

Agenda Item No:

Report To:

Cabinet

Date of Meeting:

30th March 2023

Report Title:

International Film Studios Newtown Works

Report Author:

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Portfolio Holders for:

Cllr Clarkson

Executive Leader of the Council

Cllr Iliffe

Portfolio Holder for Economic Development

Cllr Shorter

Portfolio Holder for Finance, IT and Digital

Summary:

The TV and film studios will bring significant benefits to Ashford in terms of investment and job creation and will play a key role in our economy's prosperity. This development will be one of the most important economic drivers for the borough.

The UK Film and TV sector is thriving contributing £14.9bn of output in 2019, an increase of 89% over the space of 5 years. The British Film Institute forecasts the requirement for 10,000 new employees in this sector over the next 5 years, and Lambert Smith Hampton have forecast the need for 2.3 m sq ft of new studio space over the next 15 years.

It is pleasing to report the Ashford International Development Company (AIDC) has received a significant offer for 202 of the 302 residential units and is working through the final stages of its due diligence to formalise the transaction.

In looking for the next phase of the development, AIDC have been working to secure interest from



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the Film and TV industry for a studio operator, and we are pleased to report they have engaged with a leading global studio operator.

They would work alongside the East Kent College Group facility to develop a curriculum and training programmes to support the development of the local workforce, providing the talent required by the studio operator and the production companies renting the studio space.

This development provides the opportunity for Ashford to make an economic step change embracing a national growth sector. The approach set out in this report would allow the Council control over a key development site and influence any scheme that comes forwards.

With the Council's support, together with the successful Levelling Up funding from central Government, provides a once in a generation opportunity to redevelop this nationally significant railway heritage site into a thriving economic driver for the area.

This report will agree the funding for the Studios phase of the Newtown Works development, and to note Ashford International Development Company is in negotiations with a major studio operator.

Key Decision: YES

Significantly Affected Wards: All but specifically Aylesford and East Stour

Recommendations: **The Cabinet is recommended to recommend to Council: -**

- 1. Agree in principle that a Loan Facility be made available to the Ashford International Development Company for the construction of the International Film Studio and workshop space to value of £50,000,000 subject to the terms set out in paragraph 17 of this report and subject to the completion of the due diligence process set out below and to the granting of planning permission satisfactory to the film studio operator.**

- 2. Agree that the loan facility for the International Film studio and workshop will either be repaid on completion of the works from the sale proceeds or through a lease to an operator on a long-term basis.**
- 3. Agree to financially support the Ashford International Development Company at risk to proceed with the redesign of the studio facility (subject to the Chief Executive being sufficiently confident that the overall deal is secured) up to the value of £30,000 in order to submit a revised planning application. This cost would initially be met from an allocation within the Business rate retention reserve.**
- 4. Delegate responsibility for finalising the deal and sign-off to the Chief Executive taking into account the recommendations of a Due Diligence Working Group which will include the Leader, the S151 Officer, the Solicitor to the Council, the Chair of Overview and Scrutiny, and Portfolio Holders for Finance and ICT and Economic Development.**
- 5. Agree to allocate a budget of £100,000 to carry out the due diligence required to finalise the transaction.**
- 6. Authorise the Solicitor to the Council and Monitoring Officer to negotiate, finalise and complete all necessary legal agreements and other documents to give effect to the above.**

Policy Overview:

This Project is a key priority of Ashford Borough Council's Corporate Plan, and the Council's aspiration for Targeted Economic Growth to improve the prosperity and productivity within the borough and is one of the Council's Super Six projects.

Newtown Works has the potential to deliver on the ambitions for recovery at a local, regional and national level. Within the Council's Corporate Plan 2022-24 (agreed at Cabinet in Nov 2021), this document sets out the Council's strategic focus for the next few years and longer-term aims, with enabling the delivery of the Newtown Works

development as a key Strategic Project. This project supports the delivery of two of the key themes, of Targeted Growth, and Caring Ashford. This project is integral to the success of achieving the longer-term aspiration of Targeted Growth within the Borough, bringing new knowledge based jobs into the area, but also supports the development of skills in the local workforce, supporting the Caring Ashford theme.

The Kent and Medway Economic Renewal and Resilience Plan (August 2020), also sets out plans for recovery of the whole County. The plan has a number of priorities for action including, “Channel 3: Business: Supporting innovative and resilient businesses to drive future growth”. Within this priority it recognises the importance of the Creative Industries as a driver for growth and increased productivity, the development of a more highly skilled workforce, and the importance of realising investment opportunities such as Newtown Works.

The regional Southeast Local Enterprise Partnership’s (SELEP) Covid 19 Economic Response Statement recognises the role of groups like the Southeast Creative Economy Network in driving recovery through investment and support for the creative industries. The SELEP also launched the Southeast Creative Economy Network, and its plan The Thames Estuary Production Corridor, The Case for Investment, in July 2020. This plan includes both the New Creative Laboratory anchored by Jasmin Vardimon Company, and the Newtown Works development as two key Ashford projects to deliver these regional strategic plans for this important sector.

Financial Implications:

The Council will approve a loan facility of £50m for the Ashford International Development Company (AIDC) to allow it to bring forward the International Film Studio and workshop development phase of the project.

On completion the company will either

- sell the development to the operator or
- enter into a lease with the operator

AIDC will continue to bring forward proposals for the development of the remaining elements of the site for Cabinet and Council to consider extending/increasing the loan facility.

Legal Implications:

The Council has the necessary legal powers to provide the loans set out in this report. In particular, the General Power of Competence set out in the Localism Act 2011.

Following the coming into force on 4th January 2023 of the newly enacted Subsidy Control Act 2022, there is no longer an exemption for the audio visual sector, therefore the Council ought to ensure that where possible the loan is granted on market terms and in accordance with the legal obligations of the domestic subsidy control regime so as to ensure that the grant does not provide an economic advantage to the film studio provider i.e., does not constitute a subsidy. If the terms of the proposal are not considered to be market terms and are to be considered Subsidy, these would need to be assessed against the subsidy control principles and prohibitions to ensure compliance with the Subsidy Control Act 2022.

Equalities Impact Assessment:

Not Required because the report deals with a property transaction and its financing.

Data Protection Impact Assessment:

None – the proposal does not impact on any of the council's Data processing or management arrangements.

Risk Assessment (Risk Appetite Statement):

A risk assessment is included in the report and covers the various areas of risk that need to be considered and managed with this proposal.

The key risks at this stage are to ensure that the Council is comfortable with the value placed upon the investment, the legal risks related to the due diligence and the reputational risk to the Council faced by this action or inaction on this matter.

Sustainability Implications:

The Proposal will secure the redevelopment of a key brownfield site and with its decontamination and protection of the listed buildings on the site.

Other Material Implications:

None

Exempt from Publication:

Exempt Appendix not for Publication by virtue of Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972 and the public interest in maintaining the exemption outweighs the public interest in disclosing the information

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Report Title: Newtown Works

Introduction and Background

1. The Council has previously approved a joint venture partnership with Quinn Estates and the Council has become 65% shareholder of the Ashford International Development Company (AIDC) with Quinn Estates having the remaining 35% shareholding.
2. It is pleasing to report the Company has received a significant offer for 202 of the 302 residential units and is working through the final stages of its due diligence to formalise the transaction. The proposal for the sale was considered by Trading and Enterprise Board in January 2023 and was satisfied the terms were acceptable from the majority shareholders perspective. In doing so this would significantly de risk the project from the Council's perspective.
3. In looking for the next phase of the Development, AIDC have been working to secure interest from the Film and TV industry for a studio operator following the Creative District Improvement Company no longer being involved, and we are pleased to report the company has engaged with another leading global studio operator
4. With the initial advice received from Lambert Smith Hampton (LSH) to explore the viability of the studios. The Report concluded that there was a strong market for studio space in the UK however there were significant risks to the Council should it proceed (financial, operational) and the Studios would not proceed without Council support. However, the report highlighted that the Studios presented a unique opportunity for the Borough's local economy.

Newtown Works – Local Context

5. The details of the project have been reported in detail in earlier reports. In summary the Ashford International Studios / Newtown Works project will regenerate a 4.8-hectare brownfield site with 5 grade II listed buildings in the heart of Ashford town, into a dynamic Ashford International Film Studios and residential development, responding to the high demand for studio space nationally.
6. The development will convert the former Newtown Railway Works, with the longest listed railway buildings in the country, into 302 homes and commercial space including new purpose-built film studios, workshops, production offices, and a ground-breaking Creative Industries and Digital Industries skills and education centre. This whole Newtown Works project will deliver approximately 2,000 direct and indirect jobs in the creative and associated industries as well as 200 learners a year, supporting the transformation of the Ashford economy in East Kent, and delivering studio space to support a thriving TV and Film industry nationally.
7. The proposed studio operator would work alongside the East Kent College Group facility to develop a curriculum and training programmes to support the

development of the local workforce providing the talent required by the studio operator and the production companies renting the studio space.

8. Images of the proposal are reproduced below.



9. This Project remains a key priority of Ashford Borough Council's Corporate Plan.
10. This development will enable Ashford to become the key focal point for Film and TV production in Kent, complimenting and connecting with the growing film industries network and facilities in the wider Southeast areas.

11. The likely economic and cultural impact to Ashford and wider-Kent is likely to be sizable, with productions having a trickle-down effect, such as:
- Creating new jobs for the UK film and production sector.
 - Attracting and increasing creative enterprises in Ashford, as well as ancillary suppliers to the area such as builder's merchants, hardware stores, fabric suppliers and catering teams.
 - Retaining and attracting skilled producers and crew to live in the area.
 - Providing a local and well-connected educational pathway into the creative industries, developing the next generation of creative talent in Ashford.

Proposal

12. Planning permission was granted for Film / TV Studios with associated post-production offices and workshop and media village.
13. The Ashford International Development Company would seek to procure a professional team to redesign the studio scheme through all stages of design, subject to planning approval for the amended scheme.
14. Quinn Estates in their capacity as Development Managers is well placed to continue the negotiations with the operator and will be and continue to liaise with the Ashford International Development Company at each stage of the negotiation.
15. The discussions with the market indicate that a smaller and modified studio facility than originally agreed is preferable. This would result in relocating the workshop closer to the studio space and have suggested an amended scheme for the Council to consider.
16. The modified scheme will require a non-material amendment to be formally submitted by the Ashford International Development Company after Cabinet have approved the principle of the proposal and negotiations proceed with the operator to a place where there is sufficient confidence that they will take occupation.
17. The financial proposal is for the Ashford International Development to borrow up to £50m from the Council at a rate to be agreed by the S151 officer with both an arrangement fee of 1% and at a commercial rate through the form of a development funding agreement both of which are on commercial terms.
18. The Development Company will seek to agree a deal for the studio and workshop, this will require:
- a. Heads of Terms (HoT's) to be agreed between an operator and AIDC to the satisfaction of the Chief Executive in consultation as per recommendation 4.
 - b. designs would need to be amended to reflect the current requirement – and this will be achieved within the current footprint.

19. Once ready to do so, AIDC would then agree proposals for the multi storey car park, hotel, serviced apartments and the remaining commercial space, a further request for funding will be made. This would be subject to a Council Decision.

Due Diligence

20. A deal of this nature is complex and will require a significant amount of due diligence work to be completed before both parties are able to proceed with the transaction. The following are several areas of focus for this work, but it is not exclusive.
21. There are considerable areas of work required to satisfy the Council that the proposal is viable and to develop a clearer understanding of the potential operator and their ability to complete the transaction and run the facility. There will be a need to seek external support as well as utilising in-house resource to complete this work.
22. It is key that the Council seeks validation of the technical aspects of the development, updating the cost appraisal, site valuation for the studio and workshop.
23. It is anticipated that there will be several aspects of this work and initially this would include:

Levelling-Up Funding

24. See Exempt Appendix.

Subsidy Control and Best Consideration

25. A subsidy will arise where all the limbs of the test in Section 2 of the Subsidy Control Act 2022 (SCA) apply to the financial assistance being provided. Whilst under the EU-UK Trade and Cooperation Agreement there was an exemption for the audio-visual sector, this was not incorporated into the SCA and as such, the Council can no longer rely on this exemption and instead must apply the provisions of the new domestic regime. External lawyers have identified the following areas which the Council should keep under review:
26. The £50 million loan: A subsidy will not arise if the Council can demonstrate that the loan is on market terms.
27. The £30,000 financial support to AIDC for the redesign of the studio facility: This could potentially be provided in reliance on the Minimal Financial Assistance Exemption in section 26 of the SCA.

Sale of the film studios

28. A key piece of work is understanding the value placed upon the completed development, this will allow the Council to meet its requirements in terms of Section 123 of the Local Government Act and the new Subsidy Control arrangements. As part of its due diligence, the Council intends to commission an external RICS valuation and, once the terms of the transaction are finalised, it will instruct an external solicitor to undertake an assessment to ensure the transaction complies with the subsidy control rules.

Development Proposals

29. Work will need to be done on the development proposals to ensure that they are deliverable, represent value for money and will deliver an acceptable level of return. Therefore, we will need to review the development appraisal, cash flow and valuation of each element of the scheme. The phased approach would also need to be consistent with any restrictions on the planning permission.
30. As funder the Council will also need to implement similar controls that are in place for the residential proposal which the Council used to protect its interests, so this will be some form of control over the contractors appointed, step in rights and warranties. It will need to put in place some form of fund monitor to make sure that funding is released only where works have been completed.

Due Diligence Structure/process

31. As previously reported, approval is being sought for a sign off process similar to that employed during the completion of the agreement for the residential phase of this development. Cabinet approval for the transaction is sought in principle, subject to completion of satisfactory Due Diligence, and it is proposed that this decision is delegated to the Chief Executive in consultation with the Leader and a Due Diligence task force Group (including key Members and Key Officers).
32. The Group, once established, can meet, and review due diligence reports to ensure that members are comfortable with the terms of the transaction and the risk profile of the deal.
33. ABC governance and reporting arrangements duplicate those already in place for the residential development.
34. Members have been previously advised on the changes that have been made to PWLB lending terms. Officers have sought advice from Arlingclose and the proposal to fund the studio and workshop development element of the site is in accordance with PWLB guidance.
35. The Studio and workshop would be viewed as Economic Development and Regeneration works. A requirement would be placed on the council by the PWLB that any return on this activity is reinvested in the Borough. If this is accepted, then this would be allowable within the current guidance.

Financial Model

36. The Company (AIDC) will generate revenues from the sale or lease of the development in this particular case. The Council as 65% shareholder will be entitled to its share of any profits generated.
37. The Council would potentially make a return on the loan provided to AIDC:
 - a. Similarly, to financing the property company; the Council would be lending to the Company at commercial rates and will finance this through borrowing, current rates are lower than the commercial rate applied to

the residential development. The interest cost benefit to the Council is in the region of £400,000.

38. The figures in this appraisal are subject to review, the valuation of the phases of the development will be tested and the cost model is being updated and reviewed and therefore the numbers are subject to some changes. The model is completed on Stage RIBA2 plans and therefore have risk allowances built into them to cover uncertainties that will be clarified as the design is developed further.

Risk assessment

39. This is a Complex project over a number of phases and at this stage the risk assessment is looking to capture an understanding of the high level risks and their mitigation strategies.
- a. For this part of the development there are particular site risks, most notably contamination and site access. Much work has now been completed and the work to get to a RIBA 4 design stage will develop this further. The main mitigations are to make sure that the site and proposals are understood before development commences. The levelling up funding will improve profitability and deliverability of the site into more accepted norms reducing this risk.
 - b. The cost of the construction is higher than values. The Council has an experienced partner who is used to managing costs and making a return. However, work will need to be done to make sure that there is transparency over the construction contract and to make sure that there is a way of ensuring that value for money is achieved at each stage. The levelling up funding partially mitigates this risk, subject to the terms of the LUF Funding. Work will also need to be done to fully understand the development costs as the scheme is worked up to a RIBA 4 design. The construction risk could also be managed through the type of construction contract sought.
 - c. Studio Market – The Operator will need to be signed up to a binding, conditional contract to purchase or lease the site upon completion of the construction.
 - d. Contractor failure is a key risk for all development projects and there is always a risk that the contractor fails. This is normally managed through vetting of contractors, managing the payment process to make sure that payment is made for works satisfactorily completed, and finally through collateral warranties and step in rights.
 - e. Legal arrangements of this nature need thorough legal due diligence to ensure that the objectives of the Council can be delivered, and the risks are managed where possible.
 - f. Reputational risk is a key consideration at this stage and one highlighted in the Lambert Smith Hampton (LSH) report. On the one hand the Council will be funding the delivery of a key regeneration project that has the potential to provide a step change in the local economy whilst ensuring the

protection of key heritage assets of the town. However, on the other hand there is the risk that the development does not deliver on expectations.

40. Members should note that a key risk mitigation is that the risks are shared with Quinn Estates, the Council's fellow shareholder in AIDCo., who is also the development manager. Therefore, the Council's exposure is limited to 65% of the risk. Quinn Estates has an interest in maintaining the longer-term viability of the site and its operation as it moves from a development phase to maturity.
41. The main mitigation for these risks will be not to release significant funding to the project until the Chief Executive, in consultation with the Leader and the Due Diligence working group, is satisfied that there is sufficient confidence in the deal to warrant further investment. For this reason, the advance of up to £30,000 for design/planning fees is dependent upon a sufficient level of security of the overall deal, and the main loan agreement will not be signed until key project risks, including the outcomes of due diligence, have been managed.
42. Should the commercial elements of the scheme prove to be un-viable and undeliverable and the proposed loan not proceed, the site could revert to a residential development, but this would likely see the loss of some or all of the Levelling Up Funding for the scheme.

Equalities Impact Assessment

43. Not applicable at this stage as the report relates to a loan/commercial deal and not a policy.

Consultation Planned or Undertaken

44. None other than that needed for the planning process.

Other Options Considered

45. The Council could choose to do nothing, and AIDCo could seek 3rd party funding. This could lead to a missed opportunity to deliver a high skill high wage industry in the town with the ensuing benefits that would follow.

Reasons for Supporting Option Recommended

46. This is a significant brownfield site that has sat dormant for approximately 35 years, the planned residential development will enable the retention of nationally significant railway heritage assets.
47. This second phase of the development will be a significant economic driver for the borough, helping to resolve the challenges of low earnings and skills levels, and high unemployment in neighbouring wards in urban Ashford. The UK Film and TV sector is thriving contributing £14.9bn of output in 2019, an increase of 89% over the space of 5 years. The British Film Institute forecasts the requirement for 10,000 new employees in this sector over the next 5 years, and Lambert Smith Hampton have forecast the need for 2.3 m sq ft of new studio space over the next 15 years.
48. This development provides the opportunity for Ashford Borough to make an economic step change embracing a national growth sector. The approach set

out in this report would involve the Council in funding a key development scheme coming forward. The delivery of the Studios represents a key corporate objective for the Council.

49. This report is a necessary step in the process of securing a deal with an operator and provides confidence that should an operator agree to purchase/lease the studios the company has (subject to the completion of due diligence and the grant of satisfactory planning permission) the necessary funding in place to deliver the development.

50. Next Steps in Process

51. To progress the scheme further officers will need to commence the Due Diligence process, initially reviewing the developer's documentation and where necessary commissioning a 3rd party to review the information.
52. Agree a timetable with AIDC for the completion of the Due Diligence process.
53. It is proposed that a Working Group is established to ensure Statutory Officer and Member oversight of the due diligence process. Nominations will be sought from the Leader for this Group, but its membership must include the Leader, Chair of Overview and Scrutiny and the Portfolio holders for Finance and ICT and Economic Development.
54. At certain points in the project further reports will be made to members to trigger additional phases of the site-wide overall development.

Conclusion

55. This scheme, subject to an amended planning consent, for the Studio and workshop space, with a reputable studio operator and the Council's support together with the successful Levelling Up funding bid provides a once in a generation opportunity to redevelop this nationally significant railway heritage site into a thriving economic driver for the area.
56. The development will continue to be phased to allow the Council the opportunity to consider and manage risks at each stage of the development.
57. The proposed outcomes of the full scheme will deliver a significant economic boost to the borough, secure a key heritage asset and regenerate a major brownfield site in the town.

Portfolio Holder's Views

Cllr Clarkson, Executive Leader of the Council I can say to colleagues that this is one of the most important development projects in our Borough, and can be a catalyst that adds to and drives our economic growth. This report is informative and lays out the way forward. I commend the six recommendations to Cabinet Colleagues.

Cllr Neil Shorter, Portfolio Holder for Finance and ICT – "The proposals within this report represent an evolution of the original design and concept when we entered into this project. I am very supportive of the contents of the report, look forward to the due diligence process. I congratulate our officers, the AIDC including the development partner Quinn Estates for progressing the project to this point."

Cllr Nathan Iliffe, Portfolio Holder for Economic Development

This project is one of the most exciting economic projects for the Ashford Borough in recent years. This development is going to become a significant driver of economic growth within Ashford as one of the Council's Super Six projects. Newtown Works has the potential to deliver on the ambitions for recovery at a local, regional and national level. These ambitions are outlined within the Council's Corporate Plan and supports two of the key themes of the plan – Targeted Growth and a Caring Ashford. This project has the added benefit of regenerating a brown-field site, close to the town centre that has laid dormant for many years, as well as preserving significant buildings that contribute to the historic fabric of Ashford for generations to come.

I congratulate and thank our officers for their hard work and efforts to bring the project to this stage. I commend the six recommendations outlined in the report to Cabinet Colleagues.

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