

Appendices

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NORTHAMPTON
BOROUGH COUNCIL

Item No.

15

CABINET REPORT

Report Title

Delapre Abbey Options Appraisal

AGENDA STATUS:

PUBLIC

Cabinet Meeting Date:	28 July 2010
Key Decision:	NO
Listed on Forward Plan:	YES
Within Policy:	YES
Policy Document:	NO
Directorate:	Chief Executive
Accountable Cabinet Member:	Councillor D Perkins
Ward(s)	Delapre

1. Purpose

- 1.1 To seek Cabinet's decision as to how to proceed with the restoration of Delapre Abbey in light of the Options Appraisal produced by the Delapre Abbey Preservation Trust.

2. Recommendations

2.1 Cabinet are **recommended** to:

1. Thank the trustees of the Delapre Abbey Preservation Trust for their hard work in producing a coherent plan for the restoration of the Abbey and its immediate environs and the parkland associated with the Abbey.

2. Note that the proposals contained within the Options Appraisal would imply very significant capital funding from the Council and ongoing revenue support which are currently not affordable by the Council bearing in mind the national and local financial position and likely future funding to the Council.
3. Nonetheless agree that the restoration of Delapre Abbey and its parkland remains the Council's highest priority for investment in the heritage of Northampton.
4. Resolve to establish a Project Board to work with the Trust to seek ways to fund the restoration of the Abbey and Parklands, taking the Options Appraisal as the starting point and building on these proposals to achieve a viable scheme that the Council and other sources of funding whether public or private can afford and support.
5. Seek, through this Project Board to establish a way forward which is both an affordable investment and also has a sustainable future revenue position through a funded business plan for the Abbey and the Parkland.
6. Make available to the Project Board under the delegated authority of the Portfolio Holder for Finance a provision of up to £50,000 of LABGI reserves to be allocated to the work of the partnership board and to act as match funding to other funds which can be accessed from partners in developing this project.
7. Delegate the further development of this project to the Cabinet Portfolio Holder for Finance, including the establishment of the Project Board and its governance arrangements in liaison with Chief Executive and the Borough Solicitor.
8. Request that the partnership board report back to Cabinet on its work programme in due course and in particular report on its viability, the availability of funding, and on how to proceed to delivery, in approximately 12 months time.

3. Issues and Choices

3.1 Report Background

- 3.1.1 The Council owns Delapre Abbey and parkland. There is considerable commitment amongst interested parties and individuals to seeking the restoration and public use of the buildings.
- 3.1.2 The Council supported the Delapre Abbey Preservation Trust to commission an Options Appraisal in March 2007.
- 3.1.3 A lengthy process has been followed which led at the end of 2009 to the Options Appraisal, and an accompanying landscape assessment covering the parklands, being presented to the Leader and Chief Executive.
- 3.1.4 The Council needs to determine its position with regard to the proposal to implement the options appraisal.

- 3.1.5 Since the Options Appraisal was commissioned, there has been considerable change in both national and local finances. It is widely acknowledged that the Government will need to make major changes in the availability of public finance at national and local level in order to manage the national budget. Implications for funding of local authorities and of agencies involved in Heritage investment will become clearer in the Spending Review to be announced on the 20th October, but are expected to involve significant reductions in available public funds.
- 3.1.6 Overview and Scrutiny carried out pre-Scrutiny of this matter in June and have reported separately on the agenda as to their views on the options for the way forward.

Options Appraisal – Key Recommendations

- 3.1.7 The Options Appraisal is a series of documents prepared by advisers to the Trust who have extensive experience in these kinds of projects and who have been instrumental in the design and delivery of these projects. These advisers have developed ideas for different uses for the Abbey buildings and the parkland, consulted on these with the public through the Trust and the Trust have determined the shape of the uses proposed in the final report of the Options Appraisal
- 3.1.8 The core uses preferred by the Trust for the Abbey are:

South Range: Ground Floor	Develop for the Trust to accommodate public functions, events, weddings and ceremonies, meetings etc... and available as part of the visitor attraction when not in use
Billiard Room and Conservatory	Rebuild the conservatory and combine with Billiard Room converted as a high quality new catering and refreshment facility serving the public and events etc... This could be combined with the use of the Game Larder.
South Range – First Floor	Develop and use for smaller meetings, adult learning, education, etc...
Abbey Courtyard	Provide a glazed roof to make an atrium space to act as main reception, orientation and meeting/assembly space, possible venue for some functions, exhibitions, events
North and East Ranges – Ground Floor	Visitor and Heritage Centre to interpret the Abbey and Park, Eleanor Cross and Battlefield. Could include exhibition space in the basement under the South Range.
North and East Ranges – First Floor	Office and workspace accommodation for commercial letting, the Trust and FoDA (the Friends of Delapre Abbey), plus a volunteer centre

North West Wing	All floors to provide high quality holiday, short stay accommodation and as part of the visitor attraction when not in use.
18 th Century Stable and Coach House	Income generating office accommodation or workspace preferably with an 'environmental hub' linking to a range of local and regional environmental organisations <u>OR</u> : Museum of Leathercraft (since the report was written, these are now accommodated at Abington Park Museum)
Abbey Cottage	Short stay accommodation <u>OR</u> : Office and workspace accommodation for the Trust and FoDA, plus a volunteer centre, if there is great commercial demand for the first floor North and East ranges (above)
19 th Century Farm and Stable Yard	Small business studio complex generating income for the Abbey through rents with a focus on the creative workplace, with an exhibition/retail area. <u>OR</u> : a combined regional produce and garden centre with a 'market place' café and educational centre.
Parkland	Broadly, focussing heritage activities and events to the west and north, and leisure and recreation to the south and east. Improvements proposed include: <ul style="list-style-type: none"> • Improvements to the drive and entrance • Relocation of the main parking to the area north of the existing drive • New vehicle route from the Stable Yard to Ransome Road • Childrens play area between the Stable Yard and Charter Wood • Enhancement of the landscape, drives and forecourt of the main Abbey buildings • Restoration of the main features of the South Lawn and Ha-Ha and replanting (continues...) • Restoration of the pleasure grounds and water gardens • Improving paths and drive links to generally improve access and amenity • Upgrading the Eagle Drive car park • Improving the setting of the Eleanor Cross and links to the Abbey • Removal of the bund in the south west area of the park • New boundary fences • Tree surgery across the park • Archaeological investigation of the Battlefield site and its enhancement

3.1.9 These preferred options are the basis of the financial model, cost plan, funding strategy and phasing and implementation proposals outlined in the Options Appraisal.

Financial Model

3.1.10 The construction costs have been estimated on the basis that works would be completed by the end of 2014 and exclude inflation and VAT.

<u>Budget Element</u>	<u>Cost(£'m)</u>	<u>Totals(£'m)</u>
Physical Works		
• Main Abbey Building	6.94	
• Secondary Abbey Buildings	2.43	
• Park Conservation and Upgrading works	4.05	
<u>Sub-Total</u>		<u>13.42</u>
Development Costs		
• Consultancy Support	0.35	
• Project Officer and Admin	0.36	
• Exhibition, Display, and Fit-Out	0.50	
• Launch and Start-Up costs	0.15	
• Landscape Maintenance (5-years)	0.72	
<u>Sub-Total</u>		<u>2.08</u>
<u>Overall Project Capital Costs</u>		<u>15.50</u>

The Options Appraisal states that there have been initial discussions with grant and funding agencies and the experience of other projects suggest that, for a single phase project the following grant strategy should be adopted.

<u>Potential Funding Source</u>	<u>Low £'m</u>	<u>High £'m</u>
Heritage Lottery Fund	4.70	4.90
English Heritage	0.30	0.30
WNDC	0.50	0.75
EMDA	1.00	1.50
Natural England	0.55	0.55
Northamptonshire County Council	0.30	0.30
Section 106	0.50	0.50
Landfill Tax	0.10	0.15
Grant Giving Charities	0.40	0.50
Public Appeals and Sponsors	0.45	0.60
Volunteer Contributions	0.40	0.50
<u>Sub Totals</u>	<u>9.20</u>	<u>10.55</u>
Shortfall	6.30	4.95
<u>Total</u>	<u>15.50</u>	<u>15.50</u>

- 3.1.11 The Options Appraisal states that should the project be “*undertaken as a single main phase of work, (it) is therefore likely to require Northampton Borough Council to find between £4.95 (and) 6.3 million (pounds) towards the project capital costs and possibly more if the funding from other sources falls short. Over the four or five year development period likely this equates to a contribution for the Borough of (between) £1.25 (and) £1.575 million per year.*”
- 3.1.12 The Options Appraisal highlights that it may be possible to achieve some capital funding through commercial funding, for instance by selling commercial leases for a premium rather than a rent, but this simply moves the financial challenge from capital to revenue and does not provide additional funding.
- 3.1.13 The VAT position will depend on the future of VAT exemptions for listed building restoration and charities, the level of VAT and the Council’s overall VAT position. It should not at this stage be assumed that a VAT liability of anything near 20% would apply, however the position will need significant tax advice and careful consideration. The Trust’s advisers were not commissioned to carry out such complex tax analysis and it would have been poor value to conduct such a study at this early stage.
- 3.1.14 The revenue position shown for the preferred option suggests that overall income per year from the completed restoration would be about £1 million, with annual costs of around £900,000, giving an operating surplus of about £100,000. This does not include any costs of financing the Council’s underwriting of the restoration, and does not include the cost of the Abbey’s long term cyclical maintenance.
- 3.1.15 The revenue cost of financing any shortfall would depend on interest rates and on how the Council funded the shortfall. It could be funded by capital receipts, or by borrowing. The costs either in ongoing loan repayments or in foregone investment elsewhere could be significant.
- 3.1.16 The Options Appraisal recommends that once completed, the Council should place £180,000 per annum into a sinking fund for cyclical maintenance. The Trust recommends that this derives from income already derived from the site. Regardless of what accounting mechanism is used, this indicates overall a significant ongoing revenue requirement which is a major concern if the restoration, assuming the capital funding can be found, is to be sustainable.

Phasing

3.1.17 The Options Appraisal includes a developed approach to phasing the restoration. The phases are as follows.

<u>Phase</u>	<u>Capital cost</u> <u>£'m</u>	<u>Heritage Lottery</u> <u>£'m</u>	<u>Shortfall to NBC</u> <u>£'m</u>
<u>Phase 1A:</u> South and West Ranges North and East Ranges External Fabric Access and Car Parking	6.13		
<u>Phase 1B:</u> Billiard Room Conservatory Abbey Forecourt South Lawn and Ha Ha Pleasure Grounds and Water Gardens Charter Wood Lake and Access – Ransome Road General Landscape Works	2.61		
Development Costs (1A/1B)	1.35		
Phases 1A and 1B Total	10.09	4.90	2.75
<u>Phase 2:</u> Stable Block Abbey Cottage Eagle Drive Car Park Delapre Wood and Queen Eleanor Cross South West Park General Landscape Works	2.36		
Development Costs	0.36		
Phase 2 Total	2.72	0.00	1.58
<u>Phase 3:</u> Stable Yard North and East Range conversion	2.32		
Development Costs	0.36		
Phase 3 Total	2.68	0.00	1.42
Overall Totals	15.50	4.90	5.75

3.1.18 In this model the assumed shortfall is set at a mid-point.

3.2 Issues

3.2.1 The issues which require to be addressed in this matter are highlighted throughout the report.

3.3 Choices (Options)

As discussed with Scrutiny there are a small number of strategic options available for this project at the moment.

- **Option 1:** Proceed now with the project with full underwriting from the Council
- **Option 2:** Pursue fundraising and prepare the project for delivery as and when funding can be identified
- **Option 3:** Cease work on the project and continue to prevent deterioration of the Abbey until there is more certainty about funding

3.3.1 Option One

1. If the Council decided to start the process of implementation immediately, then the Council would need to assert now that the Council is committing to capital investment of between £6 and £8 million, dependent on being able to find the remainder of the costs from other funding sources.
2. If borrowed, repayments on this would be of the order of £600,000 to £800,000 per annum dependent on the amount borrowed, the interest rates available and the length of borrowing available. These revenue costs would be over and above the revenue commitment contained in the project.
3. The benefits of this approach is that it would give the highest assurance to the Trust and funders that the Council is totally committed. It would be most likely to assure delivery as long as the Council could sustain this commitment over time.
4. However this approach would mean accepting the priority of this investment and would impact on the funds available to the Borough Council for other priorities, including statutory ones.
5. It could also act as a disincentive to some other funders to come to the table and support the project.

3.3.2 Option Two

1. This would involve the Cabinet accepting that the extent of financial challenge represented by this project is not sustainable in the current climate and therefore the Council needs to look further at ways to raise funds and assure viability.
2. The proposal would be to establish a Project Board to work with the Trust to raise funds from sources other than the Council and review the business plan contained in the Options Appraisal to achieve better sustainability.

3. It is proposed that this Project Board be established by the portfolio holder, including establishing governance arrangements, with officer support. The intention would be to have a body that includes the key partners necessary to support this programme of work. This will include public agencies, the Trust, and private and community interests that will help deliver the necessary work over the next year.
4. The Project Board would need to look at how to achieve the objectives of the project more cost-effectively, look at commercial opportunities, look at fundraising from private or corporate sources, and look at how to develop a better income and expenditure base for the project.
5. It is suggested that the Project Board be required to report back to the Cabinet on how far it is able to achieve this in due course. It is suggested that this should be approximately 12 months. At that point there would be a “gateway” for the Council to decide whether to continue with this option or to pursue other options again.
6. The aim of the Cabinet in adopting this approach must be to reduce or eliminate the size of the underwriting. It should be clear to members that some underwriting of cash flow or fund raising is always going to be needed, but it should as far as possible be the intention that this underwriting is not an ongoing capital and revenue investment by the Council, or that that is minimised.
7. The project board also provides an opportunity to share responsibility and commitment to this major heritage project with partners.

3.3.3 Option Three

1. The Council could continue to “mothball” Delapre Abbey until the financial position improves. This would not reduce the valuable work currently undertaken by FoDA, nor reduce the Council’s commitment to Delapre, but it would stop all work on the Options Appraisal.
2. This would be wasteful of the very valuable work done to date by the Trust. It would not meet the expectations and desires of the local community and it would not enable anyone who wishes to work with the Council and provide financial support the opportunity to do so.
3. This option would be financially sustainable.

3.3.4 Recommended Way Forward

It is proposed that Option 2 be selected and the recommendations reflect that.

4. Implications

4.1 Policy

4.1.1 There are no new policy implications

4.2 Resources and Risk

4.2.1 As explained above, the capital estimates are based on estimates prepared on the basis that works are completed by the end of 2014 and exclude inflation and VAT. They do include professional fees and a contingency at 12.5%. As works will take time to develop, possibly three years according to the Options Appraisal, it is safe to assume that inflation will be a factor and will lead to an increase in costs over the time of the project although obviously making progress speedily would help minimise the impact. VAT is discussed above.

4.2.2 Aside from this general estimating point, there are very considerable risks with this large and important project. If one assumes for the moment that the Council could afford to underwrite a shortfall of between £5 and £6 million over the next six to eight years – a matter which is discussed later in this paper – there remain very substantial future risks.

<u>Risk</u>	<u>Comment</u>
Failure to get HLF Grant	<p>The Heritage Lottery Fund (HLF) face significant demand for funds. This is a very competitive area of funding. HLF would need to know that this is the top priority for the Borough as far as major heritage projects go. HLF have shown interest at regional level in this project and it is proposed to make a bid. Without HLF support, the project will not be viable.</p> <p>It is considered likely that HLF will do all they can to be supportive if the high level of local commitment needed is made.</p>
Failure to get funding from other public agencies	<p>All public agencies are under major financial pressure and this will abide for most of the next decade in most informed commentary.</p> <p>Any bids for funding will be highly competitive. It is only if there is a very clear and abiding priority attached to Delapre above other bids, and if that prioritisation matches the tightening priorities of those public agencies, that success will be achieved.</p> <p>It may be easier for Delapre (although still very tough) to get funding from those bodies charged with heritage and landscape such as English Heritage and Natural England, than it will be</p>

	<p>from regeneration and economic investment agencies.</p> <p>Regeneration funding has reduced substantially in the last year and is being very tightly prioritised. The future position with how these funds will be managed is also changing rapidly and it is not possible to currently advise on whether any support to this project could be expected given these factors.</p> <p>There are many competing needs in Northampton for these funds and Delapre Abbey may find it hard to compete against other key infrastructure and projects which enable economic growth and recovery.</p> <p>There is a high risk of the project underperforming in raising funds from other public agencies.</p>
<p>Failure to attract charitable and individual donations.</p>	<p>Projects of this nature do attract charitable and individual donations. The funding strategy assumes a considerable amount of this, and the level suggested is probably achievable over time.</p> <p>Experience is however that fundraising is difficult at the early stages of these types of project and builds once work is started. It therefore presents a significant cash-flow risk. The Council would almost certainly need to be prepared to act as banker to a greater extent at the start of the project period.</p> <p>Fundraising is often helped by high profile patrons and sponsors as well as up-front revenues funding of fund-raising. In Northampton there is a competitive fund-raising environment and considerable expertise and capacity would be needed. It is likely that this is not currently adequately costed for in the Options Appraisal.</p>
<p>Inability of the Council to prioritise the funds required.</p>	<p>This risk is discussed further below under “Affordability”</p>

<p>Cost increases and over runs on the capital costs.</p>	<p>A total contingency on construction costs of £1.21 million is included against construction costs (excluding fees) of £10.35 million.</p> <p>Whilst this is a considerable sum, the Abbey and its secondary buildings are old and undoubtedly we cannot know all matters at this stage. It is safe to assume for the purposes of this paper that all of the contingency will be required.</p> <p>At the same time, as was pointed out at Scrutiny, some estimates may at the moment look generous. Careful specification and competitive tendering of works to achieve absolute best value at all stages will be critical.</p> <p>Inflation remains a risk, particularly if the national inflation level rises as the country begins to come out of recession.</p> <p>Whether VAT will be payable on some of the project requires an expert study. It is to be expected that some VAT liability and also other tax liabilities such as SDLT (stamp duty land tax) will arise.</p> <p>It would be very sensible for the Council to assume that the current funding profile for this project will be exceeded as the project proceeds to implementation. Such increase may be considerable depending on timescales, inflation and further affecting factors mentioned in this report.</p>
<p>Lack of commercial interest.</p>	<p>The capital and revenue proposals depend on attracting commercial interest in those parts of the buildings highlighted for commercial use.</p> <p>It is likely that interest will be generated if the project proceeds at the level proposed, but there may be risks that some interest will be from bodies unable to pay a commercial rent. It is vital to the long term viability of the project that a strongly commercial approach is taken to the letting of space.</p> <p>There may be the possibility that some grant-providing agencies will be more interested in funding the project in capital terms if it produces more social outputs and this may raise questions about the balance between commercial and non-commercial uses. In those</p>

	<p>circumstances it will be vital to ensure that opportunities are assessed with full-life costs and benefits in mind.</p> <p>The current proposals imply an ongoing revenue impact on the Council, and it would not be good for the Abbey to continue to be faced with this dependency relationship with the Council. Every effort needs to be made to produce a sustainable revenue position, including taking a stronger commercial approach to the project and future uses.</p>
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Affordability

- 4.2.3 The Options Appraisal indicates a requirement for capital funding probably between £5 and 6 million. It also indicates a small revenue surplus.
- 4.2.4 After taking risks into account, particularly the ability to garner wider funding support, likely inflation, cost and taxation pressures, the need for support to fundraising, and the need to fund future cyclical maintenance, a larger financial commitment should be considered likely.
- 4.2.5 Prudently, it is suggested that the funding gap is around £6 million, and will probably rise to £8 million, and could be more. Ongoing revenue costs are likely to be in deficit as described in the Options Appraisal.
- 4.2.6 This commitment would start immediately. These costs will spread over more 7 or 8 years. The peak financial commitments may be between years 3 and 5, depending on phasing. If the Council were to be funding this gap then the commitment would grow gradually over this period to very large figures.
- 4.2.7 The Council's financial position is very uncertain. Local government will probably suffer more from the need to reduce public debt and bring the national budget under control than other parts of the public sector. Financial restrictions apply both to revenue and capital. It is expected that borrowing may be may tightly controlled under the next financial settlement and the Council will be expected to do more to sell assets to achieve capital spend.
- 4.2.8 This additional revenue pressure if the funds were borrowed has been highlighted above and would be very hard to accommodate at a time of extreme financial constraint and reduction.
- 4.2.9 The other funding route for capital would be through the sale of land and assets.
- 4.2.10 Against either of these two main funding routes must be set the many competing priorities for General Fund capital monies over the next period. The Council currently faces unmet demand or needs for investment in the town centre, parks, disabled adaptations, civic and administrative buildings, investment to reduce revenue costs, leisure centres and sports and play facilities, car parks, carbon management, museums, and other areas.

4.3 Legal

- 4.3.1 Legal implications may arise as the project develops and these will be assessed as they need to be dealt with

4.4 Equality

- 4.4.1 None specifically

4.5 Consultees (Internal and External)

- 4.5.1 This report is based on discussion with Overview and Scrutiny Committee and discussions with the Trust and other interested parties. The Options Appraisal was the subject of major consultation particularly in relation to potential uses of the Abbey and Parkland

4.6 How the Proposals deliver Priority Outcomes

- 4.6.1 Commitment to the heritage and culture of Northampton, provision of quality open space and the development of important assets are priorities for the Council.

5. Background Papers

- 5.1 Delapre Abbey Options Appraisal final documents
- 5.2 Overview and Scrutiny report (on this agenda)

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