to maintain control due to its proximity to the railway but also ensures a period which enables the viability of the scheme and there are mechanisms available which would support these objectives, and which will be employed as is appropriate if the project progresses.
- 5.7 Given the ongoing testing of the business case it will be necessary to have a formal decision before moving forward following the necessary due diligence and this will be made in consultation with the statutory officers.

## **Risks**

- 5.8 The principal risk is that the council will take on the risk that the car parking income will be sufficient to meet its obligations under the head lease for the 40-year term.
- 5.9 The continuing recovery in parking demand and changes in parking patterns as a result of greater flexible working causing lower than expected demand for station parking into the future. Many businesses are now opting for a hybrid style approach. The hybrid approach is seeing people working at home for part of the week and in an office for part of the week. If this continues to happen it is not yet known how this might impact upon rail travel and the potential use of the MSCP in Northampton.
- 5.10 The development of automated (driverless) cars results in lower levels of parking demand. This could arise from two sources. Firstly, cars which take people to the station may well be a form of taxi which then departs to seek other customers, or if owned by the user may return to their home or another free parking location. Secondly, it may suppress demand for rail trips because people are content to be taken longer distances by automated car than they would when having to focus on driving. Fewer rail trips would result in lower station parking demand. Whilst the development of driverless cars has been slower than its more enthusiastic proponents suggested, over the life of the proposed lease it seems likely that full automation will be achieved and become widespread. This could result in substantial reductions in parking demand. The council at the time might choose to mitigate this risk by:
  - 5.10.1 Reducing parking supply in other car parks, including redeveloping them. Of course, the ability to do this would be affected by where people wished to park.

- 5.10.2 Including provisions in the lease agreement which allowed it to change the use of parts of the car park if it was clear that there was no prospect of those parts being used for parking.
- 5.11 Inflation runs at high levels, increasing the head lease payments quicker than in the base scenario. This would lead to head lease payments overtaking the anticipated car parking income quicker than expected and lower levels of return to the council, including potentially leading to an overall deficit. RPI is a poor measure of inflation which tends to exaggerate increases in costs. The four per cent maximum annual increase would mitigate that risk to some degree.
- 5.12 Construction costs increase faster than can be anticipated, leading to the developer seeking an increased contribution from the build of the MSCP. This would have a negative impact on the levels of return to the council. In the event that this occurred, a fresh report to cabinet would be made if it was considered the scheme was nonetheless worthwhile.
- 5.13 Future phases of station redevelopment do not come forward. The council would have no way to control the future phases as it would be taking a head lease rather than entering into a development agreement.
- 5.14 Funders change the rates that they have quoted for the financing of the works due to the council not being able to gain the necessary approvals in time and the period that they are committed to the submitted prices ending. As with a change in construction costs, a fresh report to Cabinet would be made if it was considered the scheme was nonetheless worthwhile.
- 5.15 **Consultation**
- 5.16 Internal council teams such as assets, finance, legal and planning have been consulted and engaged as the scheme has been developed.
- 5.17 External consultation has taken place through the planning process.

### **Consideration by Overview and Scrutiny**

- 5.18 This report follows on from the cabinet report on the Station Multi Story Car Park report that was considered by Cabinet in December 2021.

### **Climate Impact**

- 5.19 This proposal should have a significant positive climate impact, with rail travel being one of the most sustainable (with 80 per cent lower greenhouse gas emissions per kilometre compared with car) and safest forms of travel available. Having a greater car parking capacity at the station would allow more people the opportunity to use this mode of transport. Of course, it would also be helpful if people walked, cycled or used public transport to reach the station, but a degree of car use seems likely to continue. As



mentioned above, the scheme would result in improved access to the station with cycles (and for those with mobility difficulties).

- 5.20 As well as this, institutional funds and Government strategic objectives around carbon neutrality are increasingly becoming aligned. A number of the funding bids received refer to their aspirations around carbon neutrality. Two of the top three bids have made very clear statements about their commitments to investing in carbon neutrality.
- 5.21 Although the actual benefit and cost/funding mechanism has yet to be fully appreciated, it is likely that during the funder technical due diligence process they will seek to understand and promote the carbon neutral route for construction and delivery. Subject to approval by both parties it is likely that the funder may require “green clauses” to be implemented and that they are monitored throughout the life of the project.
- 5.22 Appropriate provision for charging of electric vehicles will also be provided for in the project.

### **Community Impact**

- 5.23 Through the delivery of a new MSCP the train station will be able to serve a greater number of people, with the train station currently having capacity for higher numbers of passengers than use the facility.
- 5.24 The projects will also enable the wider area to be redeveloped providing new residential and employment opportunities for residents.

## **6. Background Paper**

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Northampton Station MSCP Cabinet Report – December 2021 - [Agenda for Cabinet on Tuesday 7th December 2021, 6.00 pm - West Northamptonshire Council \(modern.gov.co.uk\)](#)