

Exempt
Appendices A & B



NORTHAMPTON
BOROUGH COUNCIL

CABINET REPORT

Report Title	The Vulcan Works Northampton
---------------------	-------------------------------------

AGENDA STATUS: **Public with Exempt Appendices**

Cabinet Meeting Date:	6 th December 2017
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 To seek 'in principle' agreement for a modified approach to the redevelopment of the former Vulcan Works to produce new business space for firms, particularly SMEs, engaged in the creative and digital sector.

2. Recommendations

- 2.1 Notes and endorses the action taken by the Director of Regeneration Enterprise & Planning to determine the existing procurement arrangements that had been made through the SCAPE framework.
- 2.2 Approves the revised approach to advancing the project as set out in this report.
- 2.3 Endorses the appointment of Ridge Property and Construction to provide project management, procurement and cost consultancy support to the project, as may be appropriate;
- 2.4 Endorses the appointment of Amion Consulting to review the business case and financial model for the project and to support the Council's bid for capital funding from the European Structural Investment Fund;

- 2.5 Authorises the Director of Regeneration Enterprise & Planning, to obtain the services of a design team, to help advance the proposed revised project;
- 2.6 Notes the financial position set out at exempt Appendix A, including the resources spent to date and those needed to complete the next phase of the project, approximately £372,000, and agrees to reflect this in the Council's Capital Programme;
- 2.7 Endorses the submission of an application to European Structural and Investment Fund for capital funding, but notes that it will take some time for the application to be determined;
- 2.8 Authorises, when appropriate, the Director of Regeneration Enterprise & Planning, acting in consultation with the Chief Finance Officer, to re-tender a scheme in an OJEU compliant way with a view to testing the market and obtaining the most competitive tender price possible
- 2.9 Welcomes the potential involvement of the University of Northampton in the project as a potential tenant and that being so, invites them to enter into an appropriate Agreement for Lease and Lease by February 2018;
- 2.10 Authorises the Director of Regeneration Enterprise & Planning to further explore the procurement of a suitable operator to manage the completed scheme, via soft market testing and other appropriate means;
- 2.11 Instructs the Director of Regeneration Enterprise & Planning to submit a further report to Cabinet once the result of the ESIF application, OJEU compliant tender exercise and final financial model/business case, are known.

3. Issues and Choices

3.1 Report Background

- 3.1.1 In June 2014 Cabinet 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 then commissioned to show how this could be achieved. In May 2016 however, 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 grant of both full planning permission and listed building consent on 12th April 2017.
- 3.1.3 Alongside this the contractor selected by the Council to design and develop the scheme, under the SCAPE Framework, had been preparing a Tender for the Council to consider. 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. Indeed, the Tender left the Council with a potential level of financial risk that officers felt quite unable to endorse. Despite undertaking a cost re-engineering exercise, 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 phasing issue, and in the light of wider estate management considerations that presented themselves, 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. That being so they advised the Council that they would not be able to locate their facilities in the complex as envisaged in May 2016.

- 3.1.4 So to summarise, at this time, 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 finding that it was unable to locate its Creative Leather Technology and Leather Conservation Centre, around which the latest design was based, into the proposed scheme. Given this officers felt that the only reasonable course of action was to not attempt 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 and that being so the steps previously outlined were taken.

3.2 Issues

- 3.2 Given the circumstances officers have considered how the project could still be positively advanced and have devised an alternative approach. At a high-level this can be summarised as:
- A light modification of the latest design given that the University's 'leather facilities' are not going to be located within the complex. Potentially this could simplify certain matters, as the specialist design features associated with those facilities can be omitted and additional space released for business use/letting. A new design team will be required to assist in this process, should Cabinet endorse this approach.
 - Subject to the above, to pursue a fully OJEU compliant tendering exercise to test the market, with a view to obtaining the best and firmest price possible. Ridge Property & Construction have been engaged to assist in this process. In any event ESIF requires this type of process to be used. There would be nothing to prevent the previous contractor from submitting proposals.
 - Seek ways of obtaining additional external funding into the scheme with a view to addressing the funding gap that previously presented itself. Here, the Council has recently submitted an application for European Structural and Investment Fund grant and has been assisted in that

process by Amion Consulting who have an established track-record in this specialist line of work. The determination of such application takes several months, and should our application prove successful then it would almost certainly be accompanied by conditions relating to economic outputs. It may be that a relatively small amount of funding can be obtained from other sources.

- Review and test the financial model that lies behind the Business Plan for the proposed scheme. Again this is being facilitated by both property agents who are looking at what the local market is likely to find attractive in terms of rent and service charge, and external consultants who have created a robust model that includes all of the necessary financial parameters. Again, it would be possible, 'in principle' for the University to still participate in the scheme, in an appropriately structured way, as a tenant. It will also be necessary to obtain an operator for the proposed scheme because the University will no longer be performing this role. Soft-market testing has already commenced, but an open tendering process will be required in order to obtain keen price from a suitably skilled and experienced firm. This element of the work cannot however be finalised until it is clear what the scheme may be likely to cost and the total capital funding that may be available, given that not all of it is secured at this time.
- If everything comes together as currently envisaged then Cabinet should have a suite of information available to inform its decision as to whether to proceed with construction, including the results of the tender exercise, confirmation of the capital funding package and the final financial model/business case, sometime in the period between September and November 2018. Assuming that no insurmountable issues present themselves, and this can never be a foregone conclusion, then a timely Cabinet decision will be needed to enable a contract to be let and practical completion to be achieved before the end of March 2020. These timescales would, of course, be informed by the successful tenderer's programme.

3.3 Choices (Options)

There are a number of options available to Cabinet:

- 3.3.1 Possibly continue with its existing contractor using the SCAPE Framework. Due to the level of uncertainty around qualifications and omissions within the tender that was received, the Council cannot be assured that this could be taken as best value or reasonably represent the likely final cost to the Council. In any event the scheme as designed cannot proceed due to the University not being able to locate the Institute for Creative Leather Technology and Leather Conservation Centre within the scheme as previously envisaged. In the circumstances this really cannot be recommended.
- 3.3.2 Seek to re-tender the project, in an appropriate form, using an OJEU compliant approach, in with a view to achieving a more competitive tender price. Such an approach would enable the market to be tested and afford the Council the

opportunity to reflect on the prices obtained before entering into any construction contract. On balance, this is recommended.

- 3.3.3 Bring the project to a close and only undertake those works which are necessary, such as the removal of asbestos from the existing buildings and the demolition of amalgamated tyres. The cost of this option is detailed at exempt Appendix A. This would, however, forgo the opportunity to secure approximately £10 million of external funding. This is however, clearly something that could be done, but at this stage it is not recommended. Cabinet needs to be aware, that this option may have to be re-considered if any of the areas highlighted in Section 3.2 of the report do not materialise to the satisfaction of the Council. At this point in time, purely in relation to costs, this may be the most cost-certain option.
- 3.3.4 Proceed without the involvement of the University of Northampton. This is possible as consultants acting for the Council have advised that all of the space within the proposed building envelope is capable of being let on commercial terms. That said, not all of the space that could be created would be able to be let at the same time, and nobody would expect it to be, so there may be some financial benefit to be obtained by offering space to the University for a period of time, bearing in mind that the Council may need to produce additional economic outputs to satisfy conditions that would almost certainly be attached to any ESIF funding agreement, should the Council's application be approved.

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, of course, 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. These relate to both capital and revenue expenditure.
- 4.2.2 Should the scheme not proceed for any reason, then the costs incurred to date in design and enabling works, although some of that expenditure will have benefitted the Council in its capacity of asset manager, would probably all need to be accommodated within the Council's revenue budget. Further details are provided in exempt Appendix A.
- 4.2.3 In terms of capital expenditure the Council will not know with an assured level of certainty what the build-phase of the project is likely to cost until tenders have been returned and evaluated. This is unlikely to be before September – October 2018.

- 4.2.4 Another risk to be mediated concerns market interest in any tendering exercise. It is possible to imagine a situation where interest could be limited. This outcome is not thought to be likely as the project will now be much more straight-forward to develop without the presence of the University's leather related facilities which brought with them certain complexities around drainage and ventilation. In any event the Council has been advised that the scale of the project should result in a healthy amount of interest from medium sized contractors.
- 4.2.5 In terms of the overall funding package, where exempt Appendix A provides further details, the Council will continue to need to draw on that external funding previously approved through SEMLEP, as well as the funding recently applied for through the European Structural and Investment Fund (ESIF). Unfortunately, the process for determining such applications takes some time and the result of the Council's ESIF application, assuming that we are invited to develop our outline bid into a full application, will probably not be known until somewhere in the period September to November 2018.
- 4.2.6 So it would not be until approximately Autumn 2018, that the Council would know the cost of the build phase and the whether it can all be contained within the available funding package. There are permutations here, but if the ESIF application didn't yield the full grant applied for, or indeed, any grant at all, then there would be a funding gap that would need to be addressed in an appropriate way; it is not possible to be specific at this point but the Council has, for example, the ability to meet any funding shortfall through prudential borrowing, the use of reserves or a combination of these approaches.
- 4.2.7 Cabinet should also be aware that the capital budget for this project has not been adjusted to take account of building cost inflation, and it is recommended that an adjustment is made at the appropriate time, if necessary. Further details are provided in exempt Appendix A.
- 4.2.8 In terms of the operation of a completed complex, a suitably experienced and skilled firm of consultants specialising in financial modelling and business planning have been engaged to review how a new complex would operate in revenue terms. Here it is envisaged that a profit and loss account would be established to enable the Council to see how the scheme was operating as an independent budget centre. The model is very sensitive to inputs, for example likely rental levels, but a very conservative iteration suggests that the scheme would be able to reach a break-even point and then profitability, such that it could repay the amount of loan funding that Cabinet previously approved for the scheme. The Council is obviously looking for a business plan that does not place additional revenue pressures on its own budget, however until it reaches profitability, the complex will require some revenue support in the early years, which would be recouped over the life of the business plan. The financial model cannot however be finalised until the overall capital funding package is confirmed and this is therefore a matter that will need to be outlined to Cabinet before it enters into any construction contract following the proposed re-tendering exercise. In the meantime officers will continue to develop the model and undertake sensitivity analysis.

- 4.2.9 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 consultant advice about what the local market is reasonably likely to bear and incorporating these assumptions into the underlying financial modelling for the scheme. The presence of the University as anchor tenant would clearly have utility here.
- 4.2.10 Now in order to deliver the financial performance that is expected and necessary the Council will need to procure an operator for the building, given that the University, which in May 2016 was envisaged as performing this function, may not now be involved in the project or only involved as a tenant. Getting suitably experienced operators with an established track-record of operating these types of facilities involved in an open procurement process will be a key to success here. Given this it is not suggested that the Council operates the proposed complex directly.
- 4.2.11 It has to be said that there may be wider uncertainties that may negatively impact on costs and financial performance and principal amongst these is Brexit. At this stage it is not possible to estimate what these might be with any degree of accuracy, and we certainly do not attempt to do so here.
- 4.2.12 A high-level risk register provided at exempt Appendix B, puts the above risks into context. At this point however, 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 proposed development of the Vulcan Works project lies within the Council's legal powers. Appropriate contractual arrangements will need to be made using the appropriate procurement channels as envisaged within this report.
- 4.3.2 Contract arrangements will include the actual construction, the letting of a contract to an operator and leasing arrangements for individual occupiers. None of these arrangements however, present entirely novel or insurmountable legal risks.
- 4.3.3 The Council's legal title to the property has already been reviewed and is considered suitable for this type of scheme.

4.4 Equality and Health

- 4.4.1 An Equality Impact Assessment was previously undertaken and these issues were further considered at the planning and listed building consent stage. Should Cabinet decide to approve the way forward set out in this report, then minor design changes may need to be made and that being so matters relating to health and equalities will need to be reconsidered with a view to ensuring compliance with the necessary regulations.

4.5 Consultees (Internal and External)

- 4.5.1 The local business community was consulted as part of the LGF II bid process and this helped to shape earlier iterations of the scheme.
- 4.5.2 Further consultation was undertaken in respect of both of the previous planning and listed building consent applications, all of which were granted (with conditions).
- 4.5.3 A neighbouring land-owner has been consulted concerning a related property transaction.
- 4.5.4 SEMLEP have been consulted about the latest position and specifically the proposal to move forward with a revised scheme.

4.6 How the Proposals deliver Priority Outcomes

- 4.6.1 Northampton Alive sets out the Council's exciting and forward-looking aspirations for the regeneration of Northampton over time. 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.
- 4.6.2 The Vulcan Works also 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, which would assist businesses to develop and grow, in the process creating new employment opportunities for people in the local area.

4.7 Other Implications

- 4.7.1 None identified.

5. Background Papers

Publicly Available

- 5.1 Creation of a Creative Industries Hub: Report of the Director of Customers & Communities, Cabinet Report, June 11th 2014.
- 5.2 Vulcan Works Redevelopment – Phase II: Report of the Director of Regeneration Enterprise & Planning, Cabinet Report, 11th May 2016.
- 5.3 Northampton Economic Regeneration Strategy 2008 -2026 (NBC, 2008).
- 5.4 Cambridge – Milton Keynes – Oxford Growth Corridor (NIC, 2017).
- 5.5 South East Midlands, Where Innovation Fuels Growth; Strategic Economic Plan (SEMLEP, 2017).

Ian Gray
Interim Director Regeneration Enterprise & Planning
01604 837156

