

Carriage Works Regeneration – Phase II

Cabinet

Date: 4th December 2019

Author: Cabinet Member for Town Centre
Head of Town Centre Development

Wards: Central

Parishes Affected: Central Swindon South

1. Purpose and Reasons

- 1.1 In 2017 Cabinet approved capital investment of £3.6m for the refurbishment of units 7/9/11 on the basis that the works would only proceed on a pre-let basis.
- 1.2 This report seeks approval for an uplift in the previously agreed budget to £4.6m as well as approval for funds for major structural works to units 7/9 to be released in advance of pre-lets.
- 1.3 The investment would support the regeneration of the Carriage Works (Priority 1, Pledge 3 and Priority 3, Pledge 15) and facilitate the creation of a new higher education institution (Priority 2, Pledge 10).

2. Recommendations

Cabinet is recommended to:

- 2.1 Authorise an increase in the budget for units 7/9/11 of £530,000 funded through borrowing, of which the debt charges will be financed from the existing capital financing budget in year 1, and from rental income beyond that.
- 2.2 Agree a budget of £480,000, funded through borrowing, for additional works to the undercroft as set out at paragraph 3.5. Resulting debt charges will be financed from the existing capital financing budget in year 1, and from rental income beyond that.
- 2.3 Approve that £0.9m of the total revised budget to be released in advance of pre-lets.

3. Detail

- 3.1 In 2017 Cabinet approved a total budget of £3.6m for phase 2 of the Carriage Works regeneration, comprising units 7/9/11 (Cabinet Minute 56, 2017/18 refers).
- 3.2 Unit 11 (upper ground floor) has been pre-let to Royal Agricultural University (RAU). Construction works started in June 2019 and are expected to be completed early next year.
- 3.3 The refurbishment of unit 11 – and subsequently units 7/9 – requires major structural works at lower ground floor level which were not envisaged within the original budget approval and are essential to deliver units 7/9.

Further information on the subject of this report can be obtained from Paul Chamberlain, Direct Dial 07393 350643, PChamberlain@swindon.gov.uk.

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- 3.4 As a result of these works, the development potential of phase 2 would increase resulting in additional lettable floorspace (compared to assumptions made in the 2017 business case). However, this requires an additional investment of £530,000 which would increase the budget from £3.6m previously approved to £4.13m. This amount also includes some allowance for cost-price inflation since 2017.
- 3.5 In addition, the requirement for major structural works at lower ground level has identified the potential to deliver further lettable space as set out in the table below. This does require a further £480,000 of capital investment however.

	Floorspace	
	Oct 2017 (Cabinet Approval)	Sep 2019 (new potential)
Location	Upper ground floor	Upper and lower ground floor
Unit 11	5,300 sqft	6,876 sqft
Units 7/9	11,000 sqft	11,594 sqft
Undercroft	-	2,400 sqft
Total	16,300 sqft	20,870 sqft

Pre-lets

- 3.6 The additional investment would enable the refurbishment of a significant portion of the lower ground floor – helping to activate the street scene and providing visible signs of regeneration in a prominent location along London Street.
- 3.7 This proposed investment by the Council of an additional £1.01m would also help to leverage grant funding of up to £250,000 as a result of the Heritage Action Zone. The Council's bid to Historic England included a number of Carriage Works projects relating to the lower ground floor, including replacement of the Georgian-wired glazing with clear glass. If the Council is successful in obtaining this funding, a further request for the budget to be increased would be sought through Cabinet.
- 3.8 In 2017, Cabinet approved capital investment of £2.4m for the refurbishment of units 7/9 on the basis that the works would only proceed on the basis of pre-lets to suitable tenants (Cabinet Minute 56, 2017/18 refers).
- 3.9 Planning permission has been granted for the conversion of units 7/9 to offices and Keningtons have been appointed as marketing agent.
- 3.10 There has been strong interest from potential tenants but further work is needed to secure pre-lets. Feedback from Keningtons suggests businesses seeking to move expect to be able to do so within 12-18 months but at present it is not possible for the Council to guarantee occupation in less than 18 months.

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- 3.11 The timescales from pre-let to occupation include procurement, design iterations, discharge of planning and listed building conditions, and construction. Construction times in particular are uncertain for complex heritage restoration projects such as the Carriage Works.
- 3.12 A new Heritage Framework Agreement has been established to reduce the time to procure construction contracts, and a complementary professional services framework (architects, structural engineers, etc) is in the process of being set up.
- 3.13 In order to reduce construction time uncertainty it is recommended that major structural works to units 7/9, up to a value of £0.9m from the proposed revised budget are carried out in advance of pre-lets, immediately following the completion of unit 11.
- 3.14 These works include asbestos removal, demolition, roofing and creation of a new entranceway and foyer connecting 7/9/11 to the lower ground floor. Further works to units 7/9 (expenditure beyond the £0.9m) remains subject to pre-lets.
- 3.15 Completing the major structural works early next year would reduce the timescales from pre-let to occupation and improve certainty for potential tenants, therefore helping the Council to secure lettings.
- 3.16 Additional benefits would include:
- 3.16.1 Maintaining momentum in the delivery of the regeneration programme following the opening of the Cultural Heritage Institute in early 2020;
- 3.16.2 Minimising disruption to existing tenants, particularly the new Institute in unit 11; and
- 3.16.3 Economies of scale for works and materials would make expenditure more cost efficient against tight budgets.

Financial Returns

- 3.17 The following table sets out the estimated revenue returns from the proposals after repayment of debt charges which are accounted for over 50 years in line with Council accounting policies.

	Revenue Surplus/(Loss) after debt charges								
	Original Budget	Revised Budet	20/21	21/22	22/23	24/25	25/26	10 Yrs	30 Yrs
	£k	£k	£k	£k	£k	£k	£k	£k	£k
Total	3,600	4,610	(149)	55	73	93	110	827	4,978

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- 3.18 These estimates assume no rental income is generated from either units 7/9 or the refurbishment of the undercroft in 20/21 and therefore overall surpluses are not expected until 21/22. Annual rental charges for unit 11 reflect the agreement already in place with the Royal Agricultural University
- 3.19 The estimates are highly dependent on a number of assumptions such as rents, voids and maintenance and management costs. The above estimates are based on conservative assumptions.

4. Alternative Options

Do nothing:

- 4.1 Without further capital investment (£1m), major structural works can be completed to enable the substantive refurbishment of units 7/9/11, but additional space opened up as a result of these works would not be finished to a lettable standard. Carrying out the works at a later stage would be less cost-effective.
- 4.2 If approval to incur expenditure in advance of pre-lets is not agreed the Council may continue to struggle to secure pre-lets. Delays could also mean further cost-price inflation.
- 4.3 Whilst the Council could potentially secure pre-let tenants on the basis of optimistic assumptions (less than 18 months), this would be a risky strategy. Failure to deliver would harm the Council's reputation and ultimately pre-let tenants could walk away if the terms of any Agreement for Lease are breached. In this scenario the financial risk to the Council would be the total value of works, rather than just structural costs.

5. Implications, Diversity Impact Assessment and Risk Management

Financial and Procurement Implications

- 5.1 This proposal sets out the case for additional funding of £1m funded from borrowing.
- 5.2 The table at paragraph 3.17 sets out the estimated returns from the proposed investments after taking into account borrowing costs over 50 years in line with accounting policies.
- 5.3 Returns are highly dependent upon assumptions around rental values, voids and management costs.
- 5.4 The project is expected to be in net surplus from 2024/25 but would create a revenue budget pressure of £149k in 2020/21 on the assumption no rental income is generated for units 7/9 or the undercroft.

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- 5.5 Of the revised proposed budget of 4.610m, £3.6m is already approved. The additional £1m requested would result in additional debt charges of £42,500 in 20/21 which the Director of Finance has confirmed can be funded from within the existing capital financing budget. Debt charges in future years will be funded through the rental income generated from the letting of the units.
- 5.6 No business rates are payable on listed buildings until occupation so proceeding with the structural works would not result in business rates being payable when empty. Tenants would be responsible for business rates when occupied.

Legal and Human Rights Implications

- 5.7 Legal and Human Rights implications have been taken into account in the preparation of this report.

All Other Implications (including Staff, Sustainability, Health, Rural, Crime and Disorder)

- 5.8 Development of the Carriage Works and wider area would regenerate an important part of Swindon's heritage, link the isolated UTC and Railway Village back to the Town Centre etc

Diversity Impact Assessment

- 5.9 A Diversity Impact Assessment (DIA) is to be undertaken by the design team and considerations will be made within the DIA for the Masterplan. Specific issues which were included in the development of phase 1 will be considered as a priority including: to ensure that the development meets current access standards as a minimum; and that the principle of providing good access throughout the development is embedded within the design and planning. Tenant policies will drive the overarching principles.

Risk Management

- 5.10 The majority of capital expenditure remains subject to pre-lets. All expenditure will be tightly managed to ensure the refurbishments are delivered within budget. A proactive marketing campaign run jointly with Keningtons will ensure tenants are secured as quickly as possible on the best possible terms.

6. Consultees

- 6.1 The Corporate Director of Finance and Assets (Section 151 Officer) and Chief Legal (Monitoring Officer) are consulted in respect of all reports.

7. Background Papers

- 7.1 None

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8. Appendices

8.1 None

9. Key Decision/Decision in Cabinet Work Programme and Forward Plan

9.1 This is a Key Decision and is included in the Cabinet Work Programme and Forward Plan for December 2019.