

NEWCASTLE-UNDER-LYME BOROUGH COUNCIL

CORPORATE LEADERSHIP TEAM'S REPORT TO CABINET

5th December 2023

Report Title: Chatterley Valley West Lucideon Project

Submitted by: Deputy Chief Executive

Portfolios: Finance, Town Centres and Growth

Ward(s) affected: Bradwell

<u>Purpose of the Report</u>	<u>Key Decision Yes <input checked="" type="checkbox"/> No <input type="checkbox"/></u>
To update Cabinet on progress with the Chatterley Valley West project and to seek approval for a full business case review of the potential investment into the Lucideon Advanced Ceramic Campus.	
<u>Recommendation</u>	
<p>That Cabinet:-</p> <ol style="list-style-type: none">1. Note the progress made to date on the development of the Chatterley Valley Industrial Park;2. Receive a further report detailing both the full business case and the evaluation of the full business case, once completed, to enable a decision to be taken regarding future investment in this project.	
<u>Reasons</u>	
To enable the further development of an Advanced Ceramic Campus on the development at the Chatterley Valley site and to inform the Council's role in this initiative going forward.	

1. Background

- 1.1 Chatterley Valley is located on the Stoke on Trent and Newcastle under Lyme boundary. The area has been identified in both the developing and previous Local Plans as an area of economic growth and it is an area that the two local authorities have worked together over a number of years to bring forward for development. It comprises three distinct sites, two of which are within the Borough boundary in Bradwell Ward. The third site, Goldendale is within Stoke on Trent and is home to the Genesis centre and a number of other small industrial units.

1.2 The sites in the Borough Boundary are:

- i. Land off Lowlands Road, Ravensdale, a 50 acre (21 Ha) site which houses the award winning 'Blue Planet' development that is occupied by JCB.
 - ii. Chatterley Valley West, the subject of this report, which is a 100 acre (42 ha) site in the ownership of Harworth Estates Investment Limited located to the west of the Stoke-Manchester railway line and bordered by the A500.
- 1.3 The sites were all derelict or subject to adverse ground conditions due to past mining or industrial use and some of their reclamation and redevelopment have previously been the subject of significant investment by the former Regional Development Agency in partnership with the two local authorities. However, Chatterley Valley West remained unviable due to ground conditions including that:
- i. The site is topographically challenging, with site levels dropping significantly from the A500 to the railway line and also from North to South;
 - ii. It is undermined by shallow former mine workings (particularly in the north of the site), and
 - iii. The site is underlain by strategically significant marl reserves, which in the past have presented a major planning hurdle. The mineral authority has now accepted that these do now need to be removed in advance of development.
- 1.4 The Ceramics Valley Enterprise Zone was one of several Enterprise Zones designated by Government in 2016. The name is primarily a branding device to support promotion of the Zone which targeted a range of industrial sectors in its Strategic Implementation Plan. The Zone comprises six sites in Stoke on Trent and Newcastle including Chatterley Valley West. The designation will run for a period of 25 years (up to 2041) and one of the aims of Enterprise Zone status is to incentivise local authorities to invest in the infrastructure necessary to bring forward the development of land within the Enterprise Zone by allowing it to retain all the business rates arising from the development on the proviso that the retained rates would be used to pay back loans taken out to fund the necessary infrastructure works. The Staffordshire County Council prudential borrowing referenced in paragraph 1.6 below has used this mechanism and will be the first call on business rate receipts received from the site. Subsequent to this, any prudential borrowing by the Borough Council to fund development at Chatterley Valley West will be against future retained business rates from the Enterprise Zone status.
- 1.5 Due to the substantial challenges in bringing forward development at Chatterley Valley West; and the potential to generate jobs and investment in the local area, Chatterley Valley West was included as a project in the Kidsgrove Town Deal Investment plan. An investment of £3.6 million from Kidsgrove Town Deal has been used to support the costs of constructing a new site access, together with the diversion of a Severn Trent water main.
- 1.6 As viability issues continued to be a problem for Harworth to make the necessary return of investment (usually 15% in the industrial development sector) to allow the project to go forward Staffordshire County Council also agreed a proposal to meet the remaining £3.5 million viability gap. This is being funded through a combination of prudential borrowing secured against retained business rates arising from the development on the site when it is completed, and a grant of £1.2m from the Stoke-on-Trent and

Staffordshire Local Enterprise Partnership Getting Building Fund. (The site as a whole is expected to accommodate around 1.1 million sq. ft. of industrial, commercial and office floor space).

2. Issues

Development of Chatterley Valley West

2.1 Harworth

2.1.1. The Harworth (the owners and developer of the site) development masterplan proposes to create four development plateaux (See Appendix A), comprising:

- i) Plot A, a site of 23.2 acres, which could accommodate a unit of around 591,000 sq. ft. and which they propose to offer to the market for sale.
- ii) Plot B, a site of 12.2 acres, which could accommodate a unit of around 258,000 sq. ft. which Harworth are considering building out speculatively and then renting out.
- iii) Plot C, a site of 3.9 acres, which has been the subject of discussions between Harworth and the Borough Council with a view to building up to 71,000 sq. ft. of small business units for the Council to own and rent out (subject of a separate Cabinet Report), and
- iv) Plot D, a site of 14.1 acres, on which the Borough Council has been working with Lucideon, a local advanced materials research company, which is known to be looking to expand. Discussions have now progressed with Harworth with a view to building a unit with a 100,000 sq ft footprint to accommodate a HQ building for Lucideon, a construction building, laboratory and testing area and the AMRICC Research building. (of which further below). The size of the Lucideon plot would be 2.3 acres of the overall 14.1 acres available. Harworth is also intending to develop two further units on plot D.

2.1.2 The works on site relating to the Kidsgrove Town Deal investment into Chatterley Valley West (£3.7m) are currently underway, but unfortunately work is currently paused due to the ground works and highways contractor, Buckingham Group, going into administration. The highways works will now be undertaken by a new contractor, AMEY, and they are due to start on site in the Autumn of 2023. The wider ground works, which have been received an investment from Staffordshire County Council, are also paused but a new contractor (separate to the highways works contractor) will also be appointed in the Autumn of 2023 but with works commencing in earnest in the Spring of 2024. Staffordshire County Council have invested £3.5m into the earthworks costs, subsequently subsidised by an LEP grant of £1.2m, leaving the remaining £2.3m to be paid back to Staffordshire County Council through the Enterprise Zone business rates retention until such time as the £2.3m is paid back.

2.2 Lucideon

2.2.1 Lucideon is an international, independent materials technology company that applies its materials expertise in ceramics, metals, and polymers to a range of sectors including healthcare, construction, ceramics, aerospace, nuclear and power generation. Lucideon is the name for the companies formerly known as Ceram in the UK and M+P Labs in the USA. Its history goes back over a century as the Research Technology Organisation for the Ceramics Industry. Lucideon is now a privately owned commercial enterprise that has experienced significant growth in the areas of material development, R&D and characterisation and in particular in the advanced ceramics sector as a result of its long relationship with the industry. Lucideon is an exemplar of North Staffordshire's attempts to diversify and become more knowledge-based economy. It has grown to employ 170 people, the vast majority of which are scientists, engineers and technologists in high-value jobs.

Services Lucideon offers include:

- Development and licensing of technology platforms
- Materials Development – expertise and knowledge coupled with innovation and invention
- Testing & Analysis

2.2.2 Lucideon's mission is '*To help clients overcome the materials challenges their businesses face in a world demanding ever more environmentally-focused application of materials resources and energy.*'

2.2.3 Currently split across sites in Stone and Stoke on Trent Lucideon has been unable to find business accommodation that meets its expansion needs. Its current arrangement and accommodation, particularly its facilities in Penkhull which date back to the 1940s are inefficient to run, do not provide expansion space and are constraining the further growth of the company. The development plot at Chatterley Valley West offers the opportunity to develop suitable designed facilities to accommodate Lucideon's needs and retain high value jobs in the local economy.

2.3 AMRICC

2.3.1 Applied Materials Research Innovation Commercialisation Company (AMRICC) is a legacy of the Midlands Industrial Ceramics Group, a federation of universities and private manufacturing companies that had successfully bid for the Governments flagship Strength in Places Fund. AMRICC is a unique centre for research, education and scaling-up advanced materials technologies and advanced ceramics. This is by being a collaborative hub for academics and companies to undertake cutting edge research and development; an education facility to develop the material scientists of the future and an opportunity to commercialise ideas by moving projects from the experimental lab into real world processes. AMRICC was founded on and is designed to be sustained through partnerships with industry, academia and other stakeholders.

Council Involvement in this Development

2.4 Construction and Leasing of the Lucideon Advanced Ceramics Facility

- 2.4.1 The Council have been working with both Harworth and Lucideon for several years on how the new facility will be designed, what needs to be included, the financial detail behind these and the purchase and leasing arrangements that would facilitate Lucideon's plans for the site. The Council's involvement in the site has been a key element of both of the Council's Asset Management Plan and Commercial Strategy, which have been approved by Cabinet in the past.
- 2.4.2 It is anticipated that Harworth, once the infrastructure ground works have been completed, would construct the facility to Lucideon's specifications, on a design and build turn-key basis. For over twelve months architects, quantity surveyors and engineers have been working alongside Lucideon to articulate the scope of works from Lucideon for its aspirations for its own Head Quarter Building, its manufacturing building and the research and development building (AMRICC). Originally these were envisaged as three separate buildings all on one site, but due costs and developing building efficiencies these three 'arms' of the development will now sit in one building under one roof. See Appendix B - Lucideon site plan.
- 2.4.3 The design and scope of the total facility is very different to that which Harworth normally build – in effect the facility is a specialist and bespoke development tailored to Lucideon's exacting requirements. To this end the normal business model of Harworth constructing the facility and then selling to Lucideon is not something that Harworth are willing to undertake. As a consequence, the Council has been asked to step in and facilitate the build, completion and eventual lease to Lucideon, due to Lucideon's business model based on the rental, not purchase, of their premises going forward.
- 2.4.4 When the building / new facility, is completed Harworth will sell the entire site (building and land) to Newcastle under Lyme Borough Council, who will then enter into a long-term lease with Lucideon for the whole building. The building will be leased to Lucideon on a full repair and insurance basis, so no further costs will be attributed to the Council. (see finance section below). The business rates retained from Chatterley Valley through the Enterprise Zone mechanism will cover Staffordshire County Council's costs of the financing of the development. The rental income generated will be sufficient to cover costs throughout the lifespan of the building, all be it there be a small contribution will need to be made in the early years.
- 2.4.5 In 2022 the Council submitted a LUF2 Bid to fund the development and had a strong business case but as a Priority 2 Area for the funding round we were not successful in getting the grant accepted into the Programme.
- 2.4.6 An independent review of the Harworth costings for the facility has been undertaken by Ridge and Partners, a national cost consultancy, who have confirmed that the costs represent best value and all costs have been assessed on an open book basis through tendering and latest cost indices. Ridge and Partners are prepared to sign off the design and costs as best value and value for money.
- 2.4.7 An independent review of the business case, reviewing the costs of the build, the tenancy details and agreement with Lucideon will be undertaken as a recommendation of this report and if the business case is favourable a separate report will be brought to Cabinet to seek approval to enter into the various legal agreements.

2.4.8 In summary if the Council is to undertake this investment and development there will need to be several exercises undertaken to help validate / inform the decision to proceed or not:-

- A full financial appraisal of Lucideon as a business
- A full validation of the build costs as presented by Harworth
- Develop and evaluate the full business case for the potential investment and the business rates retention scheme and how that benefits the Council.
- A discussion with the Public Works Loan Board to understand the Council's ability to borrow the money
- To establish the timescales of development and leasing

3 Recommendation

That Cabinet:-

- 3.1 Note the progress made to date on the development of the Chatterley Valley Industrial Park;
- 3.2 Receive a further report detailing both the full business case and the evaluation of the full business case, once completed, to enable a decision to be taken regarding future investment in this project.

4 Reasons

- 4.1 To support the delivery of Council Plan aims, specifically Priority two a successful and Sustainable Growing Borough.
- 4.2 To support delivery of the Chatterley Valley Enterprise Zone as it relates to Chatterley Valley West.
- 4.1 To enable a significant development to take place on this strategically significant employment site within the Borough.
- 4.2 To enable the location of skilled and technical employment within the Borough.
- 4.3 To establish a further site in the Borough that delivers globally significant research and development, enhancing our reputation as a place to do business.
- 4.4 To generate a revenue income for the Council.

5 Options Considered

- 5.1 The Council could opt to not support Harworth in its efforts to bring forward this development plot at Chatterley Valley West and leave it to the open market to deliver a solution. This would not be in line with the principles of the Enterprise Zone mechanism which requires retained business rates to be invested in this site. It would not capitalise on the forerunner investment by Kidsgrove Town Deal and Staffordshire County Council in enabling site access works. The Council has worked with Harworth,

Lucideon and Staffordshire County Council over a number of years to bring forward this development in a viable format.

- 5.2 The Council could opt to focus on delivering other aspects of Chatterley Valley such as the small firms accommodation that is planned for Plot C. That being the case the Council would not capitalise on the opportunity of bringing a considerable number of skilled and technical jobs to the Borough alongside the economic benefits of future growth. The proposed tenant Lucideon would be required to resume its search for a suitable location with the consequential risk that Lucideon relocates outside of the North Staffordshire area. Additionally, the location of Lucideon and AMRICC at Chatterley Valley West has the potential benefit of a 'halo effect' of attracting like-minded businesses to be located close to this exciting development and increasing the prospect of achieving full occupancy of the small firms units at an earlier date.
- 5.3 The option of investing in this planned development at Chatterley Valley West is the option for the reasons set out in this report. It is in line with Council Plan Priority Two, delivers a key strategic employment site that has been vacant for a very long period and fulfils the Council's role within the Ceramics Valley Enterprise Zone whilst supporting the economic growth of the Borough. This is the preferred option.

6 Legal and Statutory Implications

- 6.1 The Council is not obliged to undertake development of Chatterley Valley West but to do so is consistent with the Section 2(1) of the Local Government Act 2000 which permits local authorities to do anything they consider likely to promote or improve the economic, social and environmental well-being of their area. It is also in line with the objective of the Ceramics Valley Enterprise Zone of which the Council is a founding partner and is in line with Council Plan objective two.
- 6.2 The proposal requires the Council to undertake Prudential Borrowing which will be partly repaid using the Enterprise Zone mechanism.
- 6.3 Chatterley Valley West is a designated employment site within the developing and previous Local Plan.
- 6.4 The proposal will require the Council to add this asset to its property estate once the building is complete.
- 6.5 The proposal will require the Council to contract with Harworth for development of the building.
- 6.6 The proposal will require the Council to negotiate terms with Lucideon for occupation of the building.

7 Equality Impact Assessment

- 7.1 As a result of this proposal no differential impacts exist for people with protected characteristics. It will retain existing jobs within North Staffordshire and provide an opportunity for future jobs growth in a former coalfield area.

8 Financial and Resource Implications

- 8.1 Collection of business rates from the developments at Chatterley Valley depends on the schedule for completion of the various units on the site. The most recent estimate is that business rated generated from the commencement of development to the end of the Enterprise Zone status in 2041 is in the region of £40 million.
- 8.2 Significant Prudential borrowing will be required to provide the financial investment to enable development of this large unit for Lucideon. This will be repaid through retained business rates from the Enterprise Zone. In the unlikely event that the development schedule of Chatterley Valley is significantly delayed the rental income from Lucideon's occupation of the building is sufficient to cover borrowing costs.
- 8.3 In line with the agreed Enterprise Zone arrangements, the first call on any business rates received from Chatterley Valley will be the repayment of Staffordshire County Council's £2.3 million investment into the infrastructure works at Chatterley Valley (referenced in 1.6 above) to enable the site to be opened up for development.
- 8.4 Draft Heads of terms are under negotiation with Harworth for a Sale and Purchase agreement in respect of the property and a Development Agreement in respect of the Development.
- 8.5 Draft heads of terms with Lucideon are for an annual rental income as a percentage of build costs for a period of 25 years. As outlined above the rental income generated will be sufficient to cover costs throughout the lifespan of the building, all be it there be a small contribution will need to be made in the early years.
- 8.6 Ridge and Partners are commissioned as the Council's Quantity Surveyors to assess build cost value for money.
- 8.7 Financial checks on Lucideon being undertaken as part of the due diligence with the Council's Treasury Management Advisors.
- 8.8 Business case will be reviewed and signed off by independent advisor and a separate report confirming this and seeking approval to sign contracts will be brought to Cabinet at separate date, if that is what the business case suggests.

9 Major Risks & Mitigation

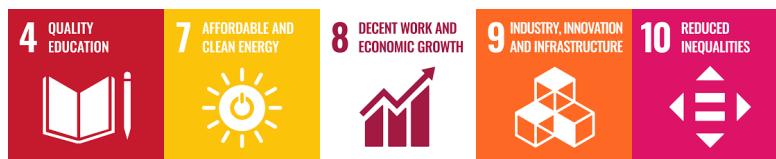
- 9.1 The developer Harworth could struggle financially and go into administration or cease the work on site, delaying the completion of the development and putting the finished facility at risk. We are in constant dialogue with Harworth and given the asset base of the group and the continuing work on site. We believe this to be a small risk at this time.
- 9.2 The end user for the facility, Lucideon, could also cease trading and the risk of this will be ever present with a private sector partner. The company is over 100 years old and is at the cutting edge of technology in the advanced ceramic industry so we consider this to be a small risk at this time. Worst case scenario the AMRICC section of the building could continue as it is an industry wide facility whilst we would have to seek a new tenant for the remaining elements of the building.

- 9.3 If we were unable to complete the deal with either Harworth or Lucideon, which would have to be agreed and signed back-to-back to minimise the risk of financial exposure to the Council, then the deal / development would not commence. The Council would then walk away from the development.
- 9.4 Use of the Enterprise Zone retained business rates mechanism will be the first option to repay the prudential borrowing, once the County Council's investment has been re-paid. However, the lease costs are an agreed percentage of the build costs and will cover the borrowing costs over the lifespan of the asset. If the costs of borrowing exceed the lease returns then the Council would not be able to progress the deal until such time that the borrowing costs have reduced at least.
- 9.5 Cost inflation is always a risk on these developments but the aim has been to develop the scheme up to such a design and cost certainty situation that the costs agreed are fixed and the Council has no exposure to cost inflation.
- 9.6 The risk of business rates retention not producing sufficient to cover the borrowing costs is being modelled as part of the ongoing financial assessment of the deal and if this is an issue and the Council are financially exposed then the deal will not proceed.

10 UN Sustainable Development Goals (UNSDG)

10.1 The proposal contributes towards the following UNSDGs:

- Goal 4, through AMRICC the development aims to support the development of the advanced materials engineers of the future.
- Goal 7, Some of the developments through AMRICC will support development of reliable, accessible and sustainable energy.
- Goal 8, by providing employment and training opportunities both directly on site and as a result of the AMRICC development.
- Goal 9, fostering innovation through AMRICC that has the potential to benefit a range of industrial sectors in finding more efficient and sustainable ways to work.
- Goal 10 by providing quality jobs and training opportunities to communities in a former coalfield area.



11 Key Decision Information

- 11.1 Chatterley Valley is based in the Bradwell Ward but the jobs created could attract workers from the wider area of the Borough and beyond.
- 11.2 This report requires prudential borrowing and capital expenditure that is in excess of the £250,000 level that is defined as a key decision.

12 Earlier Cabinet/Committee Resolutions

- 12.1 19 September 2023 Asset Management Strategy
- 12.2 19 July 2022 Commercial Strategy <https://moderngov.newcastle-staffs.gov.uk/ieListDocuments.aspx?CId=118&MId=3979>
- 12.3 12 January 2022 Chatterley Valley <https://moderngov.newcastle-staffs.gov.uk/ieListDocuments.aspx?CId=118&MId=3433>
- 12.4 11 November 2020 Kidsgrove Town Investment Plan <https://moderngov.newcastle-staffs.gov.uk/ieListDocuments.aspx?CId=118&MId=3421>
- 12.5 10 February 2016 Designation of the Ceramic Valley Enterprise Zone <https://moderngov.newcastle-staffs.gov.uk/ieListDocuments.aspx?CId=118&MId=2569>

13 List of Appendices

- 13.1 Appendix A – Chatterley Valley Master Plan
- 13.2 Appendix B – Lucideon Development Site Plan

14 Background Papers

14.1 Overview of recent Chatterley Valley West planning history:

- 08/00736/OUT Hybrid application, granted July 2019
- 19/00846/OUT removal and variation of conditions, granted January 2020
- 21/00595/FUL removal and variation of conditions granted September 2021.
- 23/00220/REM Reserved matters application for plot D1.

14.2 Ceramics Valley Enterprise Zone brochure

14.3 Kidsgrove Town Deal Town Investment Plan <https://www.newcastle-staffs.gov.uk/kidsgrove-town-deal-3/kidsgrove-town-deal>

14.4 Lucideon website <https://www.lucideon.com/our-company>

14.5 AMRICC website <https://www.amricc.com/>