



COUNCIL CABINET
5 July 2022

ITEM 7

Report sponsor: Rachel North – Deputy Chief
Executive - Communities & Place
Report author: David Fletcher – Director – City
Development & Growth

Levelling Up Fund Round 2 Applications

Purpose

- 1.1 To seek approval to submit 3 applications to Round 2 of the Government's Levelling Up Fund.
- 1.2 For each of the projects subject to the applications, to summarise the strategic outcomes and benefits to the city centre regeneration ambition and the respective potential Council financial commitments, procurement/delivery strategies and subsidy control considerations.

Recommendation(s)

- 2.1 To note the content of this Report.
- 2.2 To note that a further Confidential Report relating to this Item is to be considered at Item 9 of the Agenda of this meeting of Council Cabinet, which will ask Council Cabinet to agree the following recommendations:
 - (a) To approve the submission of 3 applications to the Levelling Up Fund Round 2 for:
 - Assemble (New Learning Theatre), Assembly Rooms site
 - New Hotel, Becketwell
 - Friar Gate Goods Yard and Bridge.
 - (b) To note that if a bid is successful, a report with full details will be brought back to Cabinet in relation to each scheme, and to seek approval to accept the funding, secure the relevant capital and revenue budgets (including match funding requirements), the contractual arrangements and conditions associated with the funding offer to enable it to be accepted.
 - (c) To approve capital spend at risk of up to £0.7m to be added to the capital programme, funded by prudential borrowing to progress the Assemble (new Learning Theatre) to RIBA 2, in advance of the outcome of the bid, and the Council's internal Gateway 3 approval.

Reason(s)

- 3.1 To enable the delivery of key projects identified within the Council's recently published Ambition document 'Towards a New Vision for Derby City Centre, to support the reinvention and regeneration of Derby's city centre.
- 3.2 To maximise the chances of securing Levelling Up Fund monies to overcome challenges associated with both the direct delivery costs and commercial viability of key regeneration projects in the city centre.

Supporting information

City Ambition

The transformation and reinvigoration of Derby city centre is a critical priority for the city council and its wider partnership. Structural changes in the national context in which city and town centres operate, with the rise of online shopping and the impact of the Covid pandemic, has been compounded in Derby by a gradual hollowing out of the purpose of the city centre with the loss of business activity, the absence of city living and the concentration of the primary retail offer in the Derbion shopping centre. To further exacerbate this position the city's cultural offering has been significantly reduced in recent years with the closure of the Assembly Rooms following a fire in 2013 and the subsequent cessation of activity in the Market Hall and Guildhall due to significant maintenance requirements.

This position is well understood and already a range of projects and initiatives funded from both public and private sector investment are starting to show what could be possible in the city centre if all partners work together.

- New housing development in Castleward and the Nightingale Quarter.
- The successful re-opening of the radically transformed Museum of Making.
- Regeneration of the derelict Becketwell site with a new public square, new private rental apartments, and the building of a new commercial Performance Venue.
- Exciting plans for remodelling the Eastern Gateway around the Bus Station and East Street.
- Completion of Phase 1 of a restored Market Hall with Phase 2 (internal transformation) underway.
- Delivery of substantial new flood defences along the River Derwent (OCOR Package 1).
- A successful 'long listing' for Derby as a credible bidder for the UK City of Culture 2025 (one of only 8 cities across England, Scotland, Wales, and Northern Ireland).

- A programme of cultural activity and events across the city including the Derby Ram Trail, Market Place alfresco dining and Derby Loves You venue, Feste and other festivals, a coordinated Christmas offer, Forest of the Future, and many others.

However, the challenges remain considerable, and Derby needs to set a bold and ambitious vision for the future of its city centre to ensure it can effectively compete with other cities and towns for investment and to grow the numbers of people living, working, visiting, and shopping within it. To deliver this the city council working with partners, stakeholders and local groups has developed an Ambition document – **Towards a New Vision for Derby City Centre** which was adopted by the City Council in May 2022 with the launch of a Big Conversation with the whole city. It's overarching conclusion is that the city centre should be 'all about people':

"People should be at the heart of a transformed city centre.

The city centre needs to become a 'place to be' destination where a wide range of people actively enjoy and engage with its places and spaces.

It needs to have a positive image and feel providing an experience which makes you want to return.

It should inspire confidence that it is a place that is loved and valued to encourage people to invest in it.

We recognise that the city centre is in competition with other towns and cities, and we need to raise our game "

(Towards a New Vision for Derby City Centre 2022)

The level of this transformational intent has been developed with partners across Derby and beyond but recognises the essential role of the council in facilitating this ambition by actively working to unlock further private and public investment to deliver this necessary step change.

This report details three pivotal projects which play an essential part in supporting the creation of a city centre fit for the 21st century, capable of attracting additional investment and increased interest from people and businesses to live, work and play in what would be an exciting, dynamic, and successful city.

Assemble (a new Learning Theatre)

- 4.1 On the Derby Market Place, and in the Cultural Heart of the City this site is currently occupied by the vacant Assembly Rooms building and operational car park. Recognised as pivotal 'public sphere' within the city centre the transformation of this site with a creative cluster (Quad, Market Hall, and Guildhall) aims to create a dynamic, active, and vibrant building capable of attracting people during the daytime and evening transforming the level of activity and foot fall in the Market Place and thus playing a crucial role in the regeneration, vitality, and vibrancy of the city centre.

- 4.2 Derby Theatre already has a national reputation as a 'learning and community' theatre reaching beyond the confines of its building to people and communities throughout the city. It is envisaged that the Assemble project will deliver a step change in increasing the scale and appeal of Derby Theatre's locally produced content, attract a variety of more commercial touring works, build on artist development programmes, embed a research hub into the organisation and enable them to expand and develop their youth, community, and outreach programmes. It's relocation from its current 'hidden' home within the Eagle Market and providing a state-of-the-art new facility which will incorporate new open public space will enable this successful 'community' theatre to build additional visitors and attract increased activity and vibrancy into the Market Place.

Feasibility work on the preferred use for part of the site, the proposed relocation of Derby Theatre from its current base in the Derbion, is underway. This is a project backed by a partnership of Derby Theatre, University of Derby, and the Council.

- 4.3 The Assemble (a new Learning Theatre) bid only requires approximately 40% of the 'cleared' Assembly Room Site. Whilst this report focuses on the development specifically of just the Assemble project, there may be additional investment and revenue support needs to bring forward the rest of the site, public realm, highways alterations etc. These do not form part of this report and no costs have been included in the financial appraisal for these. Any further proposals would be subject to a future Cabinet report at the appropriate time.

- 4.4 The bid proposes that the Council will build and 'own' Assemble which will be leased to the University of Derby. Commercial discussions continue with the University over heads of terms, lease period, contribution to fit out and ongoing investment etc. Alongside development of the proposal, the University have been developing and consulting on a viable business operational model. At this stage, it assumes no ongoing revenue subsidy from the Council balanced with only payment of a peppercorn rent to occupy the theatre. This means that the borrowing costs are not met through rental payments and must be viewed, if the bid was successful, as Council investment in unlocking regeneration and economic activity in the City and not as an income generating asset for the Council.

In relation the direct and wider economic and social benefits to the city, the project is expected to deliver:

- The theatre will directly support **60 permanent full-time equivalent jobs** – an uplift of 25 over current levels. Additional employment would be created for additional flexible hours staff operating across production and front of house.
 - An **uplift in theatre attendance of 83,000 per year** (after five years of opening).
 - **An additional 25,000 visitors to the city annually**, spending £1.7 million per year and **supporting 27 additional jobs**.
 - The **net additional GVA impacts of this spend alone over the next 30 years is estimated to be over £24 million**. Further off-site spend and associated GVA and employment benefits are expected to be associated with current levels of attendance by better linking the theatre into the city centre and its retail and food & beverage offer.
 - **123 graduate and post-graduate students based at the theatre**, up from 49 at present.
 - **Learning and wellbeing benefits associated with a significant programme of outreach and community** engagement – expected to deliver 25,000 'engagements' each year.
 - Catalysing wider spend and investment in the city centre.
- 4.5 In April 2021, the Council's Planning Committee approved an application to demolish the Assembly Rooms complex. Planning consent is subject to arrangements being in place to ensure certainty over implementation of a future use of the site. The Council is currently awaiting notification from the Secretary of State for Digital, Culture, Media and Sport (DCMS) regarding the renewal of the Certificate of Immunity (COI) from listing following the expiry of the former COI in May 2021.

New hotel, Becketwell

- 4.6 The regeneration of Becketwell is a key priority of Derby's City Centre Masterplan 2030 and emerging Derby City Centre Ambition. In 2017, the Council adopted an interventionist strategy, to recognise the level of market failure in this site, for the regeneration of Becketwell involving land assembly, site de-risking, leverage of private and public investment and the redevelopment of the area by the private sector.

- 4.7 Since then, significant progress has been made to progress the £200 million Becketwell regeneration scheme, which secured outline planning consent in 2020. Phase 1 of the Masterplan is under construction in the shape of a new 259 apartment complex, funded by Grainger plc, complemented by a new public square. A second phase has commenced on site, with the demolition of buildings on Colyear Street making way for a new state of the art 3,500 capacity performance arena, funded by the Council, run by international venue operators ASM Global.
- 4.8 A new 150 bed hotel is proposed as the next phase of Becketwell. Whilst there is strong corporate demand for hotel bed nights, Derby city centre currently lacks a quality lifestyle/full-service hotel and there is an absence of major hotel brands such as Hilton, Marriott and Accor. We believe that such a development would not only enhance the city centre offer, but also add value to the business community, especially for larger global companies with a strong local presence, including Rolls-Royce, Toyota and Alstom. The normal operation of such businesses demands regular visits from international customers, suppliers, partners, and overseas staff, all involving overnight stays. A quality hotel will also be complementary to the new performance venue (and associated conference capacity) at Becketwell and will enhance our ability to attract major conferences and other corporate events associated with our key sectors and academic and research specialisms. The provision in Derby city centre of a business class hotel would be very much seen as a positive for the perception and image of Derby as a place open for business.

Friar Gate Goods Yard

- 4.9 This is a major high profile regeneration opportunity in the north of the city centre, on a historical landmark site. The development proposals consist of circa 242,000 sq ft of mixed-use development including workspace, residential units and green space.
- 4.10 This development would leverage significant private sector investment by Clowes, the Derbyshire-based site owner and one of the UK's largest and strongest privately-owned property investment and development organisations.

As well as the Clowes development, a locally based professional team including Maber Architects, Jackson Purdue Lever and Rigby and Co are working on the scheme proposals to bring Friar Gate Goods Yard back to life and develop a scheme which Derby will be proud of whilst restoring some of the city's most iconic historical buildings.

- 4.11 Linked to these proposals, and to be part of the application to the Levelling Up Fund, the Council will be bidding for funds to refurbish Friar Gate railway bridge and restore this superb listed Victorian structure to being a fitting gateway to the city centre.

Proposed procurement / delivery strategies

- 5.1 Each of the above projects will require different approaches in terms of procurement/delivery. Below is set out the proposed approach to each project.

- 5.2 **Assemble** – The Council to procure, construct and own the new cultural facility developed on part of the Assembly Rooms site, which will be the new home of Derby Theatre. It is envisaged that Derby City Council would enter a long lease with the University of Derby, of which Derby Theatre is a wholly owned subsidiary. Appointment of the main contractor for the construction of the scheme will most likely be via a procurement framework.
- 5.3 **New hotel, Becketwell** – The delivery model for the hotel is yet to be confirmed but will be in conjunction with Becketwell development partner St James Securities (who have a 5-year option agreement in place with the Council). It is envisaged the hotel development would be funded through a combination of Levelling Up Fund grant and Council borrowing.
- 5.4 **Friar Gate Goods Yard** – Clowes will be responsible for design, funding and delivery of the main development on the Goods Yard site, the Council acting solely as the accountable body for the Levelling Up Fund grant and will put in place a back-to-back grant agreement with Clowes. In relation to the Friar Gate Bridge works, these works would be procured directly by the Council via a procurement framework.

Public/stakeholder engagement

- 6.1 A key criteria for the Levelling Up Fund application process is stakeholder engagement and evidencing of such support.

Letters of support from key stakeholders, including Marketing Derby, University of Derby, Rolls Royce, Toyota and East Midlands Chamber of Commerce will be included.

- 6.2 In addition, each project must have 'Priority Support' from a Member of Parliament. Derby's local MPs have been briefed and each MP aligned with one of these proposals as follows:

- Assemble – Pauline Latham (Mid Derbyshire)
- New hotel, Becketwell – Margaret Beckett (Derby South)
- Friar Gate Goods Yard – Amanda Solloway (Derby North)

- 6.3 All three projects outlined in this report will be subject to individual detailed planning applications, which will of course involve significant public consultation processes.

Other options

- 7.1 The Council could consider submitting less than its allocation of three regeneration/culture focused bids in round two. However, all three projects set out in this report are unlikely to be delivered without additional external funding and we need to maximise the potential benefit of the Levelling Up Fund for Derby (Derby City Council was not directly awarded any funding from the initial round of LUF).

Financial and value for money issues

- 8.1 The Government's levelling up vision currently relies on councils submitting bids into a competitive bidding process with announcements expected later this year. The current round of bidding is Round two, from the initial Government funding announcement of £4.8 billion. This is expected to be a very competitive bidding round, with no guarantee of a further funding round in the course of this parliament.
- 8.2 If successful, Levelling Up funds will be essential in unlocking regeneration opportunities and in developing the vibrancy of the city centre. Public sector intervention and funding is a key driver to deliver this vision and delivering additional economic benefits. Through securing external grant funding and private sector investment, it reduces potential calls on Council funding that would be predominately funded through unsupported borrowing.
- 8.3 The proposed LUF bids detailed within this report are at the relatively early stages of design (i.e. RIBA Stage 0 or 1) and investment appraisals. Further appraisals need to be undertaken in respect of costs, delivery timescale and optimum procurement/ delivery vehicles. These bids are being submitted at a time of significant volatility in construction costs, supply chains issues and private sector investment appetite. It is important to note that as the accountable body for all three bids, that these risks or benefits fall to the Council (if the bids are successful). The Council will aim to mitigate risks where possible in the procurement of the schemes or transfer or share these risks with partners.
- 8.4 In submitting the bids, there is a requirement for the S151 Officer to provide a 'formal' assurance in the form of:
- A statement that DCC has allocated sufficient budget to deliver the scheme on the basis of its proposed funding contribution (this includes ongoing revenue requirements)
 - A commitment letter to evidence the above is approved by board or committee
 - That the proposals are subsidy control compliant

To secure the funding, the Council is also required to set out the proposed procurement framework and to profile spend and funding in detail. It is important to note that the current LUF guidance limits the level of Government funding (currently capped at £20 million) meaning any increase in costs or slippage in delivery would need to be met from local funds and secondly that spend of the LUF funds should be by March 2025 and by March 2026 in *exceptional circumstances*.

Whilst it is hoped that the Government may be more flexible when the successful bids are announced, these are the parameters that the bids are submitted against.

- 8.5 This report details three proposals with different funding packages, further details in relation to the funding package for each proposal are set out in the confidential report relating to this Item.

- 8.6 **Assemble** – a Levelling Up Fund bid of £20m is proposed for this project with the balance of project costs to be met through prudential borrowing by the Council, details of which are set out in the confidential Report associated with this Item. The current estimated construction costs for this development are set out in the confidential Report. The figure in the confidential Report includes assumptions about construction inflation (priced at 2026 prices) and includes constructor and client contingences. The client contingency is to provide for further construction inflation risk and design brief cost changes.

In addition, the Council will incur professional and project management capital costs to deliver the new cultural facility and associated outline planning submission for the wider site.

The Council and its partners will actively seek to secure further external funding to help deliver this scheme. It should be noted that other flagship cultural regeneration projects of this nature, e.g., Curve, Leicester and Cast, Doncaster were in receipt of additional external capital funds.

- 8.7 The redevelopment of the Assembly Room Site and bringing forward the Assemble project is complex and requires further design work to progress at risk (if the current delivery timescales are to be met). These are assumed to be in the region of £0.7m to RIBA 2, and this report seeks approval to fund this stage and incur capital spend at risk, in advance of the bid outcome and full scheme approval.
- 8.8 **New hotel, Becketwell** – This LUF bid contributes to the delivery of the Becketwell Masterplan and City Centre Plan. The proposed use would be complimentary to the other proposed uses of the site.
- 8.9 At this stage the LUF bid, assumes a LUF allocation for up to £15M, with any further funding requirement to be met through Council borrowing.

It is anticipated that operation of the hotel will generate a net revenue income stream for the Council, which should offset some or all of the costs of borrowing.

- 8.10 **Friar Gate** – This is a private led LUF bid that will allow redevelopment and regeneration of this iconic city centre site. Initial appraisals indicate a viability gap of between £10 – £12 million to bring the scheme forward, which is the basis of the LUF bid. The owners of the site, Clowes, will be responsible for raising the balance of the finance. In addition, it is intended to include within the Levelling Up Fund application, an allocation to cover the majority of the anticipated costs of up to £4M for the proposed Friar Gate bridge works (DCC owned asset) which, if successful, would be a DCC capital scheme to deliver.
- 8.11 As with all LUF bids, there is a risk that if successful, this scheme does not defray the LUF funding within the 25/26 spend requirements. The Council will seek to ensure that this risk, and any increase to the viability gap, is fully borne by the private sector partner and does not fall on the Council as the Accountable Body.
- 8.12 The appraisal includes a commercial return on investment for the landowner, set at a level comparable to similar developments. This return, as a percentage of cost, is fixed, i.e. if the development is more profitable than expected, the level of grant paid is reduced; if it is less profitable, that is at the developer's risk.

8.13 **Financing**

Submission of the LUF bids requires the Council to identify their matched funding, if the bids were successful. Two schemes, Assemble and a new hotel at Becketwell, require the Council to provisionally identify necessary prudential borrowing to bring these schemes forward (further details are set out in the Confidential Report). It may be possible between submission of bid and potential start, to reduce prudential borrowing costs through securing additional external funding, for example Arts Council or through reduced costs, if the economy stabilises.

- 8.14 The Council is required to account for the borrowing costs of investment decisions, the year after completion of the build. This is through providing for Minimum Revenue Provision, in accordance with the Council's agreed policy linked to the length of borrowing for the asset, which is expected to be 40 years. Actual borrowing will be undertaken at the optimum time in accordance with our Treasury Management Strategy. Any borrowing will be dependent on the Council accepting the LUF funding if the bid was successful and commencement of the scheme.
- 8.15 Under the Prudential Code, the Council assess individual and collective investment decisions against the approved strategy approved annually by Council, which is based on the principles of Prudence, Affordability and Sustainability. The proportion of the budget financing debt charges is estimated to be 5.44% in 2024/25. This investment would see the proportion of the Council's budget rise to approximately 9%, which whilst resulting in a 'rebalancing' of the budget, to support the capital programme, is still lower than comparable Councils.
- 8.16 The current economic climate, along with on-going pressures in service provision, and the uncertainty of changes in Government policy and funding, notably in relation to Adult Social Care, presents the local government sector with a challenging financial landscape.

All local authorities must plan to deliver a sustainable Medium Term Financial Plan, which has to include the revenue consequences of capital investment. A significant proportion of the potential additional costs will not impact on the revenue account until 2027. As such the Council has time to identify and / or secure other funding sources or consider options over the MTFP that could reduce the overall cost of borrowing.

This investment is however critical to the regeneration of the city centre and will bring significant benefits linked to economic growth (e.g., visitors, business rates and council tax, inward investment, spend etc).

- 8.17 It is also clear that to do nothing could lead to decline in the City with impact especially on core income streams – making a case for regeneration and not deliver on the City Centre Vision.

Legal implications

- 9.1 Legal advice will be taken in respect of the contractual arrangements for each project as it is developed, and further details will be set out in future reports for each project.
- 9.2 As set out above, the LUF bid proformas require specific assurances in relation to subsidy control. Clearly, as the procurement/delivery strategies for each project are different, below we set out some key considerations in relation to subsidy control. Note that in each case appropriate professional advice has been sought.
- 9.3 Assemble – as it is proposed that this facility will be funded and procured by the public sector (Derby City Council), this project is deemed to be low risk in relation to subsidy control. There are many well established examples across the UK of similar facilities (cultural venues including theatres), which have been funded and procured by the public sector.
- 9.4 New Hotel, Becketwell – again there are several examples of public sector intervention in hotel developments in the UK, due to significant gaps in commercial viability. Advice has been sought as to appropriate delivery models and it is anticipated that arrangements can be put in place for a hotel at Becketwell, which are subsidy control compliant.
- 9.5 Friar Gate – professional advice indicates that utilising Levelling Up Fund grant monies to close the viability gap is acceptable in subsidy control terms, as without this grant support the development will not proceed. Continuous revaluation of the development will demonstrate that the grant provided was maximum necessary to render the development viable, with clawback provisions to ensure the developer makes no more than the agreed fixed return on investment. In relation to the bridge element of the proposals, any grant monies secured would be directly deployed by the Council for works to a public asset, so no subsidy control issues arise.

Risks

Risk	Proposed Mitigations
Planning permission not secured	<p>Assemble – conditional planning consent already secured for demolition of existing Assembly Rooms complex (including multi-storey car park). Ongoing dialogue with Planning around compliance with conditions. Likely that hybrid application would be submitted, incorporating detailed application for theatre and outline application for the remainder of the site.</p> <p>Hotel, Becketwell – outline consent for the wider Becketwell development, including hotel use, already in place.</p> <p>Friar Gate – active pre-planning dialogue with DCC Planning.</p>

Cost overruns	<p>Assemble – procurement of main contractor for this scheme will be via an established procurement framework and will most likely be on a Design & Build basis with fixed price contract.</p> <p>Hotel, Becketwell – Any delivery arrangement for the hotel will be on fixed price basis.</p> <p>Friar Gate – any cost increases in relation to the main development will be managed and borne by Clowes Developments. The Council would be responsible for cost management on the bridge works element.</p>
Subsidy control	<p>Assemble – deemed subsidy control compliant as public sector funding being used to create a publicly-owned asset. Many examples of public sector procuring/funding similar facilities across the UK.</p> <p>Hotel, Becketwell – professional advice sought to ensure subsidy control compliant. Again, would deliver asset owned by the Council.</p> <p>Friar Gate – professional advice indicates subsidy control compliant for main development. Subsidy control not applicable to bridge works.</p>
PMO Gateway	<p>PMO Board Gateway 1 review to be undertaken before bids submitted. Further PMO Gateway approvals will also be required at each stage for any successful bids.</p>
Bid successful but LUF offer lower than bid	<p>The implications and options would be considered as part of any final proposal back to Cabinet for each scheme, before accepting any LUF award</p>
Abortive costs charge to revenue if scheme(s) not progressed	<p>Spend in advance of LUF bid outcome for the Learning Theatre will be limited to that which is deemed essential to progress feasibility/design to aid overall programme delivery to LUF deadlines. If bid unsuccessful and alternative scheme for site progressed, any</p>

	resulting abortive costs that cannot be treated as eligible capital spend for the site would need to be managed within overall in year revenue budget monitoring. Private sector partners are likely to progress further work at risk to ensure project readiness if successful and to ensure delivery within the required LUF spend deadlines.
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Climate implications

- 10.1 The Ambition document 'Towards a New Vision for Derby City Centre' includes serious considering of the impacts of climate change on the use and purpose of the city centre. These capital projects will be developed to minimise carbon use and to improve energy efficiency. The wider regeneration of Derby city centre will create an ecosystem within which more people can live within the city centre, and access other uses such as workspace, leisure/culture, and retail within walking distance, and thus lessen the need for travel via car or other means.
- 10.2 Each of the developments proposed will incorporate design measures which reduce carbon emissions and enhance energy efficiency.

This report has been approved by the following people:

Role	Name	Date of sign-off
Legal	Emily Feenan	27/06/2022
Finance	Simon Riley	27/06/2022
Service Director(s)	David Fletcher	27/06/2022
Report sponsor	Rachel North	27/06/2022
Other(s)		
Background papers:		
List of appendices:		