

Agenda Item No:

Report To: Cabinet

Date of Meeting: 26th October 2023

Report Title: Levelling Up Fund, Ashford International Studios, Newtown Works

Report Author & Job Title: Andrew Osborne,
Head of Economic Development

Portfolio Holder: Cllr Simon Betty,

Portfolio Holder for: Portfolio Holder for Economic Growth and Investment



Summary:

Following the update report to Economic Regeneration and Investment Board in April 2023, this report seeks to update members on the progress made in administering this funding and delivering this project. Ashford Borough Council is undertaking the role of accountable body for the £14,773,745 of Levelling Up Funding (LUF) and has put in place grant agreements with government and the Development Company (Ashford International Development Company) to ensure this funding can be secured.

Significant progress has been undertaken on enabling works to prepare the site for development, these include; ecology mitigations; design works; removal of asbestos roofs and soft strip of M&E items; breaking up of hardstanding; archaeology; utilities provision; and drainage works.

Discussions have also progressed with a Studio Operator, the College, and residential investors to put agreements in place to enable the delivery of the scheme.

There are still key challenges and risks for the project, these include, Nutrient Neutrality and the impact of the C G Fry & Son Ltd v Secretary of State for Levelling Up Housing and Communities & Anor High Court case. The requirement to put agreements in place with the Studio, College and Residential interests in the site. The challenge of rising costs and softening values, and the risks of not completing the educational centre within the LUF funding timescales.

Significantly Affected Wards:

The development site sits within Aylesford and East Stour Ward, but the development will have an impact on all areas of the Borough.

Recommendations: **Cabinet is recommended to:-**

- 1. endorse the request made by the Chief Executive to DLUHC for an extension of time to deliver the**

- LUF funded project, and to request further funding through the scheme.
2. note the requirement to submit a project change request to DLUHC for the Ashford International Studios project to enable an extension of time and reviewed scope of the project. This submission will be made by the Chief Executive once the deliverable project scope has been finalised.
 3. note the likely change in scope and scale of the studio space that may require a further planning application.
 4. note the requirement to look at options to deliver the education facility at Newtown Works in terms of both the scale and location of the facility, to enable delivery within the funding envelope and timescales available.

Policy Overview:

Ashford International Studios has the potential to deliver on the ambitions for growth at a local, regional and national level. Within the Council's Corporate Plan 2022-24, 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.

This project helps to directly deliver objective "TG1: Increase productivity and job opportunities and the establishment of sustainable, knowledge based and creative industries in the borough."

Financial Implications

The financial risks for the project through the delivery of the LUF funding have been mitigated through the funding agreements. The funding to Ashford International Development Company is covered through a legal charge against the property, and a clawback provision within the agreement. Funding is also claimed once the works have been carried out.

The MOU with the Department for Levelling Up, Housing and Communities is a Capital Departmental Expenditure Limit (CDEL) grant under a section 50 non-ringfenced transfer (United Kingdom Internal Markets Act 2020).

Officer resources have been put in place by the Council to support the delivery of the development, as well as the administration of the LUF funding.

Legal Implications: The Council has signed an MOU agreement with the Department for Levelling Up, Housing and Communities (DLUHC). The Council has also signed a LUF Funding Agreement with Ashford International Development Company Ltd. The funding agreements impose various legal obligations on the Council in relation to the defrayal of the funding (for example in relation to project outputs and monitoring requirements), which officers are managing as part of the delivery of the project.

As the funding comes from central government, the rules on subsidy control need to be considered. The Council sought external legal advice as part of its funding application in this regard. The Council has subsequently sought advice on the subsidy control risk in relation to setting up the loan with the company and through the share transaction. The project will need to continue to review and monitor any new agreements to ensure the funding continues to be provided in a manner which is compliant with the subsidy control rules.

A critical role for the Council will be to ensure value for money is achieved through the delivery of this development and that procurement of contracts follow the requirements of the funding agreements, along with the Public Contracts Regulations 2015 where applicable.

Risk Assessment Please see section 8 within the report.

**Exemption
Clauses:**

Contacts: andrew.osborne@ashford.gov.uk – Tel: (01233) 330 612

Report Title: Levelling Up Fund, Ashford International Studios, Newtown Works

Introduction and Background

Levelling Up Fund

1. This 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, residential development, education centre, commercial space and hotel, responding to the high demand for Film and TV studio space nationally.
2. Ashford Borough Council has been successful in being awarded £14,773,745 from the government's Levelling Up Fund (LUF) Round 1 to support the delivery of the Newtown Works development scheme that received planning consent in September 2020. The Council signed a Memorandum of Understanding (MOU) with the Department for Levelling Up, Housing, and Communities (DLUHC) in February 2022. The funding is awarded as a Capital Departmental Expenditure Limit (CDEL) grant under a section 50 non-ringfenced transfer (United Kingdom Internal Markets Act 2020).
3. The grant made via the LUF will be targeted towards:
 - a. Addressing the abnormal costs of the development and ensuring the significant heritage assets are restored and brought back into active and sustainable use;
 - b. Deliver site-wide infrastructure which, given the history of the site, is at a level not normally associated with this scale of development; and
 - c. Development of space capable of accommodating new education space linked to the TV/Film production sector.

Project Progress and Funding Delivered

4. Ashford International Development Company are working to secure a number of interests in the site:
 - a. Discussions with a studio operator for the site are being progressed to deliver out 44,000 sq ft of Studio space, alongside ancillary offices and workshops. This good interest from a substantial studio company to help deliver and operate the Studios development is being progressed. Following Full Council's in principle agreement in July 2023 to loan Ashford International Development Company the funding to construct the Film and TV Studios, further due diligence is being undertaken to look at the proposals and risks for Ashford International Development Company and the Council in advance of any loan being put in place. Part of this due diligence will look at the demand for studio space within the UK currently and factors that will affect this in the future. The latest

Knight Frank, leading property specialist, “UK Film and Television Studios Market Report 2023” identifies the requirement for approx. 2.6 million sq ft of additional studio space by 2028, with a growth of £2.4 billion of spend on film and tv production.

- b. In addition, residential interest to purchase some of the 302 residential units is being investigated to de-risk the Locomotive shed development.
 - c. The third interest being taken forward is discussions with the EKC Group over the design and specification of the educational centre for Film and TV within the Newtown Works development. These designs are being developed and costed to seek agreement once a Studio operator is in place. Based on early designs that have been costed and due to both inflation and rising construction costs, the LUF funding does not currently cover all of the costs required to deliver the educational space as originally planned. Discussions are therefore being undertaken to look to apply for further funding or reduce the scope and costs of the development. The current deficit in funding is in the region of £2.1m.
 - d. Finally interest in the Hotel phase of the development is influenced by the delivery of a Studio operator and development. Therefore although early discussions have been undertaken, this is not an area of active promotion at this stage.
5. In advance of the first phase of construction, the development company have been progressing early enabling works. Work started on site in February 2022 to ensure the planning consent was implemented. The following works have been undertaken so far:
- a. All of the professional team have been appointed to take forward the design works for the Locomotive Shed development to RIBA stage 4. Design has been completed to RIBA Stage 3 and the costs are being reviewed to understand areas for value engineering within the project with the substantial challenges to the viability of this development due to rising costs from inflation and rising interest rates, together with the softening of residential values.
 - b. The works have been undertaken for the removal of the asbestos roof on the locomotive sheds along with some soft strip M&E items. The removal of mezzanine structures and some more modern internal walls has been undertaken within the Locomotive sheds.
 - c. Ecology mitigations were undertaken by Aspect Ecology and Greenspace Ecology and included reptile translocation, and bat surveys and mitigation, with the respective conditions discharged.
 - d. The first phases of archaeological investigation have been completed to external areas, and the final stages are currently being undertaken on site, with Canterbury Archaeological Trust working to a “strip, map and sample” methodology. A full report will be available once the works have been completed and the findings catalogued.
 - e. The breaking up of remaining hardstanding to facilitate additional archaeological works has commenced so that these works can be completed over the coming months.
 - f. All of the utilities on site have been signed up with a multi-utility provider who will be project managing this on site.

- g. UKPN off-site works have been signed up with payments made to secure this capacity.
- h. Drainage works have been undertaken as part of the conditions for Building Regulations.
- i. Due to the proximity of the high-speed railway line, all necessary agreements with Network Rail and Balfour Beatty have been entered into. These agreements included a Party Wall Agreement, a Basic Asset Protection Agreement (BAPA) and the associated ASPRO agreement. Relations with all parties are good and progressing as required
- j. Liaison with the South Willlesborough and Newtown Community Council has been ongoing, including an exhibition at their Vintage Summer Event to ensure community engagement on the project.

The Council has received the following funding amounts from DLUHC to cover the period from January 2022 to September 2023.

	Mar 22	Jul 22	Jan 23	Aug 23	Total
DLUHC LUF Funding Received	£500,000	£1,697,981	£1,752,579	£4,691,580	£8,642,140

The amounts of LUF funding paid to Ashford International Development Company Ltd (AIDC) are set out in the table below and include the period up to September 2023: These are outside and Development Loan payments made to AIDC.

	Jan –Mar 2022	Apr-Jun 2022	Jul-Sept 2022	Oct-Dec 2022	Jan-Mar 2023	Apr-Jun 23	Jul-Sep 23	Total
Levelling Up Funding	£128,500	£308,590	£350,550	£1,381,227	£1,686,021	£1,426,164	£857,360	£6,138,412

6. The Council currently has £2,503,728 of allocated funding from DLUHC that has not yet been drawdown by Ashford International Development Company through spend on the development. The balance of funding yet to be allocated from DLUHC for the project is £6,131,605, which will provide funding for the educational space within the scheme.

DLUHC Audit

7. In addition to the assurance and governance reporting to DLUHC by the Council's S151 Officer, the Newtown Works project has also been selected for a Deep Dive Audit by DLUHC, one of approximately 15 projects nationally from Round 1. The Audit was undertaken between November 2022 and July 2023, with a report being provided to the Council in July with the results of the audit, which are set out below:
- a. Governance and Decision Making – The audit looked at the governance and reporting structures that had been set up to report through to members on the project. The audit has recommended that decisions and actions to be clearly recorded in the minutes of all meetings relating to the LUF funding and associated projects. This will include: Cabinet; Trade and Enterprise Board; and Economic Regeneration and Investment Committee. In addition, DLUHC are

looking to provide advice around embedding transparent ways of working for Local Authorities following the completion of the Deep Dive process. The Deep Dive audit also looked at risk monitoring and review, and were happy that sufficient processes were in place.

- b. Counter Fraud – The audit highlighted that the project fraud risk assessment was in place. Recommendations were provided around the recording of Declarations of Interest and Conflicts of Interest within the minutes of meetings and on the Conflicts of Interests register. With the changes to the Economic Regeneration and Investment Committee, these will now be registered within the minutes and transferred to the register for all meetings through the established processes, responding to the recommendations provided.
- c. Procurement- The LUF funding requires the delivery of the project to comply with the Council's procurement processes. Therefore all procurement activities are procured in line with the Public Contracts Regulations 2015, to ensure the funding represents value for money through competitive tendering, but also so that no subsidy can be derived through the procurement process. This has been set out within the Funding Agreement with Ashford International Development Company. As part of the audit process, the DLUHC team have helped to facilitate the registering of the company to use Find a Tender and Contracts Finder, to enable them to comply with the advertisement of procurement opportunities and therefore comply with the required processes.
- d. Subsidy Control and State Aid practices – Further evidence was requested from Ashford Borough Council in terms of compliance with Subsidy Control around the interest rates on any loans provided to the company, and also on the Share Purchase in the company. The Council has provided this further information to the DLUHC team.

Further Deep Dive audits may be required by the DLUHC team moving forward as the project progresses.

Current Risks and Next Steps on the Project

8. There are four key strategic risks for the project to deliver out the Ashford International Studios – Newtown Works Project, including planning and financial viability risks. These are:
 - 1) With the result of the recent *C G Fry & Son Ltd v. Secretary of State for Levelling Up Housing and Communities & Anor* High Court case, that raises the issue of Nutrient Neutrality, this indicates that revisions to the scheme that has planning permission, and/or discharge of some conditions related to the implementation of that planning permission, would be very likely to bring the development within the scope of the nutrient neutrality requirements in the Stour catchment. This would have two fundamental implications, firstly that any revised scheme involving any elements of 'overnight accommodation' would not be able to achieve planning consent until an offsite solution to Nutrient Neutrality is available (no onsite solution is possible on this constrained, urban brownfield site), and secondly delay to the project, and the cost of offsite mitigation, would increase the costs of the

development further, in a situation where value engineering to reduce costs is already required.

2) The requirement to secure the interests in the Film Studios, education centre, residential, and commercial developments in the scheme.

3) The issues surrounding rising costs, inflation, rising interest rates, and a softening of residential values, impacting on the developments viability and the requirement to look at value engineering solutions or additional funding.

4) The delivery of the programme within the required time period for LUF funding by March 2025, means that with rising costs and the requirement to value engineer the scheme, there is slippage to the programme and significant risk to the delivery of the educational facility within the timescales. A change request to DLUHC to extend these timescales through to March 2026 will be required to mitigate this risk, alongside a re-scoping of the project outputs and outcomes.

All of these risks are being monitored by the Ashford Borough Council Officer Working Group, as well as by the Ashford International Development Company Ltd, and reported through to DLUHC on a quarterly basis.

9. Next steps on the project will include:
 - a. Completion of the enabling works to the site, including the ground works, archaeology, utility connections and S278 works.
 - b. Due to the risks around Nutrient Neutrality, slippage on timescales and rising costs, the Chief Executive has written to the Minister for Levelling Up at DLUHC, requesting support to resolve the challenges for this project, including requesting an extension of time for delivery and additional funding to mitigate the rising costs.
 - c. Negotiation of the agreements and due diligence around the Studios development and operation, including reporting this through to the members due diligence group.
 - d. If approved, completion of the loans agreements for the development of the film and TV studios.
 - e. Completion of discussions with the College over the education provision to bring this within scope of the available project funding and timescales.
 - f. Once the detail around the solution to Nutrient Neutrality has been established, progress the designs for the development of the Locomotive Shed and Engine Shed.

Conclusion

10. Although there have been some significant delays to the original programme for this development, substantial works has been undertaken during 2022/23 and 2023/24 to get early enabling works undertaken, and a more detailed delivery programme for this development. Considerable work has also taken place in progressing interest within the Film Studio, education, and residential developments. The loan agreement is in place for delivery of the first phase Locomotive Shed, and following the Full Council decision in July, the due diligence is now being progressed for the loan facility for the Film and TV Studios Investment, alongside the agreement of Heads of Terms with an

operator. The next six months will be critical in getting the agreements and contracts in place to enable the start of construction on the Film Studios to take place next year, alongside the submission of a change request to DLUHC over the timescales and scope of the remaining delivery of the LUF funding.

Portfolio Holder's Views

11. “ Although the project is facing the challenge of being caught by nutrient neutrality rules resulting in delay to the delivery of the residential units, the Knight Frank property market report stating that 2.6 m sq ft of new studio space is required to meet pent up demand from occupiers is very encouraging.

The opinions expressed in the Knight Frank report have also been echoed by both Sky and the BBC. Sky believes that the British Media and entertainment industry could be worth £53.0 billion by 2033. Sky is also calling on the U.K. government and local authorities to embrace the economic and employment potential of the UK screen sector and streamline the planning processes that can bring this pipeline to fruition.

In a recent article, the BBC stated that the demand for UK studio space has increased dramatically. It reports that Pinewood Studios intends to build 21 new sound stages at its site in Buckinghamshire at a cost of £800m, while at Leavesden, Warner Bros wants to build 11 new stages, along with production offices and workshops.

It is therefore important that the Council continues to support the delivery of this very important project for the Borough.”

Cllr Simon Betty, Portfolio Holder for Economic Growth and Investment

Contact and Email

12. Andrew Osborne, Head of Economic Development, Email: andrew.osborne@ashford.gov.uk