

Appendices



NORTHAMPTON
BOROUGH COUNCIL

CABINET REPORT

Report Title

VULCAN WORKS REDEVELOPMENT – PHASE II

AGENDA STATUS:

PUBLIC

| | |
|------------------------------------|-------------------------------------|
| Cabinet Meeting Date: | 11 th May 2016 |
| Key Decision: | YES |
| Within Policy: | YES |
| Policy Document: | NO |
| Directorate: | Regeneration, Enterprise & Planning |
| Accountable Cabinet Member: | Cllr Tim Hadland |
| Ward(s) | Castle |

1. Purpose

1.1 This report is seeking approval for an expansion and variation to the Vulcan Works project to encompass phase II and complete development of all the Council-owned land bounded by Guildhall Road, Angel Street, Fetter Street & St. John's Road by way of a joint project with the University of Northampton.

2. Recommendations

2.1 That approval is given to:

1. Enter into an agreement to grant a commercial lease of 30 years to the University of Northampton for the Vulcan Works premises (shown coloured blue on the plan at Annex A) in which to relocate their International Leather Centre, Leather Conservation Centre and associated teaching & administrative activities.
2. Amend the Capital Programme for 2016/17 to include £5m additional works to the Vulcan Works building as part of this important Alive Project. The works will consist of renovation of the building's shell and core, funded by the Council at a maximum cost of £3.5m, and the fit-out of the building for the University's use to be funded by the University at a maximum cost of £2m which will include any VAT liability. The exact split of costs will depend on the final detailed specification of works.
3. Grant the University an option to purchase the Vulcan Works (but not the Creative Hub) at any time during the lease for either the amount that the Council has spent on the site plus the original value of the land and buildings, or the market value, whichever is higher.
4. Contemporaneously with 1. above, enter into a separate agreement for lease with the University of Northampton for the managed workspace units (shown coloured pink on the plan at Annex A, under which the University will assume responsibility for delivering the economic benefits and financial return stated in the Council's Local Growth Fund application of October 2014.
5. To delegate to the Director of Regeneration, Enterprise & Planning Officer in consultation with the Cabinet Member for Regeneration, Enterprise and Planning, and the Chief Finance Officer, the approval of final terms for the leases and option arrangements identified above.

3. Issues and Choices

3.1 Report Background

3.1.1 At its meeting on 11th June 2014, Cabinet delegated authority to the Director of Customers & Communities to undertake redevelopment of the former Vulcan Works site to establish of a 'Creative Industries Hub' (CIH). This was subject to securing approximately £6.5 million of external funding.

3.1.2 An application in October 2014 to the Local Growth Fund resulted in an allocation of £6.3 million which covered the majority of then then estimated project cost of £7,827,651, the balance of which was made up as follows:

| | |
|----------|---------------------------------|
| £650,000 | NBC Cash Contribution |
| £494,651 | EZ Funding of Development Costs |
| £383,000 | PWB Funding of interest* |

**LGF funding is currently scheduled for 2018/19; NBC will forward-fund this, hence the estimated interest charge. However, SEMLEP has suggested that it might be possible to bring this investment forward, in which case the interest charge would be reduced.*

3.1.3 This project did not require the whole of the Vulcan Works site owned by this Council, leaving the south-west corner (Fetter Street / St John's Road) fallow pending future development (Phase II) as the Cultural Quarter becomes established. Opportunities for generating interim income from this asset without significant investment are limited.

3.1.4 Recently, an opportunity has arisen to assist the University of Northampton with relocating some of its facilities from Park Campus that cannot be accommodated within its new Waterside development to the former Vulcan Works. These include the world-renowned International Leather Centre (ILC) and Leather Conservation Centre (LCC) workshops, together with associated laboratories & teaching facilities.

3.1.5 Locating the LCC workshops with glazed frontages along the Angel Street frontage will animate this important thoroughfare and make a significant contribution to the interest and vitality of the Cultural Quarter. Further, the ILC represents an appropriate and sustainable use of an important heritage asset and one that is consistent with historical artisan activity in the locality.

3.1.6 This in turn would allow the CIH to be established on the western side of the site – thereby bringing forward development of phase II and accelerating regeneration of this prominent town centre site.

3.1.7 Collaboration with the University also creates an excellent opportunity to secure a training and business support partner for the CIH, with additional synergy coming from the sharing of ancillary facilities such as meeting rooms and social spaces. It will also secure the future for a number of fledgling businesses that would otherwise be displaced when the University's existing campus is redeveloped.

- 3.1.8 As the relationship between this Council and the University will be one of landlord and tenant rather than for the provision of business support services, it will not be necessary to undertake a procurement exercise as was originally contemplated.
- 3.1.9 Moreover, the proposed joint project will provide a catalyst for the fusion of cutting-edge technology & research in leathercraft with creative innovation and entrepreneurship. This in turn should help attract similar businesses which have synergy with the Cultural Quarter.
- 3.1.10 It is therefore proposed to grant the University a term of 30 years by way of two separate leases to reflect the different funding streams. As the University will be investing significant capital in specialist fitting-out, they will also be granted an option to purchase the completed development, but excluding the CIH due to funding implications.
- 3.1.11 Additional capital investment of up to £5.0m will be required for the joint development. The cost of the shell and core will be met by the addition to the Council's Capital Programme of up to £3.5m, and will be funded through Council resources (borrowing or reserves). Up to £2.0m of the costs will relate to the fit out and these costs will be met by the University of Northampton.
- 3.1.12 Up until the point that the University of Northampton take up their option to purchase the site, they will be charged a commercial level of rent on the site through the lease.
- 3.1.13 In respect of the Creative Industries Hub, the University will assume responsibility for satisfying the LGF grant covenants relating to job creation and economic benefit. It will also take the risk of rental voids. A base rental of £60,000 will be payable by the University (reflecting net income assumed in , with any surplus income being shared with this Council.
- 3.1.14 Such a joint project will require a fresh design and planning consent. As Wates was engaged in respect of the original project via the OJEU-compliant SCAPE framework, the appointment can be extended to include additional and revised works without the need for a procurement exercise. This conveys the benefit of retaining accumulated knowledge and understanding among the Wates team, together with an unbroken chain of liability in respect of survey and investigation work.
- 3.1.15 An independent cost consultant will be appointed to validate Wates' costs and drive maximum value for money. The whole project will be managed by this Council
- 3.1.16 Revisions to the original design necessary to accommodate the subject arrangements will make the need to extend the programme previously reported. However, completion will still be achieved in good time to (a) facilitate the University's planned vacation of buildings and (b) meet the timescale for LGF funding. The main milestones are as follows:
- Revised concept design & feasibility costs – July 2016

- Completion of lease arrangements with UoN – July 2016
- Demolition and clearance works start – October 2016
- Revised / additional planning consent(s) – November 2016
- Main works commencement on site – February 2017
- Construction completion – March 2018
- Lease completion – May 2018

3.1.17 Re-designing the project and accepting a slightly delayed delivery programme will result in a larger combined scheme that will (a) enhance the emerging Cultural Quarter, (b) secure comprehensive redevelopment of the Vulcan Works and associated land, and (c) further the objectives of encouraging enterprise by securing early commitment from an established operator for the CIH managed workspace.

3.2 Issues

3.2.1 Key deliverables required as a condition of the LGF grant – including job creation – and the regular reporting thereof will become the University's responsibility.

3.2.2 As SEMLEP's interest is economic output rather than real estate, locating the CIH on another part of the Vulcan Works site is not considered to be an obstacle.

3.3 Choices (Options)

Implications of not proceeding with original project (refurbishing Blue land for CIH)

I. Proceed with development of CIH on Fetter Lane / St John's Street independently of University.

| Implication | Quantification | Remarks |
|------------------|---|---|
| Capital cost | Not fully quantified, but likely to be within approved budget. | May need to find additional capital to subsidise alternative user for listed buildings as redevelopment unviable on commercial terms. |
| Capital income | None | Unless alternative user could be found for listed buildings |
| Revenue cost | Significant holding cost for undeveloped parts | Maintenance of heritage asset, insurance, business rates, etc. |
| | Running costs of premises likely to be less. | More modern and efficient buildings (part new-build) |
| Revenue income | No change | |
| Programme | Circa 9 months delay | Delay due to need for re-design & planning. |
| Regeneration | Danger of further deterioration of heritage asset | |
| Economic | Unchanged | Employment and enterprise objectives still achievable |
| Cultural Quarter | Undeveloped frontage to Guildhall Road will detract from Cultural Quarter | Unless another user can be secured |
| Other | Nuisance / disturbance | Resulting from development in two |

| | | |
|------------------|--|-----------------|
| | | separate stages |
| General comments | It will be extremely difficult to secure an alternative occupier for the former Vulcan Works on terms that would provide a suitable return on investment, with the risk that this important heritage asset could remain empty for the foreseeable future | |

II. Continue with approved option to establish managed workspaces in the Vulcan Works, leaving space on Fetter lane St. John's Street for future development

| Implication | Quantification | Remarks |
|------------------|---|---|
| Capital cost | Cost estimate previously assessed at £750k in excess of approved budget | Value engineering exercise failed to identify sufficient savings |
| Capital income | Additional investment would not generate additional income | |
| Revenue cost | Neutral | |
| Revenue income | Neutral | |
| Programme | 3 months | Need time to re-start stalled project |
| Regeneration | Objectives achieved | However, phase II land (Fetter Street / Amalgamated Tyres) could remain derelict for some considerable time to come |
| Economic | Objectives achieved | |
| Other | Nuisance / disturbance | Resulting from development in two separate stages |
| General comments | It would be necessary to undertake a potentially lengthy procurement exercise to secure a third party operator for the managed workshops, without the ability to secure operator input to the design process. | |
| | This represents the original development proposal that formed the LGF submission | |

III. Continue with approved option; disposing of phase II land to cross-subsidise funding gap.

| Implication | Quantification | Remarks |
|----------------|--|--|
| Capital cost | Cost estimate previously assessed at £750k in excess of approved budget | Value engineering exercise failed to identify sufficient savings. |
| | Circa £200,000 additional investment to clear site and obtain planning. | To maximise return and market appeal. |
| Capital income | Estimated at £500,000 | From sale of development site |
| Revenue cost | Neutral | |
| Revenue income | Neutral | |
| Programme | Indeterminate | Would be driven by time taken to realise the asset, for which site clearance and planning consent would be advised to maximise value. |
| | Risks of delaying the project beyond the funding window for the LGF grant. | |
| Regeneration | Objectives achieved | However, phase II land (Fetter Street / Amalgamated Tyres) could remain derelict for some considerable time to come as market sluggish |
| Economic | Objectives achieved | |

| | | |
|------------------|---|---|
| Other | Nuisance / disturbance | Resulting from development in two separate stages |
| General comments | It would be necessary to undertake a potentially lengthy procurement exercise to secure a third party operator for the managed workshops, without the ability to secure operator input to the design process. | |
| | This represents the original development proposal that formed the LGF submission | |

IV. Establish CIH through refurbishment of Fetter Street stores and new-build on Amalgamated Tyres site; University to take balance of site (Vulcan Works)

| Implication | Quantification | Remarks |
|------------------|---|--|
| Capital cost | Additional investment of £6 million | Of which £2 million contribution from University and £1m VAT recover; net £3 million to Council |
| | CIH should be affordable within approved budget | |
| Capital income | Potentially £3million+ | If University exercises option to purchase |
| Revenue cost | Running costs of premises likely to be less. Potential for additional debt services costs if funded by borrowing | More modern and efficient buildings (part new-build) |
| Revenue income | Rental income of circa £350k | Subject to valuation advice pending. |
| | | Until option exercised. |
| | | Rental income from CIH underwritten by University through head lease. |
| Programme | Circa 9 months delay | Delay due to need for re-design & planning. |
| Regeneration | Objectives exceeded | ILC and LCW will make a significant contribution to the vibrancy and vitality of the Cultural Quarter through more active frontages and historically relevant use. |
| Economic | Objectives exceeded | With risk of LGF KPI delivery being passed to university |
| | | University will bring some relocated embryonic occupiers to pump-prime the CIH. |
| Other | Construction risk | Shared in part with University (specialist adaptations and fitting-out) |
| General comments | <p>This is the preferred & recommended option, because it will deliver:</p> <ul style="list-style-type: none"> Improved contribution to interest and vitality in the Cultural Quarter (3.1.5) Earlier redevelopment of phase II (3.1.6) A number of new business to pump-prime the CIH (3.1.7) Capital investment from the University (3.1.11) A pass-through of responsibility for LGF KPIs to the University (3.1.13/3.2.1) Greater certainty of rental income from the CIH (3.1.13) | |

3.1.18 As demonstrated above, the preferred option will result in a lower-risk scheme that will (a) enhance the emerging Cultural Quarter, (b) secure comprehensive redevelopment of the Vulcan Works and associated land, and (c) further the

objectives of encouraging enterprise by securing early commitment from an established operator for the CIH managed workspace.

4. Implications (including financial implications)

4.1 Policy

4.1.1 No policy implications

4.2 Resources and Risk

Financial implications.

4.2.1 The financial position as set out in paragraph 3.1.11 above requires an increase to the Capital Programme of £5m. The profile of cost is forecast to be:

| | 2016/17 | 2017/18 | 2018/19 & beyond | Total |
|--------------|----------------|----------------|-----------------------------|--------------|
| Capital cost | £0.500m | £3.500m | £1.0m | £5.000m |

4.2.2 The additional costs of up to £3.5m will be funded from council resources (borrowing or reserves) and a contribution from the University of Northampton of up to £2.0m.

4.2.3 If the Council's element is funded from borrowing this would have a debt servicing cost (interest and capital repayment) of approximately £175k per annum. The Council will look at ways in which it can mitigate some of this cost through its MRP Policy review as part of setting the Treasury Management Strategy 2017/18.

4.2.4 The capital spending profile associated with this investment will generate a VAT liability in excess of the Council's partial recovery limit. To avoid generating an irrecoverable tax charge on construction and associated costs, it will be necessary to opt in for VAT charge on the property. Accordingly, figures quoted in this paper are exclusive of VAT. This will require the Council to levy VAT on both rental and capital income derived from the property.

4.2.5 There is still further work being undertaken to ensure that the Council is taking the most tax efficient way of working with the University to complete this project and to safeguard the Council's VAT position.

4.2.6 The foregoing is conditional on the Chief Finance Officer being satisfied that::

- (a) The latent value of the Council's asset is reflected in the level of rent payable (and potential option purchase price) by the University.
- (b) The Council's additional investment is also reflected in the level of rent payable (and potential option purchase price) by the University.

(c) The Council's VAT position is managed in the most efficient way and provides sufficient safeguards.

4.2.7 The Council has recently undertaken extensive due diligence on the University of Northampton's financial position as part of the drawdown of the loan for the Waterside Campus project.

Risk

4.2.7 An assessment of high-level risk commensurate with the stage of the proposed project's evolution has been undertaken and is summarised below:

| Risk | Likely | Impact | Blended Risk | Remarks / Mitigation | Residual risk |
|---|--------|---------|--------------|--|---------------|
| University unable to deliver its commitments. | Low | Acute | MED | Due diligence exercise has been undertaken as part of the Waterside project. NBC will own asset until option exercised, so could re-let or sell to a third party(ies) Up to 40% of development cost shared by University | LOW |
| Lease covenants are breached. | Low | Signif. | MED | NBC could forfeit lease & take possession; re-letting to third party(ies) as appropriate | LOW |
| University assigns lease to less favourable user | Low | Medium | LOW | Alienation and user controlled by lease provisions | V LOW |
| University exercises option and sells to less favourable user | V Low | Medium | LOW | Cost of stripping out highly specialised fittings peculiar to University and re-fit for alternative use make this unlikely | V LOW |
| Unable to agree final lease terms | Med | Acute | MED | University have agreed to the headline terms articulated in this report | MED |
| LGF allocation cancelled | Low | Acute | MED | Other funding streams may be available. Sell completed project to third party operator (albeit at a probable loss) | MED |
| Additional capital insufficient for project | Med | High | MED | Budgets reviewed by independent QS at all key stages | MED |
| Option not exercised | V Low | Low | LOW | University would continue to be liable for rent. NBC could sell / let to third party(ies) | V LOW |
| Risk that the most tax efficient way to complete the project is not taken | Med | Med | MED | Further VAT advice to be taken. | LOW |

4.2.8 Once the project has been instructed to proceed, a more detailed risk register will be produced at a workshop with all key stakeholders and kept under regular review by the project Board.

4.3 Legal

4.3.1 .

Legal aspects are covered within the body of the report. As this is a normal commercial arrangement there will be no state aid implications. Formal leases will be prepared to implement Cabinet's decision

4.4 Equality and Health

4.4.1 Redevelopment of the Vulcan Works will be undertaken in full accordance with relevant equalities legislation and the Council's equalities policies. There are no specific equality implications at this stage.

4.5 Consultees (Internal and External)

4.5.1 The local business community was consulted as part of the LGF bid process and helped shape plans for the creative hub.

4.5.2 Further consultation was undertaken prior to the submission of a planning application for phase I that was subsequently granted.

4.5.3 The subject proposals will require planning approval for phase II (redevelopment of the Amalgamated Tyres building) and an amendment or fresh application for phase I. Additional neighbour, community and statutory consultation will form a part of this application process.

4.6 How the Proposals deliver Priority Outcomes

4.6.1 Northampton Alive sets out the Council's aspirations for the regeneration of Northampton. The development of the Cultural Quarter is one of Northampton Alive's priority regeneration programmes. The redevelopment of the Vulcan Works is a key project in the Cultural Quarter.

4.6.2 Redevelopment of the Vulcan Works will also assist the key priority of economic regeneration of the town through business growth and job creation.

4.7 Other Implications

4.7.1 None

5. Background Papers

5.1 Report to Cabinet meeting of 11th June 2014

5.2 LGF funding application of October 2014

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ANNEXES:

A. Site plan