

**City Deal and Growth Deal Programme Board**

**Business Case Proforma**

**1. Project title and proposing organisation(s)**

Spode Church Street – Phase 2

Stoke-on-Trent City Council (“SOTCC”) and the Association for Cultural Advancement through Visual Arts (“ACAVA”)

**2. Decision date**

Decision required by 28 February 2018, please

**3. Decision summary: Recommendation etc.**

Decision required – allocation of £500,000 of Growth Deal 3 towards this project

**4. Is the decision exempt from being publically reported by the LEP (if so please specify the reasons why)**

No

**5. Options appraisal**

Options Considered:

**Do nothing** – Take no action on this part of the Spode site. This would be sub-optimal and the unoccupied buildings would fall into further disrepair. SOTCC has obligations in respect of Grade II listed buildings and if the buildings were allowed to fall into further disrepair it could be issued with repairs notices by Historic England, and the opportunity to create/retain further artists’ and creatives’ jobs in Spode Works would be lost.

**Divert expenditure to elsewhere on the site** – There are several buildings on the Spode site equally in need of investment, where funding could be used productively. However, none of these buildings are as well suited for Artists’ Studios as those identified, and the proposed location of the Phase 2 scheme next to the existing Artists’ Studios will allow future costs of management to be minimised, as ACAVA will only need to employ one studio manager for both schemes. Consequently, investment elsewhere on Spode Works would not provide the synergy required by ACAVA to progress/expand their studios.

**Preferred Option** – conversion of the Grade 2 listed buildings around the Church Street courtyard off Church Street in Spode, to form an extension to the existing successful Artist’s Studios scheme, as detailed in paper.

## 5.1. Strategic case

Spode Works - the proposed extension to the Artists' Studios will address the following LEP priorities:

**Stoke-on-Trent as a Core City.** Creating the conditions for innovation and providing attractive urban environments that businesses will flock to. Church St Phase 2 will become a prestigious setting within an attractive urban development that Artists and creative businesses will flock to. It will become both credible and highly visible when attracting potential partners and customers.

**Connected County:** To meet market demand for high quality employment [...] sites which are connected to the transport and communications network. Church St Phase 2 will expand on the already successful 43 ACAVA artists' studios. Spode is located just minutes away from the M6 and Stoke Railway station.

### **Competitive Urban Centres Vision:**

The project will help to sustain economic growth in Stoke town through sustainable economic development [...] it will attract new people to invest in, live in, work in and enjoy our urban centres.

## 5.2. Economic case

The works involve the renovation and conversion of predominantly Grade II listed buildings which are currently in a poor state of repair. Under the terms of an Agreement for Lease with ACAVA, SOTCC will undertake renovation works to the exterior of the buildings and services and ACAVA will convert the interior of the buildings into artists' studios which will then be licensed to individual ACAVA members.

The outputs will be as follows:

- renovation/conversion of listed buildings – circa 9,154 ft.<sup>2</sup> (exact area subject to survey)
- number of studios to be created – 12
- number of jobs created/protected – 32

The application of Growth Deal 3 to this project will restore derelict buildings to productive use, create/retain circa 32 artists/creatives jobs and further reinforce previous/current SOTCC expenditure in this site, which is an SOTCC regeneration priority which will contribute to wider economic growth and productivity in the SSLEP area.

## 5.3. Commercial case

The proposal is considered commercially deliverable as it will be carried out by ACAVA, who have already successfully delivered the first phase of artists' studios. This was completed in 2016 and has been very successful as virtually all of the studios have now been occupied by a wide range of artists and creatives. ACAVA

is an educational charity which was established in 1983 and provides studios for over 500 artists in 20 buildings, mostly in London. ACAVA is keen to extend the studios to meet the identified demand for further studio space and is willing to enter into an Agreement for Lease/Lease to deliver the fit out of the second phase (see section 5.4) so in effect this phase will be a pre-let to ACAVA, so the delivery risk is minimised.

The City Council will procure the external renovation works by means of competitive tender to ensure the most economic cost of delivery and value for money to the public purse. ACAVA will employ its own staff to deliver the fit out, most of whom will be locally-based.

#### **5.4. Financial case**

**Estimated costs** (based on Architects plans & schedule of works and QS costings)

- SOTCC gross cost – c.£690,000 (including professional fees) plus ACAVA fit out works – c. £230,000 (including fees) – total cost £920,000
- Growth Deal 3 grant funding sought – £500,000 which it is proposed should be paid direct to SOTCC for investment in the buildings. If approved, the net cost to SOTCC will reduce to c£190,000 once the grant has been taken into account. The ACAVA works contribution of £230,000 will be unaffected by the grant.
- In addition to the direct works on this project, the council is in the process of carrying out demolition and other works on the site such as providing a new electrical supply, which will involve expenditure of least £1 million. This expenditure will support this project, so overall the project is likely to involve grant of £500,000 and combined SOTCC / ACAVA match funding of at least £1.42m.

#### **Estimated revenue**

- On completion of the shell works and fit out works to be specified in the Agreement to Lease, it is proposed that a 15 year lease be granted to ACAVA which will be subject to rent reviews at five year intervals. The initial rental will be based on comparable property from a recent council development on Church Street in Stoke-on-Trent, and is likely to be circa £27,000, subject to survey to clarify the exact area of the proposed building demise.

#### **5.5. Management Case**

- SOTCC & ACAVA personnel will project manage the scheme, as was the case with the earlier artists' studios which were successfully delivered.
- SOTCC will be supported by external consultants principally CTD architects and Rider Levitt Buckall, Quantity Surveyors. External Principal Designers will also be appointed to minimise construction H&S risk.

#### **5.6. Resource and VFM analysis**

- SOTCC has already allocated the £1 million + works to deliver demolition/new electrical supply/other works on Spode, referred to in section 5.4 of this report. This sum currently is currently reserved within SOTCC's capital programme.
- In addition, SOTCC Cabinet are being asked to commit a further £400,000 to the Spode project, £190,000 of which will be used to support this project, and the balance of £210,000 will be used to support the wider Spode regeneration programme. The SOTCC Cabinet will consider this request at their meeting on 16 January 2018.
- The ACAVA funding will be provided by commercial borrowing hypothecated against future licence fee receipts from their tenants and it is understood that the principle of this funding has already been agreed with their bankers.
- The likely creation/retention of circa 32 permanent jobs represents a Grant VFM calculation of £15,625 per job.

## **6. Consultation process**

- The proposed works are consistent with the Creative Village concept which was the subject of consultation when the council approved the overall Spode master plan in 2012.
- This established that there can be a viable future for the site, as a Creative Village. This has been branded Spode Works and will involve the retention of the buildings of greatest heritage value and their re-use for a range of uses focussed on firms from the arts and creative sector, coupled with selective demolition and new build development.
- The heart of the proposal is the development of space for artists and creative industries. This is based on models like the Custard Factory in Birmingham, Camden Lock and Trinity Buoy Wharf in London, and the Northern Quarter in Manchester. The schemes all have in common an "alternative" character. They often start off as marginal areas but as they become established, they become huge incubators of small businesses and very dense employment locations.
- The development of further artists' studios is completely in accordance with this master plan.

## **7. Location of proposal**

Please see plan attached

## **8. Risk analysis**

- Usual development risks: i.e., cost overrun/delay and reduced rental income. These risks will be mitigated by producing a detailed works specification which will be competitively tendered, and by using professional project management to ensure the project is delivered successfully. The agreed rental income will be documented in the Agreement for Lease/Lease.
- Given the successful delivery of the first phase of artists' studios there is no reason to doubt ACAVA's ability to deliver the second phase of studios.
- Further risks/mitigation :

Risks	Level of Risk	Impact	Risk Mitigation
Costs Overrun/delay – reduced rental income	Low	Medium	Production of a detailed works specification which will be competitively tendered, and by using professional project management to ensure the project is delivered within budget and timescales.
Not securing grant funding	Low	High	Project is conditional of all finances and grant being award prior to commencing.
Grant conditions not met and some/all of grant clawed back	Low	Medium	Outputs have been set based on achievable figures taken from Phase 1 of the artist studios.
Units not being let / Low demand	Medium	Medium	ACAVA will have agreed HoT's set prior to completion of the project and a Lease will be issued on completion. SOTCC predicted rental will therefore be achieved. ACAA will start promotion of the units in advance of completion to ensure take up is strong. The studios will also be licensed on affordable licence fees
Costs exceed budgets committed due to unexpected costs	Medium	Medium	The project has been costed via a Quantity Surveyor from RLB and will be value engineered wherever possible. The works will be competitively tendered and a contingency of 10% has been set within the budgets.

## 9. Legal analysis

- SOTCC owns the site including the buildings and the City Council has power to dispose of land in any manner they wish (including the grant of a Agreement for Lease /Lease). The works will be competitively tendered and there are no state aid issues as the rent agreed will be based on market rent evidenced on Church Street. Both SOTCC and ACAA have equal opportunities policies and will comply with SSLEP SLA accounting requirements.

## 10. Delivery

- The successful delivery of the first phase of the scheme should give confidence of the parties' ability to successfully deliver this second phase of artist studios.
- Planning consent already exists for delivery of the majority of the external works, but this may need modification as the detailed design progresses, and listed building consent will be required in due course but this is not felt to be an obstacle, and initial discussions with SOTCC's conservation officer have been very positive.
- Both parties have identified funding sources necessary to deliver their share of the project, and there is a high degree of confidence that, with Growth Deal 3 funding assistance of £500,000, the project can be successfully delivered in accordance with the project timetable.

- This project make a significant contribution to the overall success of the Spode works site which is critical to the ongoing regeneration and cultural offer of Stoke-on-Trent .

## 11. Timetable

SOTCC Approval process	Jan 2018
LEP approval process	Feb 2018
ACAVA agreement	Feb 2018
Design / planning / surveys	Feb – Aug 2018
Tender / procurement	Mar – Aug 2018
Construction	Aug- Feb 2019
Fit out	Feb – April 2019

## 12. Author

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Supporting documentation can be supplied on request, including:

- the report to Stoke-on-Trent City Council Cabinet on 16 January 2018
- architect plans and schedule of works
- QS costings
- heads of terms agreed with ACAVA

## 13. Decision details

*For official use only – details of date considered by SSLEP Executive Group and any additional information for decision record.*