

CABINET

26 OCTOBER 2023

SHRUB HILL TOWNS FUND FUNDING AGREEMENT

Relevant Cabinet Member

CMR for Economy and Infrastructure: Cllr Marc Bayliss

Relevant Chief Officer

Strategic Director for Economy and Infrastructure: John Hobbs

Local Member(s)

Cllr Lynn Denham (Rainbow)

Cllr Allah Ditta (Nunnery)

Recommendation

- 1. The Cabinet Member with Responsibility for Economy, Infrastructure and Skills recommends that Cabinet:**
 - (a) Notes the allocation of Towns Fund monies by Worcester City Council to the redevelopment of Isaac Maddox House and the creation of a new public realm connection to the City Centre;**
 - (b) Authorises the Strategic Director for Economy and Infrastructure in consultation with the CMR for Economy, Infrastructure and Skills to enter into the proposed Funding Agreement to deliver the Towns Fund Shrub Hill projects;**
 - (c) Authorises the Strategic Director for Economy and Infrastructure to obtain tenders for the works;**
 - (d) Authorises the Strategic Director for Economy and Infrastructure in consultation with the CMR for Economy, Infrastructure and Skills to enter into contracts for the construction of the works.**

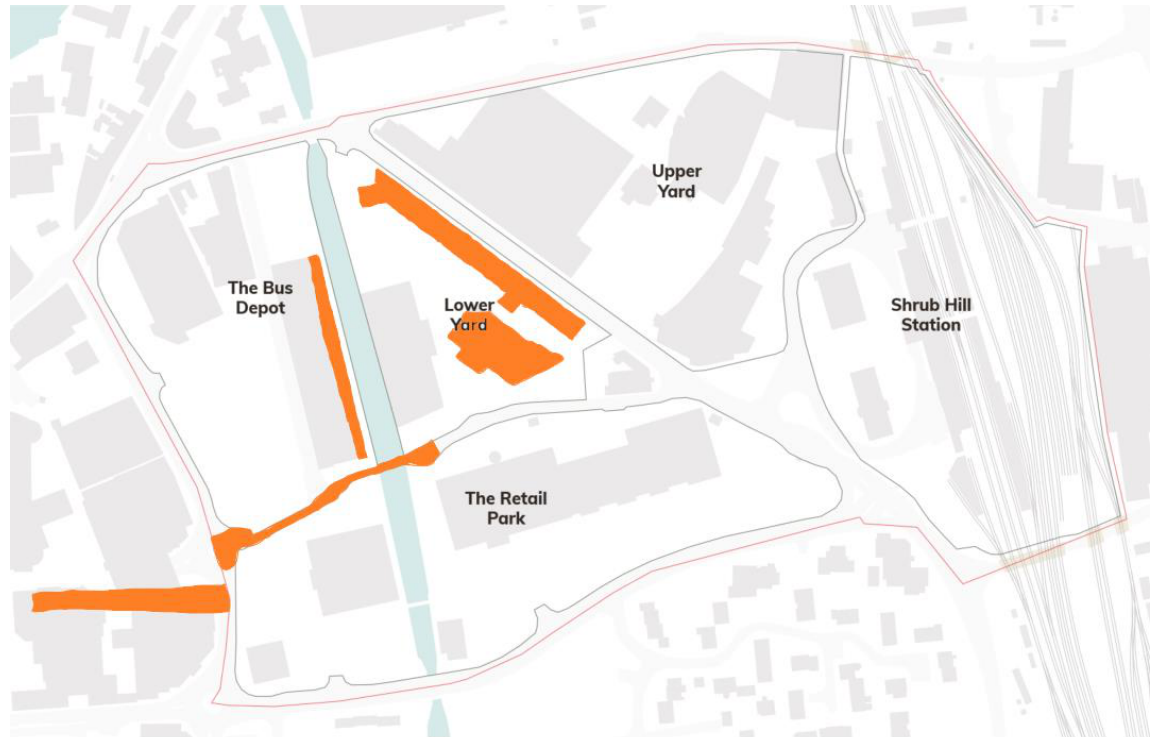
Background

2. Worcestershire County Council purchased the Shrub Hill Industrial Estate (SHIE) on 30 November 2020 through the delegation mandated in the 19 November 2020 Land Acquisition Cabinet paper.
3. Worcestershire County Council supported Worcester City Council in the development of the “Shrub Hill Regeneration” Business Case of their Town Investment Plan. The Business Case for this was approved by the City Council’s Policy and Resources Committee on 24 May 2022.

4. In January 2021 Worcester City Council submitted a Worcester Town Investment Plan (TIP) for £27.8m of funding across 6 projects. This included an ask of £10.5m for Shrub Hill Regeneration, to support the development of a new high-quality mixed-use quarter for the city.
5. On 8 June the City Council received an offer of £19.6m to support all or any of the submitted projects. Through support of the Town Deal Board, Worcester City Council proposed that £10m would be allocated to Shrub Hill Regeneration.
6. In June 2021 the advisory group for developing the Vision and leading the implementation of the Regeneration of Shrub Hill was formed. The representation is made up from Worcestershire County Council, Worcester City Council and Worcestershire Local Enterprise Partnership. The Terms of Reference for the Shrub Hill Steering Committee can be found in Appendix 1. This is not a formal decision-making body but provides consultative input to feed into the decision-making processes of the respective Councils.
7. Funded through Towns Fund, Worcestershire County Council commissioned a condition survey and feasibility of refurbishing Isaac Maddox House into an Enterprise Centre.
8. Isaac Maddox House is a 3-storey 4,922m² building on the Shrub Hill Industrial Estate. The first and ground floors were previously occupied by the NHS but vacated some time prior to the purchase of the SHIE by Worcestershire County Council. The lower ground floor has remained in partial occupation.
9. Isaac Maddox House requires significant work undertaking to bring it up to compliance with Building Regulations and to make it attractive to potential occupiers.
10. Worcester City Council presented a Shrub Hill Regeneration Full Business Case to the Department of Levelling Up, Housing and Communities (DLUHC), following approval from Policy and Resources Committee on 24th May 2022, with a capital allocation of £9,425,000.
11. The Full Business Case identifies the key interventions as:
 - I. **Public Realm Enhancements** – 2,000m² of high-quality public realm following the line of Cromwell Street from Shrub Hill Road to Pheasant Street to provide a new connection between the Shrub Hill Railway Station and the Shrub Hill Regeneration area and onward to the city centre through St Martins Quarter. This supports the future transformation of adjoining currently poor-quality sites to residential. This will also include the aesthetic treatment of the bus depot garage canal side façade to improve the marketability of the development site on the opposite side of the canal.
 - II. **Enterprise Centre (Isaac Maddox House)** – this 1.15ha site will be regenerated to include a 4,922m² Enterprise Centre and c.100 new homes. Providing quality and size of space in short supply in the city centre, the centre will also act as a catalyst to business start-up and growth, providing a range of co working plus individual business spaces alongside a training and business hub that helps residents and small businesses develop business ideas into real opportunities. As a public asset the City and County Councils will seek a manager / partner to deliver enterprise skills training alongside the

physical business space thus creating a centre for enterprise in this regenerated quarter of the city adjacent to strategic rail links. The housing proposals to the rear of the site will complement the new environment along the canal corridor linked to the city centre by new public realm. Modest provision for parking will also be created to support the commercial and residential developments.

Plan 1: Shrub Hill Towns Fund Interventions Area



Source: Shrub Hill Spatial Blueprint 2022

12. It is proposed that Worcestershire County Council, as owner of Isaac Maddox House and Highways Authority, will deliver the majority of the capital works to both of the interventions identified within the Full Business Case.

- I. **Public Realm Enhancements:** Commissioned by Worcester City Council, the public realm scheme will be designed and delivered by Worcestershire County Council making use of existing term contracts.
- II. **Enterprise Centre (Isaac Maddox House):** the refurbishment and any related works on WCC land will be procured by WCC.

13. As confirmed at the Worcester City Council Policy and Resources Committee on 24th May 2022, the City Council's allocation of £10m to Shrub Hill project includes a revenue element of £0.67m towards the City Council's programme management and project delivery.

14. A Funding Agreement has been drafted between the parties to agree the payment of part of the Towns Fund grant to Worcestershire County Council. The Funding Agreement stipulates that:

- I. **Commencement Date:** 1 April 2022.
- II. **End Date:** 31 March 2026.

- III. **Grant:** the maximum total sum of £9,425,000 as per Business Case, less any grant retained by the Funder in order to discharge its responsibilities as detailed further herein.
- IV. **Payment of Grant:** The Recipient shall claim payment of the Grant annually in advance in accordance with an agreed profile and procedure.
- V. Should the emerging cost of the Works appear to be at risk of exceeding the budget, mitigation measures shall be agreed by the parties.
- VI. **City Council Use of the Grant:** The City Council will retain sum(s) to be agreed to pay for the cost (including contingencies) of any aspect of the Project which the parties have agreed that the Funder is directly responsible for delivering.
- VII. **Monitoring:** arrangements for monitoring and review that the parties have agreed as part of the Shrub Hill Regeneration Programme Governance set out in the Shrub Hill Quarter Terms of Reference.
- VIII. **Project:** As identified in the Worcester Town Investment Plan Stage 2: Shrub Hill Regeneration Full Business Case dated May 2022 or any subsequent revisions approved by BEIS (see Paragraph 11).
- IX. **Outputs:** The Project will deliver the following outputs by March 2026:

Output Category	Units
High quality business space	4922m2
Supporting the creation of new jobs by 2027	400
New car parking spaces	90
Unlocking of remediated land (including public realm) by 2027	1.55ha
Delivery of new and upgraded walking and cycling infrastructure and upgraded public space	2,000m2

- X. **Eligible Expenditure:** The cost of the physical works of repair and improvement, external works, professional design, cost consultancy and project management fees, and surveys in accordance with project approvals under the Parties' Shrub Hill Regeneration Programme governance processes.
- XI. **Grant Specific Conditions:** If Worcestershire County Council chooses to dispose of the freehold of Isaac Maddox House within 5 years of completion of the works then a sum equivalent to any increase in value of the asset, capped at the value of the Towns Fund Grant spent on delivering the Enterprise Centre and depreciated in equal value over the five year, will be made available to continue the regeneration of the Shrub Hill Quarter.

Legal, Financial and HR Implications

- 15. The maximum total Grant available to deliver the Project is £9,425,000.

16. No other WCC Capital Funding is allocated to this element of the wider Shrub Hill Project, and it is expected that all costs associated with undertaking this project will be funded from the grant.

17. The cost of meeting minimum Building Regulations and creating lettable units within Isaac Maddox House has been estimated at circa £6m, with the balance being utilised on the public realm scheme and any necessary land purchase.

18. It is clear within the funding agreement that should the project be estimated to overspend, works will be re-evaluated to ensure that the funding envelope is not exceeded.

19. The current ability to generate tenant income is minimal, however it must be noted that this will decrease further whilst the works are being completed as the tenants will be vacated from the building. This is a short-term position, and it is fully expected that when the renovated buildings units are let to new and returning tenants the building will become economically viable. Once complete rental income from the letting of Isaac Maddox House less any associated costs will be retained by Worcestershire County Council.

20. If Worcestershire County Council chooses to dispose of Isaac Maddox House within 5 years of completion of the works the Funding Agreement stipulates that it must invest any increase in value of the asset within the Shrub Hill Quarter. As Worcestershire County Council owns the Shrub Hill Industrial Estate there would be opportunity for this value to be reinvested. The value being calculated by:

The increase in the value of Isaac Maddox House (IMH) shall be determined as Valuation A less Valuation B where Valuation B is the value of IMH at 1 April 2023 and Valuation A is the value of IMH 12 months after the practical completion of works.

21. The responsibility for the maintenance of the new connection from Cromwell Street to Pheasant Street will sit with Worcestershire County Council following the adoption the Shared use path on completion of the works. As the County Council is delivering the scheme, the risk of works not being to the required standard is managed.

Risk Implications

22. **Risk of costs exceeding available grant:** A clause has been included within the Funding Agreement to stipulate that *Should the emerging cost of the Works appear to be at risk of exceeding the budget, mitigation measures shall be agreed by the parties such as value engineering, a reduction in scope or Worcester City Council and/or Worcestershire County Council secure additional funding.* Therefore, provision has been made to ensure spending decisions are within available funding.

23. **Risk of not finding occupiers for the Enterprise Centre:** the design brief is for the space to be flexible so that it can be altered to suit demand. Where possible tenants will be retained on SHIE and able to return to units within Isaac Maddox House if suitable.

24. Risk of repayment of grant: If WCC chooses to dispose of Isaac Maddox House the Funding Agreement stipulates that it must invest any increase in value of the asset within the Shrub Hill Quarter. As WCC owns the Shrub Hill Industrial Estate there would be opportunity for this value to be reinvested.

25. Risk of not being able to deliver the Project or some of the Interventions: payment of Grant is drawn down against a funding profile and eligible expenditure agreed through the Shrub Hill Regeneration Programme Governance. Therefore, if a project is at risk of not being deliverable then decisions on expenditure would be made there and no further grant claimed.

Joint Equality, Public Health, Data Protection and Sustainability Impact Assessments

Full Equality and Public Health and Sustainability Impact Assessments have been carried out (Appendix 2).

No negative impacts have been identified for Protected Groups.

Other impacts have been identified which relate to the construction elements of both projects. Every effort will be made to mitigate these where possible during construction and this is being reviewed prior to contract award so that they can be stipulated within the construction contract.

Supporting Information

- Appendix 1: Shrub Hill Quarter Terms of Reference
Appendix 2: Full Equality and Public Health and Sustainability Impact Assessments

Contact Points

County Council Contact Points

County Council: 01905 763763

Specific Contact Points for this report

Penny Unwin, Strategic Programme Manager

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Background Papers

In the opinion of the proper officer (in this case the Strategic Director for Economy and Infrastructure) the following are the background papers relating to the subject matter of this report:

- Towns Fund Shrub Hill Full Business Case: [Appendix 1 Shrub Hill Regeneration Full Business Case.pdf \(worcester.gov.uk\)](#)