

 <b>Executive Committee 14<sup>th</sup> March 2012</b>		<b>Agenda Item No.</b>  <b>6</b>
<b>Title</b>	Court Street Creative Arches	
<b>For further information about this report please contact</b>	Ray Smith Enterprise Development Manager Tel: 01926 456029 Email: ray.smith@warwickdc.gov.uk	
<b>Wards of the District directly affected</b>	All	
<b>Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006?</b>	Yes	
<b>Date and meeting when issue was last considered and relevant minute number</b>	N/A	
<b>Background Papers</b>	Finance & Audit Scrutiny C'tee 7 <sup>th</sup> June 2011 & 28 <sup>th</sup> September 2010	

<b>Contrary to the policy framework:</b>	No
<b>Contrary to the budgetary framework:</b>	No
<b>Key Decision?</b>	Yes
<b>Included within the Forward Plan? (If yes include reference number)</b>	No
<b>Equality &amp; Sustainability Impact Assessment Undertaken</b>	No

Officer/Councillor Approval		
Officer Approval	Date	Name
Chief Executive/Deputy Chief Executive	Feb 12	Bill Hunt
Head of Service	N/A	
CMT	Feb 12	Andrew Jones
Section 151 Officer	Feb 12	Mike Snow
Monitoring Officer	Feb 12	Andrew Jones
Finance	Feb 12	Jenny Clayton
Portfolio Holder(s)	Feb 12	John Hammond
Consultation & Community Engagement		
Insert details of any consultation undertaken or proposed to be undertaken with regard to this report.		
None		
Final Decision?		Yes
Suggested next steps (if not final decision please set out below)		

## 1. SUMMARY

- 1.1 This report explains the need to install a basic ventilation scheme in the Court Street Creative Arches to improve air quality, reduce damp, comply with building regulations and improve the Council's ability to let each unit.

## 2. RECOMMENDATION

- 2.1 That the Executive authorise officers to negotiate with The Department for Business Innovation & Skills (**BIS**), the successor body to Advantage West Midlands, that the restriction to let the Units only to the Creative Industries sector is removed.
- 2.2 That the Executive Committee approves the capital investment of £22,000 from the Capital Investment Reserve Fund to install a ventilation scheme.

## 3. REASONS FOR THE RECOMMENDATION

- 3.1 Court Street Creative Arches have been designed to appeal to the Creative Industries sector providing large spaces that can potentially be used for a number of different purposes. The facilities provided are deliberately basic in order to leave scope for the incoming tenant to tailor their fit out of the unit to their individual requirements.
- 3.2 Currently the Units do not comply with Building Regulations in respect to ventilation and the incoming tenant would need to address this as part of the fit out of the unit. Potential tenants viewing the arches often comment on the dampness and unpleasant, smelly atmosphere.
- 3.3 Each Unit is lined to prevent any seepage of water from the arch brickwork getting into the unit. The lining is very effective but is not an airtight barrier. Hence when the units are shut up for any length of time without ventilation when re-opened can smell musty, accumulate mould growth and encourage damp which is discouraging potential tenants when they are shown around.
- 3.4 The Council needs to let these units as quickly as possible in order to ensure that WDC meets the contracted AWM Outputs by 30<sup>th</sup> June 2014 - **See Appendix 1**. Failure to do so could result in grant clawback by BIS.
- 3.5 Having proper ventilation installed will improve the quality of the units and, it is expected, will speed up the letting of the vacant units.
- 3.6 Installing ventilation will ensure that Building Regulations are complied with and avoids any claim at a future date that the Council should have done this work as part of the refurbishment works.
- 3.7 Under the terms of the AWM funding contract the units can only be offered to businesses in the Creative Industries sector<sup>1</sup> many of which have been hard hit by the recession and the reduction in grant aid to the sector. Fit out costs, particularly for basic services such as heating and ventilation, are discouraging potential tenants from this sector. Whilst WDC will continue to try and attract a

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<sup>1</sup> Creative Industries definition includes: Advertising, Architecture, Art & Antiques, Computer & Video Games, Crafts, Design, Designer Fashion, Film & Video, Music, Performing Arts, Publishing, Software, Television & Radio.

mix of creative businesses to fulfil the original vision, having the contractual commitment to do so removed would enable the Council to let the units to other appropriate sectors if it so wished and would give the Council more flexibility to let or re-let void properties in the future.

#### 4. **POLICY FRAMEWORK**

##### 4.1 **Policy Framework** - No Changes to the following:

- Development Plan Documents
- Fit for the Future
- Food Law Enforcement Service Plan
- The plan and strategy which comprise the Housing Investment Programme

##### 4.2 **Fit for the Future**

4.2.1 The Enterprise Team are mindful that the net financial impact of the four combined Enterprise Projects<sup>2</sup> budgets should be at least neutral, but preferably positive, i.e. a net contributor to WDC funds as soon as possible. The Court Street Creative Arches scheme is potentially a key contributor to project surpluses.

4.2.2 In terms of the Council's Vision and Purpose the enterprise projects are a key part of the Council's Sustainable Communities Strategy under 'Economy Skills and Employment' Thematic Priority and in particular contributing to 'a strong and diverse economy which provides jobs for all'. The projects, which include Court Street Creative Arches, are also focussed on supporting our three priority areas of Brunswick, Crown and West Warwick

#### 5. **BUDGETARY FRAMEWORK**

##### 5.1 **Capital Costs**

5.1.1 The capital cost for the heating and ventilation scheme proposed by our Property Services department is broken down as follows:

9 Units @ £2,326 (£21,934)	£21,000
Plus Contingency 5%	£1,000
<b>Total Cost</b>	<b><u>£22,000</u></b>

5.1.2 Of the nine Units, Units 5, 6 and 9 are already occupied and the tenants should have complied with Building Regulations. However should this not be the case and to ensure that all Units are specified to the same level for the benefit of current and future tenants, works should be carried out on Units 5, 6 and 9 if needed.

5.1.3 If no further works are needed on Units 5, 6 and 9 there is a potential saving of £7,400 which would reduce the Total Cost of the scheme to £14,600.

5.1.4 The proposed £22,000 may be financed from the Capital Investment Reserve. Including the expected capital receipts for 21 Church Street Warwick and the

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<sup>2</sup> The four Enterprise Projects are 1) Althorpe Enterprise Hub 2) Court Street Creative Arches 3) Brunswick Enterprise & Employment Zone, situated within Brunswick Healthy Living Centre, and 4) Spencer Yard – North Hall and West Wing buildings

Art Gallery, the Reserve will have approximately £600,000 unallocated above its core balance of £2m.

## **5.2 Revenue Cost Projections – See Appendix 2**

- 5.2.1 Breakeven is estimated at 75% occupancy (approx. 7 Units let). The target will be to reach this stage as soon as possible and at latest by 2013/14 rather than the current target, based on progress so far, of 2015/16. If this target can be achieved this represents an annual saving of over £65K compared with the expected out-turn for 2011/12.
- 5.2.2 Units that remain empty without adequate ventilation will continue to need ongoing maintenance and cleaning.
- 5.2.3 If the Council can let all 9 Units then there is potential for a surplus of £30K after direct costs.

## **6. ALTERNATIVE OPTION(S) CONSIDERED**

### **6.1 Option 1 – Do nothing**

Vacant Units will deteriorate and need additional maintenance if adequate ventilation is not installed as soon as possible. The Council would run the risk that building regulations specified as part of the refurbishment scheme would not be complied with by the incoming tenant, and the cost of this work, if borne by the incoming tenant, will continue to be a barrier to the successful letting of the units. Not seeking to get this restriction removed would deny the Council of the longer term flexibility to avoid lengthy void periods if tenants vacate at the end of their lease. In the short term having the restriction removed also means that if the revised income targets are not achieved in order to help the Council meet its cost reduction programme the Council can market the units to a broader market. Therefore this option is not recommended

### **6.2 Option2 – Do the ventilation works but don't seek agreement from BIS to remove the restriction to let the units only to the Creative Industries sector.**

Not seeking to get this restriction removed would deny the Council of the longer term flexibility to avoid lengthy void periods if tenants vacate at the end of their lease. In the short term having the restriction removed also means that if the revised income targets are not achieved in order to help the Council meet its cost reduction programme the Council can market the units to a broader market. Therefore this option is not recommended

## **7. BACKGROUND**

- 7.1 The Court Street Creative Arches (CSCA) were officially completed in September 2009 following a successful bid for regeneration funding from the regional development agency Advantage West Midlands (AWM). Contractual arrangements with AWM restrict the letting of these units to the Creative Industries sector. Total capital project costs were £1.006M split £553K from WDC and £453K from AWM.
- 7.2 A total of 13, mainly derelict, railway arches have been refurbished. 8 arches were combined to make 4 'double' arches/units and the remaining 5 arches

stayed as single arches/units. All 9 units are leased to the Council by Network Rail on a 15 year lease that expires in 2024. Units are sublet individually to businesses/organisations by the Council.

- 7.3 At the time of writing this report three Units were let. One unit located at the rear houses a tenant from the previous Network Rail scheme who insisted on retaining a unit for storage purposes.
- 7.4 The CSCA scheme is part of the regeneration of Leamington Old Town and has greatly improved the environment in the Court Street area. Improvements to the Court Street Car Park were undertaken to coincide with the completion of the Arches in 2009.

**Contracted Project Outputs – Court Street Creative Arches**

<b>Court Street Creative Arches</b>	<b>Contracted Outputs</b>	<b>Achieved at 31/12/11</b>
Jobs created	<b>20</b>	<b>3</b>
Individuals assisted in their skills development	<b>20</b>	<b>0</b>
Businesses created or attracted surviving 12 months	<b>4</b>	<b>1</b>
Graduates in private sector	<b>10</b>	<b>0</b>

**5 Year Projected Revenue Income & Costs**

<b>Court Street Creative Arches</b>					
<b>5 Year Projections</b>	<b>2011/12</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>
<b>Expenditure</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Salaries/Staffing	14700	14700	14700	14700	14700
Repairs & Maintenance	8500	5500	5500	5500	5500
Rent,Rates,Utilities	50447	43520	32877	29296	26223
Marketing	3100	3100	3100	3100	3100
Legal/Audit fees	15400	13400	13400	13400	13400
<b>Total Expenditure</b>	<b>92147</b>	<b>80220</b>	<b>69577</b>	<b>65996</b>	<b>62923</b>
<b>Income</b>					
Government Grants	-8500	0	0	0	0
Rents & Service Charges	-18150	-43446	-69777	-79081	-93036
<b>Total Income</b>	<b>-26650</b>	<b>-43446</b>	<b>-69777</b>	<b>-79081</b>	<b>-93036</b>
<b>Net Deficit(+)/Surplus(-)</b>	<b>65497</b>	<b>36774</b>	<b>-200</b>	<b>-13084</b>	<b>-30113</b>

**Notes:**

1. No Salary increases are budgeted for.
2. Inflationary increases have been built into Rent, Rates & Utilities expenditure
3. No inflationary increases have been built into rental/service charge income.
3. Figures include direct costs only.