

NEWCASTLE-UNDER-LYME BOROUGH COUNCIL

**EXECUTIVE MANAGEMENT TEAM'S
REPORT TO CABINET**

5th December 2023

Report Title: Chatterley Valley West Plot C Industrial Unit Investment

Submitted by: Deputy Chief Executive

Portfolios: Finance, Town Centres and Growth

Ward(s) affected: Bradwell

<u>Purpose of the Report</u>	<u>Key Decision</u> Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>
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 small industrial units on Plot C of the development, from Harworth, the developers of the site.	
<u>Recommendation</u>	
That Cabinet:-	
<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 ensure the successful development of the Chatterley Valley West site whilst helping to secure and create up to 1700 jobs, this proposal is in line with the Council's objective of creating a successful and sustainable growing Borough.	

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 78,000 sq. ft. of small business units for the Council to own and rent out (subject of this Cabinet Report), and
- iv) Plot D, a site of 14.1 acres, to which the Borough Council has introduced 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. This development is the subject of a separate Cabinet report. 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.

Council Involvement in this Development

2.2 Plot C Industrial Units

2.2.1 The Council, subject to a separate approval at Cabinet on the 5th December 2023, will be seeking approval to undertake a full review of the business case for the investment

in a large industrial unit on behalf of Lucideon, an advanced ceramics manufacturing and research facility. Upon review of the business plan a separate report will be taken to Cabinet to approve the investment if it is deemed acceptable and appropriate.

- 2.2.2 If agreed to proceed the unit will be constructed by Harworth on a design and build turn-key basis and with back-to-back legal agreements for the construction of the facility and the lease of the completed facility which will be signed to allow construction to commence with a guaranteed tenancy arranged – to mitigate the risk of the facility not being occupied yet built to a specific end user's requirements.
- 2.2.3 One of the elements within the new large Lucideon facility is a new industry wide advances ceramics research and development unit (AMRICC) which will house and host research into new techniques etc that will drive this industry forward. This element of the build is being supported at a nation level.
- 2.2.4 In addition to the facility it is anticipated that some smaller associated businesses may wish to re-locate / establish themselves alongside / near to the new Lucideon facility.
- 2.2.5 To this end there is a small plot of land at the front of the overall site, identified as Plot C in Appendix B, which is being made available to the Council by Harworth, for the development of a small-scale business park that would support the advanced ceramic campus and benefit from the growth in this sector. This is in line with the Council's objectives of supporting employment growth in the Borough and its commercial aspirations.
- 2.2.6 It is envisaged, as set out in Appendix B, that three separate units will be created, 20,000 sqft, 25,000 sqft and 31,000 sqft, which can all be sub divided into smaller units should the market require that. Currently we are basing the unit sizes on market intelligence and have confidence that this size of unit is attractive to the market in terms of size and value.
- 2.2.7 As we have done with the main Lucideon development we have been working with Harworth on the design and costs of the units. The units would be constructed on a design and build basis, but leaving the fit out to the end users, as is the norm with similar units. Upon completion of the works the Council would purchase the units from Harworth at an agreed cost (agreed prior to construction starting which would include the land value) and then lease to end users.
- 2.2.8 An independent review of the Harworth costings for the units has been undertaken by Ridge and Partners, a national cost consultancy, who have confirmed that the cost's 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.
- 2.2.9 An independent review of the business case, reviewing the costs of the build, the potential tenancy and agreements the Council could secure 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.
- 2.2.10 As soon as the agreements are reached and certainty or delivered is ensured the Council can then begin to market the units for lease, utilising the contacts at both Harworth and Lucideon.

2.2.11 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 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 and maximise the opportunity generated from the retention of business rate receipts through escalating development on the site.
- 4.3 To enable a significant development to take place on this strategically significant employment site within the Borough.
- 4.4 To enable the location of skilled and technical employment within the Borough.
- 4.5 To establish a further site in the Borough that delivers globally significant research and development, enhancing our reputation as a place to do business.
- 4.6 To generate a revenue income for the Council in line the detail set out at section 8.4 below.

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

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 larger development plot, which is the focus of a separate report, that is intended to be the home of Lucideon / AMRICC . That being the case the Council would not benefit from the opportunity of capitalising on that development to bring further jobs through the potential 'halo effect' benefit of attracting like-minded businesses to be located on this exciting development.
- 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 repaid using the Enterprise Zone mechanism.
- 6.3 Chatterley Valley West is a designated employment site within the current and previous Local Plan.
- 6.4 The proposal will require the Council to add these assets to its property estate once the units are 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 future end occupiers for occupation of the units once built.

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 At this stage plans are being developed with a view to bringing a business case to a future Cabinet. The cost of building the scheme have been developed at circa £11m.

- 8.2 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.
- 8.3 Prudential borrowing would be required to provide the financial investment to enable development of the units at Plot C. This will be repaid through the retained business rates from the Enterprise Zone. 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. Following this the Council will then be able to access the retained business rate element.
- 8.4 Based on a development of 78,000 sq ft and rental rates of comparable units then, when fully let an assumed rental income of over £700,000 pa could be generated. As new units on an exciting new development it is anticipated that rental levels would be at the upper end of those currently on offer to the market.
- 8.5 Ridge and Partners are commissioned as the Council's Quantity Surveyors to review and sign off the value for money aspects of the built costs.
- 8.6 Financial checks on Lucideon being undertaken by NuLBC as part of the due diligence.
- 8.7 The 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 If we were unable to complete the deal with Harworth then the deal / development would not commence. The Council would then walk away from the development.
- 9.3 Prudential borrowing could put a strain on Council. If the costs of borrowing the capital costs 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. However, the Council is able to access retained business rates from the development as a means of paying back investment into the site.
- 9.4 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.
- 9.5 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.

- 9.6 There is a risk that the units would not be leased in a timely manner but robust marketing of the units will need to be undertaken and measures ensured to limit or minimise empty building business rates would need to be reviewed and actioned.

10 UN Sustainable Development Goals (UNSDG)

10.1 The proposal contributes towards the following UNSDGs:

- Goal 8 by providing decent work and economic growth
- 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 July 2022 Commercial Strategy <https://moderngov.newcastle-staffs.gov.uk/ieListDocuments.aspx?CId=118&MId=3979>

12.2 12 January 2022 Chatterley Valley <https://moderngov.newcastle-staffs.gov.uk/ieListDocuments.aspx?CId=118&MId=3433>

12.3 11 November 2020 Kidsgrove Town Investment Plan <https://moderngov.newcastle-staffs.gov.uk/ieListDocuments.aspx?CId=118&MId=3421>

12.4 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 Masterplan

13.2 Appendix B – Chatterley Valley Plot C Indicative Site Layout

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>