

Exempt
Appendix A



NORTHAMPTON
BOROUGH COUNCIL

CABINET REPORT

Report Title	The Vulcan Works Northampton- Update and appointment of main construction contractor
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AGENDA STATUS: **Public with Exempt Appendix**

Cabinet Meeting Date:	16 th January 2019
Key Decision:	YES
Within Policy:	YES
Policy Document:	NO
Directorate:	Economy, Assets and Culture
Accountable Cabinet Member:	Cllr Tim Hadland
Ward(s)	Castle

1. Purpose

- 1.1. The purpose of this report is to update Cabinet on the European Regional Development Fund (ERDF) application, the tender exercise and the final model/business case as requested at the 6th December 2017 Cabinet meeting to enable the Cabinet to make an informed decision regarding the future of the Vulcan Works.
- 1.2. To seek approval to appoint the main construction contractor for the Vulcan Works project.

2. Recommendations

It is recommended that:

- 2.1. Cabinet delegates authority to the Head of Economy, Assets and Culture, in consultation with the Borough Secretary and the Cabinet Member for Regeneration to finalise the contract terms and to appoint the main construction contractor for the Vulcan Works project.

- 2.2. Cabinet approves the inclusion in the Capital programme of all resources spent to date and those needed to complete the project (set out at exempt Appendix A).
- 2.3. Cabinet approves the acceptance of the ERDF grant funding in the sum of £3,062,315 and delegates authority to the Head of Economy, Assets and Culture in consultation with the Borough Secretary and Cabinet Member for Regeneration to undertake such actions necessary to enter into the grant funding agreement.
- 2.4. Cabinet approves the continued appointment of Ridge and Partners LLP to provide project management and cost consultancy to support the project.
- 2.5. Cabinet delegates authority to the Head of Economy, Assets and Culture, to appoint the services of a design team for RIBA stage 5 and to enter into a contract, to develop final detailed design ahead of construction (these costs are accounted for within the total project cost);
- 2.6. Cabinet delegates authority to the Head of Economy, Assets and Culture to commence the procurement of an operator through Ridge and Partners LLP to manage the completed Vulcan Works. Cabinet will receive a further report on the outcome of the procurement process and approval for the award of contract.

3. Issues and Choices

3.1. Report Background

- 3.1.1. Cabinet in June 2014 agreed 'in principle' to redevelop the former Vulcan Works into a Creative Industries Hub, to provide new business space for those in the creative and digital sector. Design work was commissioned to inform the Council how this could be achieved. In May 2016, Cabinet considered a further report that took the design in a different direction because at that time it was envisaged that the University of Northampton would be able to relocate their Creative Leather Technology and Leather Conservation Centre within the scheme.
- 3.1.2. Further design work was therefore undertaken with a view to enabling these facilities to be incorporated within the proposed complex, along with lettable business units for SME's. This scheme received the granting of both full planning permission and Listed Building Consent on 12th April 2017.
- 3.1.3. The Council selected a contractor under the SCAPE Framework to design, price and develop the scheme. Unfortunately this produced a price that both exceeded the available budget and due to a significant number of exclusions and qualifications, could not reasonably be taken as a firm price. The Tender left the Council with a potential level of financial risk that officers felt unable to endorse. A cost re-engineering exercise was undertaken, however, the proposed Tender price was not significantly reduced. This introduced delay into the intended programme as officers and consultants acting for the

Council, in conjunction with the University, considered how matters might be taken forward. But given this unforeseen delay, the University came to a view that it needed to make alternative arrangements in respect of the future location for the Creative Leather Technology and Leather Conservation Centre and formally advised the Council that they would not be able to locate their facilities in the complex as envisaged in May 2016.

- 3.1.4. The Council had before it a scheme that exceeded the available budget, a Tender that left the Council short of a position that it could say represented a firm price and the University seeking an alternative solution to locate its Creative Leather Technology and Leather Conservation Centre. Given this officers felt that the only reasonable course of action was not to proceed beyond RIBA Stage 4, to cease work on that scheme/design and to stand the contractor down. Given the provisions within the SCAPE Contract, the Council was not obliged to proceed beyond Stage RIBA Stage 4 in any event. This approach was subsequently considered and endorsed by the Corporate Project Board overseeing the proposed scheme.
- 3.1.5. In December 2017, Cabinet approved the revised approach for the redevelopment of the former Vulcan works to produce business space for new and existing business firms, particularly SME's engaged in the creative and digital sector. The appointments of Ridge and Partners LLP and Amion Consulting Ltd were also approved to review the business case and financial model and to submit an application to the European Regional Development Fund (ERDF) to bridge the funding gap as a result of the University withdrawing from the scheme.

3.2. Progress since 6th December 2017 Cabinet

- 3.2.1. The ERDF application was submitted on 13th April 2018 with the assistance of Amion Consulting Ltd and Underwoods LLP to complete a full and detailed submission. The Council received notification in September 2018 that it had been successful in securing £3.062m towards the development of the Vulcan Works. This funding must be expended within the 2019/20 financial year.
- 3.2.2. A contract notice for the Vulcan Works construction tender was published and tender returns required by 22nd October 2018. A tender analysis and evaluation process has been undertaken to ensure compliance with the Council's detailed requirements both from a technical and financial perspective. Ridge Property and Construction Consultancy have endorsed the recommended tenderer as a compliant submission and suitable for appointment.
- 3.2.3. A financial model has been produced by Amion Consulting to provide a detailed assessment of the Vulcan Works operating figures. This model has been produced with the assistance from Underwoods LLP to inform likely occupancy levels and suitable rental levels of each unit.

3.2.4. The outputs have been reconfigured following the redesign which now accommodates more lettable units, small/large and flexible meeting spaces, café, breakout areas and co-working spaces which have been reviewed and approved through the SEMLEP task group for the Local Growth Funding. Refer to paragraph 4.6 for the primary outputs this scheme will produce.

3.3. Issues

- 3.3.1. Since the December 2017 Cabinet Report, the financial model has been further developed. It is based on Northampton's current and future forecast economic prospects together with the commercial knowledge and assumptions of technical advisors. The model takes into account the local rental market in both the early years as the amount of tenancy increases and on an ongoing basis together with the experience of other similar projects.
- 3.3.2. This report outlines 2 ways of looking at finances in order to assist with decision making. The detailed figures can be found at Appendix A which also contains the breakdown of the current budget position and borrowing requirement. The 2 approaches are as follows;
- 3.3.2.1. Approach 1 concentrates exclusively on the direct finance implications for the Council and does not acknowledge the broader economic benefits to Northampton town centre. The results of this financial modelling do not show a break even position to the Council until 2067 which is after all of the borrowing is repaid.
- 3.3.2.2. Approach 2 looks at a regeneration approach that includes the development of an economic asset, creation of new jobs (both direct and indirect) and assistance for the creation of new businesses. The results of this modelling are very positive as it acknowledges that the Vulcan Works could have a significant impact on the economy as well as the Council having an asset valued in excess of the Council's borrowing requirement. By taking into account the increased value of the asset, the cost of borrowing and repaying the loan are excluded. As a result, breakeven is achieved much quicker and expected within the first 5 years of occupation.
- 3.3.3. If the decision is taken to proceed with the Vulcan Works, it must be noted that the Council would be responsible for all financial shortfalls but would also gain from any surplus regardless of whether approach 1 or 2 is adopted.
- 3.3.4. To be compliant with Local Growth Funding, the Council need to appoint a contractor by February 2019, and commence work on site before the end of March 2019. Failure to do so could result in the withdrawal of funding and the requirement to repay monies already drawn down.

- 3.3.5. There are various routes being explored to further reduce the costs and therefore borrowing required to complete this project including;
- 3.3.5.1. The preliminary sums currently contained within the contract are being clarified. If they are not actually required, this would reduce the final tender price;
- 3.3.5.2. Those items which appear to be relatively high cost or potentially not required, are being investigated with a view to their price reduction or removal respectively;
- 3.3.5.3. The contract sum includes a healthy allowance for construction contingency which should not be utilised in its entirety. Construction prices usually allow for a contingency sum in the range of 5% to 15%. This project is at the higher end of this range at 12%.
- 3.3.6. The Vulcan Works is being set up as a self-funding project, whereby the tenancy income will ultimately repay the borrowing costs. The Amion financial model predicts occupancy rising from 20% in the first year to 90% in year 6. These predictions are believed to be conservative and the possible financial implications and repayment forecasts over potential scenarios are outlined within the exempt financial model Appendix A.
- 3.3.7. There is a need to repair the roof on the existing building regardless of whether or not the site is developed into a Creative Industries Hub. This will cost an estimated £500,000. For clarity, this separate amount is included in the Council's Draft Capital Programme as a standalone scheme. Financial monitoring of the development scheme takes this situation into account.
- 3.3.8. There is an outstanding contribution of £400,000 from the University of Northampton (UoN) for the previous scheme design that is being sought.

3.4. Choices (Options)

- 3.4.1. Cabinet could choose not to proceed with the recommended construction contractor at this point and look to value engineer the scheme to bring construction costs down. This option would require a significant re-design processes applying pressure to the project team, associated costs and a revision of the business case. This option would also result in programme delays which in turn would put at risk both the SEMLEP LGF monies of £6.3m by not appointing the main contractor and starting on site in March 2019, and the £3.062m ERDF funding which requires expenditure within 2019/2020 financial year. In this event, the project would become unaffordable to the Council and therefore would also result in the loss of economic outputs the project would have created. This option is not recommended.
- 3.4.2. Cabinet could choose to bring the project to a close and only undertake those works which are necessary, such as the final asbestos removal works and the repairs to the roof. The cost of these works are included within the draft Capital Programme which are subject to further approval. This option would not secure the LGF and ERDF funding. The value of the completed scheme

as currently designed is estimated at £7.452 m and this economic opportunity would be lost. This option is not recommended.

- 3.4.3. Cabinet could choose to approve the appointment of the main contractor and proceed with the project. This option is recommend to ensure the external funding committed to this project through the Local Growth Fund and the European Regional Development fund is secured along with the opportunities of the economic outputs as reported throughout the Project.

4. Implications (including financial implications)

4.1. Policy

- 4.1.1. A re-developed Vulcan Works would positively contribute to the delivery of both SEMLEP's recently announced Strategic Economic Plan (2017), to the achievement of economic growth outlined in the Cambridge – Milton Keynes – Oxford Corridor and, to the Council's own Economic Development Strategy (2008). It would, in particular, promote the continued development of the Cultural Quarter and also contribute to the achievement of Enterprise Zone economic development targets.

4.2. Resources and Risk

- 4.2.1. There are a number of financial risks associated with the project relating to both capital and revenue expenditure. They are identified in the following paragraphs.
- 4.2.2. Should the scheme not proceed for any reason, then the costs incurred from May 2014 to date of approximately £2.5m for design and enabling works, would need to be accommodated within the Council's programme. It should be noted, some of that expenditure has been used to develop the site for development and therefore will have benefitted the Councils asset ready for construction; for example the demolition of Amalgamated Tyres, archaeological works completed and the removal of asbestos on site.
- 4.2.3. The approved capital budget available for the project includes £6.3m Local Growth Funding that attached to it has a requirement to commence on site by March 2019, and a further £3.062m European Regional Development Funding which is required to be expended in 2019/2020. Failure to adhere to the funding criteria could result in the withdrawal of these funds and therefore result in the unaffordability of the Project to the Council. These criteria are contained within the written agreements and cannot be changed.
- 4.2.4. There is a risk that the building may not be occupied as quickly as anticipated or that the anticipated rentals are not achieved. This risk has been mitigated, in so far as it is possible to do so, by taking expert external advice about what the local market is reasonably likely to bear and incorporating these assumptions into the underlying financial modelling for the scheme.

4.2.5 In order to deliver the financial performance that is expected and necessary for the project to repay the borrowing required, the Council will need to procure an operator for the building. Getting suitably experienced operators with an established track-record of operating these types of facilities will be a key to success here. Given this it is not suggested that the Council operates the proposed complex directly.

4.2.6 It is clear that the key risks relate to funding, the capital cost of the scheme and the possible financial performance of a completed scheme in revenue terms.

4.3 Legal

4.3.1 The construction contract has been tendered through a full EU process utilising Ridge and Partners Ltd.

4.3.2 External legal advisors have been engaged by the Council who have advised pre-tender on the contract documents and have provided clarification in relation to the Council's detailed requirements during the tender process on industry norms and practices to ensure the Council has a robust contract to deliver the projects.

4.3.3. There remain a number of outstanding funding risks in the delivery of the project, these relate to the contribution by the University pursuant to paragraph 3.3.8 of this report and the funding to be received from SEMLEP and ERDF where both grants are conditional and require certain timeframes to be met in relation to the formal appointment of the successful contractor, commencement on site and the expenditure profile. Any award of contract will need to ensure the conditions can be fully met prior to formal acceptance of the grant funding and the successful contractor's tender.

4.4. Equality and Health

4.4.3. An Equality Impact Assessment was previously undertaken and these issues were further considered at the planning and listed building consent stage.

4.4.4. The new-build elements of the scheme (Angel Street and St Johns) are fully accessible with lift access to all floors and Part-M compliant staircases.

4.4.5. All opportunities have been taken to greatly improve the access across the site, including the provision of shallow ramps and a lift provision to the Fetter Street side to gain access to the upper floor.

An equality policy for the completed facility will be developed in partnership with the proposed management company.

4.5. Consultees (Internal and External)

4.5.1 Statutory consultation has been undertaken in respect of both of the previous planning and listed building consent applications, and again recently with planning variations, all of which have been granted (with conditions).

- 4.5.2 A neighbouring land-owner has been consulted concerning a related property transaction. This transaction will be completed following Cabinet approval to proceed with the project.
- 4.5.3 SEMLEP have been consulted in relation to our latest position, our outputs and programme milestones as outlined in this report.

4.6 How the Proposals deliver Priority Outcomes

- 4.6.1 Outputs required for South East Midland Local Enterprise Partnership under the Local Growth Fund are:

Primary Outputs	2014 Target
Business Units	59
Business Support	116
Businesses Created	25
Construction Jobs (16 week contracts)	286
Direct Jobs	174
Indirect Jobs	261

- 4.6.2 The primary output required for the European Regional Development fund is that the Vulcan works will be renovating and building 5,375m².
- 4.6.3 The further development of the designated Cultural Quarter remains a key priority and the redevelopment of the Vulcan Centre would help to take this forward.
- 4.6.4 The Vulcan Works sits within the boundary of the Northampton Waterside Enterprise Zone and the proposed redevelopment would provide new business space, particularly for SME's focused on the creative & digital sector, where Northampton has a competitive advantage. The project will assist businesses to develop and grow, creating new employment opportunities for people in the local area.

4.7 Other Implications

- 4.7.1 None identified.

5 Background Papers

Publically Available

- 5.5 Cabinet Report dated 6th December 2017.
- 5.6 Creation of a Creative Industries Hub: Report of the Director of Customers and Communities, Cabinet Report, June 11th 2014.
- 5.7 Vulcan Works Redevelopment- Phase II: Report of the Director of Regeneration Enterprise and Planning, Cabinet Report, May 11th 2016;
- 5.8 Northampton Economic Regeneration Strategy 2008-2026 (NBC, 2008).

- 5.9 Cambridge – Milton Keynes – Oxford Growth Corridor (NIC, 2017).
5.10 South East Midlands, Where Innovation Fuels Growth; Strategic Economic Plan (SEMLEP, 2017).
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