

Report of	Meeting	Date
Director of Business Development and Growth	General Purposes Committee	TBC

ALKER LANE

PURPOSE OF REPORT

1. To update members as to the progress of the Alker Lane development.
2. To update members following conclusion of the procurement process for the appointment of a design and build contractor.
3. To inform members as to the increase in the cost of the development following conclusion of the procurement process and the potential inclusion of Scorpion Automotive into the scheme.
4. To acknowledge the securing of a £2.25m grant from the central government 'getting building' fund and the overall improvement in the scheme return, despite the increase in cost.
5. To review the basis of the sales and letting strategy, including the sales/rental mix and incentives. This will affect the sales income and therefore the external borrowing requirement whilst trying to achieve the maximum annual revenue return. Borrowing will remain within the approved budget.
6. To update members as to the progress of discussions with Scorpion Automotive and their potential incorporation into the scheme.

RECOMMENDATION(S)

7. Approval to increase the budget from **£9,200,000** to **£11,443,153**, which includes the costs associated with delivering the Scorpion unit and the costs of acquiring Alker Lane, Bridge, Cycleway and the Mossfield Nature Reserve. Also, to acknowledge that these additional costs will be offset by the £430k BAE dowry payment and the Scorpion CAT B fit out recovery (£1.05m) and the £2.25m Getting building Fund grant.
8. Rental/Sale mix currently 50/50. Approve flexibility on the rental/sale mix provided the income does not drop below the forecasts included within this report.
9. Approval to submit a planning amendment to deliver the Scorpion Automotive building which will replace block A, subject to a prior agreement and commitment from Scorpion Automotive.
10. Approval to delegate the heads of terms with Scorpion Automotive to Executive Member (Resources).
11. Approval to delegate Agreement For Lease / Sale terms for other rental and sales to

Executive Member (Resources).

12. Approval to delegate entering into any Agreements For Lease / Sale Terms to Director (Commercial), including any rent-free periods up to 3 months.
13. Approval to waive the call-in period for the approvals included in this report and approval to waive the call-in period for the Executive Member approval to appoint the contractor.

EXECUTIVE SUMMARY OF REPORT

14. Since the Alker Lane scheme was brought to Council in November 2019, the following developments are highlighted:
 - A grant of £2.25m has been secured through the central government 'Getting Building' fund
 - A commercial agreement has been reached with BAE Systems regarding the acquisition of Alker Lane, Bridge, Cycleway and the Mossfield Nature Reserve. As part of this agreement, a dowry of £430k would be paid to the Council in recognition of specific liabilities
 - A procurement exercise for the appointment of a Design & Build Contractor has been concluded and John Turner Construction have submitted the most competitive price. Subject to approval, John Turner will be appointed as preferred bidder and will commence on site at the beginning of April 2021
 - Negotiations have continued with the residents of Brookfield & Ingholme regarding the restrictive covenant. Following approval, Officers have made a commercial offer to release the covenant in all respects of £50k per property plus legal costs. Discussions are on-going through the residents appointed agent, Peter Gilkes.
 - Negotiations have continued with Primrose Holdings to secure the optimum drainage connection on their site. A conclusion will be reached prior to commencement of work on site
 - Negotiations have developed with local business Scorpion Automotive, who have expressed interest in acquiring a 19,000 sqft unit on the Alker Lane site. Scorpion would prefer to purchase this unit and include in the construction for the CAT B fit out works to bring it up to an operable standard. The associated costs would be recovered from Scorpion and are reflected in the revised financial model. A planning application has been prepared and will be submitted if a commercial agreement with Scorpion can be reached
 - The financial model has been amended to reflect the increased costs of £2,243,153 and also to reflect the increased income. A comparison of the outputs generated by the November 2019 scheme and the current scheme are contained within item 40 & 42 of this report with an improved return demonstrated by the current scheme
15. The current financial models are based on a 50% sales and 50% retention / rental split. As the market for light industrial is so competitive, it is essential that Officers have the flexibility to meet demand.
16. The facility to offer a 3 month rent free period to potential tenants will also assist Officers in generating market interest and securing tenants as part of the wider marketing strategy. Rent free periods will only be offered where necessary to secure agreements.
17. In addition to progressing with financial modelling for the Scorpion scheme, and submission of a planning application, Officers seek to progress negotiations with Scorpion regarding

Heads of Terms and would look to delegate the final approval to the Executive Member (Resources).

18. Officers also seek to commence negotiations on Sales/Rental terms with any interest parties and delegate final approvals to the Executive Member (Resources) with the final execution of any agreements being delegated to the Director of Commercial Services.

Confidential report Please bold as appropriate	Yes	No
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CORPORATE PRIORITIES

19. This report relates to the following Strategic Objectives:

Involving residents in improving their local area and equality of access for all		A strong local economy	✓
Clean, safe and healthy homes and communities		An ambitious council that does more to meet the needs of residents and the local area	✓

BACKGROUND

Planning Approved Scheme

20. In November 2019 Council approved a budget of £9.2m to bring forward the Alker Lane development.
21. In November 2020, Planning approval was granted for a scheme delivering 80,000 sqft of light industrial units with a mix of B1, B2 & B8 uses:



22. In December 2020, a grant of £2.25m was secured via the central government 'Getting Building' fund.

Works Progress on Site

23. The diversion of the water mains, which must be completed to allow works to commence on site, will be finished by mid-March.
24. Tree clearance work on the site, required to be completed prior to the bird nesting season, will be finished by the end of February, and carried out under a watching brief with the Councils appointment ecologist ERAP.

Contractor Procurement & Price

25. In December 2020, Officers issued Invitations to Tender for the appointment of a Design & Build Contractor through the OJEU compliant 'RISE' framework.
26. On the 22nd January 2021, the following submissions were received:

Tendering Contractor	Tender Price (£)
John Turner Construction Group	8,980,070.00
Robertson CE Ltd	9,404,215.32
Morgan Sindall	n/a
Read Construction	n/a

27. The tenders submitted have been reviewed, interrogated, and evaluated by Officers. It has been concluded that the offer submitted by John Turner Construction offers best value.
28. The increase in cost received from the tender submissions reflects the risk aversion with the market as a result of COVID-19 and Brexit. This is further demonstrated by the relatively small number of responses (2) out of a potential (6) on the framework. The cost increase is also attributed by the delivery of the Alker Lane cycleway and a bespoke unit for Scorpion Automotive.
29. Subject to Executive Member approval, John Turner Construction will be appointed as preferred bidder.

Current Project Cost Position & Income

30. The major projected scheme cost movements along with funding details is summarised below.

Expenditure Changes	£	
Budget Approved November 2019 Council	9,200,000	
Increased Build as per Tender Price - John Turner	712,000	
Scorpion Cat B Fit Out	1,049,721	**
Cycleway & Nature Reserve	599,274	**
Reduced external professional fees ie Marketing	-117,842	
	11,443,153	
Financed By	£	
PWLB Borrowing	-315,432	
Potential Scorpion Unit Sale	-3,250,000	
Scorpion Cat B Fit Out	-1,049,721	**
Other Unit Sales	-4,148,000	
LEP Funding	-2,250,000	
BAE Dowry Payment	-430,000	**
	-11,443,153	

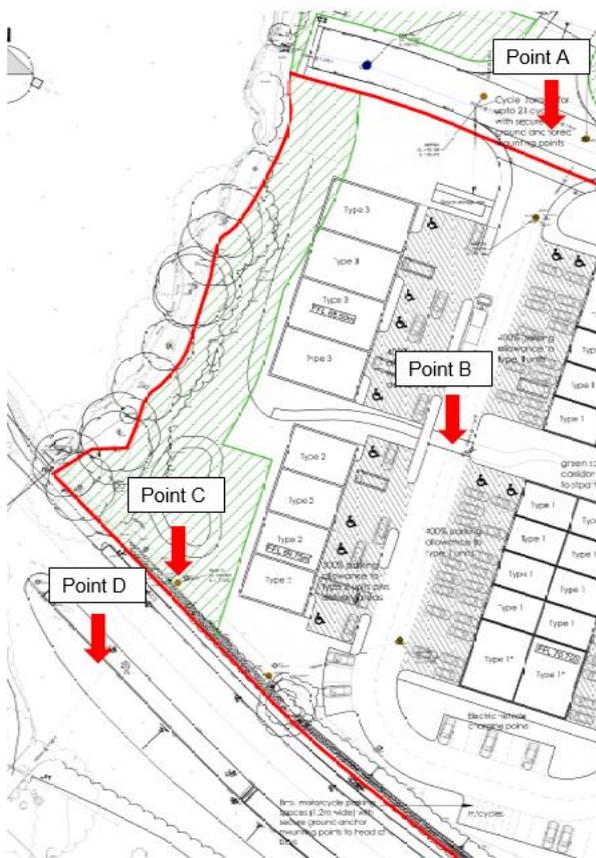
The £2.25m Get Building funding and the potential increased sales receipts has reduced the councils potential borrowing requirement from £3.5m to £0.3m

31. The specific construction costs are shown to have increased by £712,000 (9%). More detailed explanations of the main variances are as follows

- **Prelims:** 6 weeks additional prelims, reflecting the risk profile considered by Contractors in the market, totals £90k
- **Earthwork & Foundation solution:** detailed site investigation & geotechnical appraisal, coupled with the development of the ground engineering solution at RIBA Stage 4 has seen cost increases of circa £250k. This increase also reflects the risk approach taken by the Contractors and the ownership of the earthwork and foundation solution required by the design and build appointment
- **MEP Sustainable Measures:** the requirement, as part of the Getting Building Fund award, to achieve BREEAM Very Good has seen the incorporation of sustainable measures such as Photovoltaic panels and super-efficient boilers. This has increased the MEP scope by circa £75k
- **Drainage Outfall:** the requirements to pump the drainage through a rising main were not apparent until detailed design stage and have resulted in a £50k increase in the below ground drainage costs

- General Rate Increases Resulting from COVID / BREXIT:** the nature of market has changed significantly between November 2019 and March 2021, mainly due to COVID & BREXIT. Packages specific cost increases against steel, timber and masonry products have reflected in cost increases on Alker Lane where, particularly steel is a major component. These cost increases have been mirrored on the recently procured scheme at Tatton, where cost increases for these packages are also apparent at a similar level. The COVID pandemic has changed Contractors view of risk and the risk approach is much more cautious, resulting in prices reflecting any perceived risks in projects. The cumulative impact of these issues is estimated to be around £250k on Alker Lane

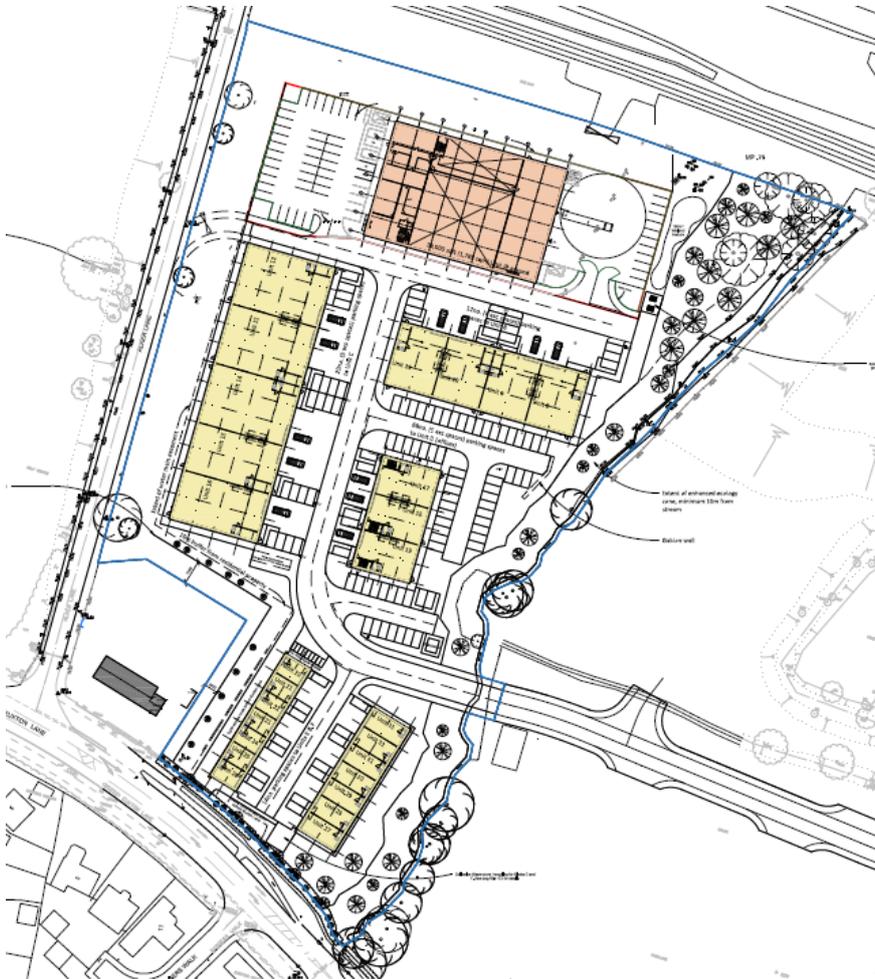
- The forecast now includes an increased provision for the settlement with the residents of Brookfield & Ingholme, to release any claims arising out of the covenant. A previous provision of £60k within the previously approved budget has been increased to £100k which allows a payment of £50k per property and a £10k allowance to cover the residents legal costs.
- The budget now also includes an additional provision of £50k for a potential settlement with the adjacent landowner, Primrose Holdings. This settlement relates to the point of connection for the foul drainage, with the optimum location being located within the adjacent site. The plan below shows the possible options for the connection of the drainage, with only one of them (D) being outside of the Primrose Holdings demise:



- Of all the available connection points, Point A is considered the most practical and cost effective. Point D, which is the only solution not to require access onto the adjacent site, is heavily compromised by the requirement to divert existing services in the footpath and complete a road crossing to the other side of Euxton Lane, where the point of connection exists.

35. The options to progress the preferred connection are therefore considered to be:
- Dispute Primrose Holdings entitlement to any commercial settlement, which would be time consuming and would hugely disrupt the regular progress of the works. This would undoubtedly jeopardise the grant funding, as a result of late completion, in addition to exposing CBC to delay costs from the appointed Contractor were the works to be suspended or disrupted
 - Agree to a commercial settlement with Primrose Holdings at the level they have suggested (circa £50k), ensuring the project progresses as per the programme. Also including an agreement on the strip of land between DOP and the adjacent site, which has been subject to boundary issues previously
 - Negotiate an improved commercial settlement with Primrose Holdings, ensuring the project progresses as per the programme. Also including an agreement on the strip of land between DOP and the adjacent site, which has been subject to boundary issues previously
36. It is essential that an agreement is in place with Primrose Holdings to allow the drainage connection to be made, as this will be one of the first operations on site. The current programme, which ensures completion by the end of March 'Getting Building fund' date, requires commencement end March / early April 2021. Any delays to this date would critically compromise the delivery. It is therefore considered appropriate to negotiate a settlement with Primrose Holding, with £50k being a maximum figure.
37. The full cost of acquiring Alker Lane, the bridge, the cycleway and the Mossfield Nature Reserve are included in the forecast. Much of this cost relates to the remedial works which are required to the bridge and nature reserve, in order to bring them up to the required standard. Part of the agreement to transfer these assets from BAE Systems to Chorley Council, includes a dowry payment of £430k from BAE to CBC. Whilst the benefit of this dowry payment is not reflected in the cost calculation above, the income is reflected in the financial models in items 40 and 42 below.

38. Whilst the current tenders have been submitted on the basis of the approved planning scheme, Officers seek to progress the proposed scheme incorporating Scorpion Automotive (as discussed in earlier sections of this report). The proposed scheme would involve Scorpion taking a single unit of 19,000 sqft (ground floor) with a planned mezzanine of 14,000 sq ft above, replacing 'Unit A':



39. The cost forecast includes for the full cost of delivering the CAT A 'shell' and the CAT B 'fit-out'. It is the intention that the bespoke unit for Scorpion Automotive would be sold to them at a figure which generates the same outputs as the original 'Unit A' with the costs of the CAT B fit-out being recovered directly from Scorpion. Whilst the benefit of this dowry payment is not reflected in the cost calculation above, the income is reflected in the financial models in items 40 and 42 below.

40. The financial model below demonstrates the returns generated by the proposed scheme, which incorporates the design change to accommodate Scorpion Automotive:

The Maintenance Fund has been adjusted to reflect the on-going operational commitments imposed by the acquisition of Alker Lane, Bridge, Cycleway and the Nature Reserve. These commitments are generally focussed on the Nature Reserve and the requirements to maintain the space in accordance with the Environmental Management Plan.

	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6
Income		(261,830)	(264,448)	(267,093)	(269,764)	(272,461)
Maintenance Fund		60,000	60,000	60,000	60,000	60,000
Marketing & Letting Fees	25,000	75,000				
Borrowing	4,888	13,078	13,076	13,071	13,065	13,066
	29,888	(113,752)	(191,372)	(194,021)	(196,699)	(199,395)

41. The inclusion of the Scorpion Automotive scheme does not negatively impact on the returns from the development as the sale proposal will be on a like for like basis on what could be achieved from delivering the originally intended Block A.
42. The financial model below shows the position brought to Council in November 2019 as a comparison with the current position:

	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6
Income		(343,800)	(347,238)	(350,710)	(354,217)	(357,760)
Maintenance Fund		50,000	50,000	50,000	50,000	50,000
Marketing & Letting Fees	81,375	81,375				
Borrowing	108,027	137,122	137,088	137,064	137,029	137,002
	189,402	(75,303)	(160,150)	(163,647)	(167,189)	(170,758)

43. The model shown in item 40 demonstrate the improvement in return since the scheme was brought to Council in November 2019. The borrowing required has also significantly reduced. This is due, in the main, to the securing of the £2.25m 'Getting Building' fund grant.
44. Approval of the increased budget will allow the negotiations to progress with Scorpion Automotive, alongside a planning application and further negotiation on terms.
45. Approval to the flexible approach to the sales/rental mix will allow Officers to ensure an optimum return and react to the market conditions for similar light industrial schemes.
46. The delegated authority to negotiate sales/rental terms for other potential tenants, including rent free periods, will allow Officers to develop a clear marketing strategy to deliver the outputs identified in the Medium-Term Financial Strategy.

PROGRAMME

47. The delivery programme for the scheme is being driven by the Getting Building Funding which requires completion of the scheme by 31 March 2022. If the Contractor commence works on site late March / Early April 21 this can be achieved. At present this is achievable, however the call-in periods for the approval included in this report and the call-in period for the Executive Member decision to appoint the preferred contractor would delay the commencement by two weeks. Officers are therefore seeking approval to waive these call-in periods.

IMPLICATIONS OF REPORT

48. This report has implications in the following areas and the relevant Directors' comments are included:

Finance	✓	Customer Services	
Human Resources		Equality and Diversity	
Legal	✓	Integrated Impact Assessment required?	
No significant implications in this area		Policy and Communications	

49. The project has been de-risked thus far by Officers by:

- Completion of extensive site investigation and geotechnical appraisals in order to develop a suitable earthwork and foundation strategy for the site
- The diversion of the existing water mains (due to complete end March 2021)
- The direct procurement of new statutory services (gas, water, electric & BT)
- The progression of discussions to settle the covenant issues with the residents of Brookfield & Ingholme
- The progression of the discussions with Primrose Holdings to secure a point of connection for the site foul drainage
- The development of a RIBA stage 4 design
- The development of a detailed site ecology strategy to address the risk of Great Crest Newt migration and the submission to Natural England for a protected species licence prior to the commencement of works
- Liaison with Network Rail regarding a Basic Asset Protection Agreement, prior to the commencement of works
- The submission of an application to discharge the pre-commencement planning conditions, prior to the appointment of a Design & Build Contractor
- The clearing of woodland areas, prior to the commencement of the March nesting season and prior to commencement of works on site
- The procurement of a Design & Build contract on a fixed price basis
- Whilst the Scorpion CAT B costs are not yet market tested, no firm agreement has been made with Scorpion and the costs included in this appraisal have been uplifted by the same % as difference between the tender return from John Turner and the Trebbi cost plan figures

COMMENTS OF THE STATUTORY FINANCE OFFICER

50.

COMMENTS OF THE MONITORING OFFICER

51. A compliant procurement procedure was undertaken and post completion changes resulting from a change in specification and covid-19 is acceptable.
52. The council's position will be protected in relation to the Scorpion Automotive works through a suitable lease providing security to the council in relation to occupation of this site.
53. The potential dispute with Primrose Holdings is addressed in the report. Whilst the council are confident in their position, to resolve the disagreement will take time and it is acknowledged that there is an arguable point. Time is at a premium and the delay in resolving the issue would be prejudicial to the scheme. Members should balance the additional cost against the risk of the delay to the scheme delivery.

MARK LESTER
DIRECTOR OF BUSINESS, DEVELOPMENT & GROWTH

Report Author	Ext	Date
Dan Gosling	-	3 rd March 2021