

# Cabinet

4 October 2016



**Report Title:** Grant agreement for Hengrove Park and The Bottle Yard Studios

**Ward:** Hengrove

**Strategic Director:** Barra Mac Ruairí / Strategic Director: Place

**Report Author:** Robert Orrett / Service Director – Property  
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## Purpose of the report:

1. Enable the success achieved with The Bottle Yard Studios to be continued into the medium term.
2. Resolve repair needs at The Bottle Yard Studios to support continued growth in activity and revenue.
3. Relieve the Council of an existing £8.5m balance sheet liability linked to previous infrastructure delivery at Hengrove Park.
4. Conclude a revised grant agreement aligned to housing delivery priorities.

## Recommendation for the Mayor's approval:

- 1 To note the significant contribution of The Bottle Yard Studios (TBYS) facility to the City Economy and employment in South Bristol
- 2 Approve the continuation of The Bottle Yard Studios operations as a 'going concern' with a review of its Governance arrangements





### **Recommendation for the Mayor's approval (continued):**

- 3 To agree that the Council will merge the existing two grant agreements with HCA relating to land known as Hengrove Park and land known as Constellation/The Bottle Yard Studios into a new single consolidated grant agreement with HCA.**
- 4 To authorise the Strategic Director: Place to approve the completion of the new grant agreement and to resolve any other issues in the terms of the new agreement including land ownership issues within the scope of the defined land area, where the agreed purchase price of the land contained in the new licence agreement is in excess of £500,000, subject to:**
  - a. Briefing of the Cabinet Member for Place on due diligence, detail of the grant agreement and legal arrangements, and the contribution of the grant agreement to the overall regeneration and economic growth in the area.**
  - b. Advice from the Service Director: Property recommending the terms of the grant agreement and any other property implications that might affect the Council's interests as a result of the new agreement.**
- 5 To approve the investment of capital funding of £692k for essential renewal and improvements protecting BCC reputation and enhancing business potential.**



**The proposal:**

The Bottle Yard Studios (TBYS) was established by the Council in 2010. When the studios were established it was as a meanwhile use in a huge redundant complex of warehouse and tank house buildings. The use was a response to the BBC Casualty series moving from Bristol to Cardiff, aimed to help mitigate the impact of reduced jobs and economic activity in the TV & film sector for the city.

At the time, the use was a temporary use of buildings owned by the Council by means of a grant arrangement with the Homes and Communities Agency (HCA). The grant was linked with a grant arrangement by the regional development agency to the previous owners of the site and buildings – Matthew Clark/Constellation – which secured a commitment to keep their new business activity located in the Bristol area. A consequence was that the freehold of their old site and buildings at Whitchurch Lane was transferred for a temporary period up to March 2017 to the Council to manage. The expectation at the time was that by that time the HCA would have established arrangements for the costly demolition and site clearance project that would release this land for regeneration.

TBYS has been much more successful than anticipated when the original grant agreements were completed. It has become the largest dedicated film and TV studio facility in the West of England. It opened in 2010, transforming a disused industrial space into a vibrant and busy creative hub for production. It now offers a total of 300,000 sq. ft. of flexible production space. Recent successes include filming of Poldark, Wolf Hall, Sherlock and Galavant.

The Council has also worked with Matthew Clark to enable their local office centre to continue to be accommodated at the property.

The current grant agreement requires that ownership of the property is wholly transferred to HCA for nil consideration, bringing the grant agreement to an end. The HCA would then implement the demolition and site clearance.

Cabinet is requested to confirm the commitment to continue to operate and develop TBYS in the medium term, and work with Matthew Clark to provide stability for their local operations. HCA has agreed in principle to commit to permanent ownership of the property by the Council, in return for an independently assessed market value of the property, assuming vacant possession.

With the commitment to continue TBYS, there would be an early investment of £692k of capital funding. This would provide extra office accommodation generating income from conversion of currently unusable / under used areas of the site.

Separately, a grant agreement was entered into by the Council with HCA linked to the funding contribution by HCA for phase 1 infrastructure development at Hengrove Park. The terms of that agreement oblige the Council to repay £8.5m of grant to HCA in 2020. This absolute repayment obligation is provided for in the balance sheet of the Council. However, it operates in a very blunt manner which no longer aligns with the current situation and the purposes of HCA, which is the Government Agency charged with helping create successful communities by making more homes and business premises available to the residents and businesses who need them.

HCA have agreed in principle to enter into a revised grant arrangement for Hengrove Park which promotes the Government commitment made when they approved the South Bristol Housing Zone. This is one of one of 10 housing zones across the country. These first flagship housing zones in England - to help provide thousands of new homes across the country, have been established, where it will be easier and quicker to

build new homes on brownfield land. The revised grant agreement will translate the current set repayment burden to a basis where the grant repayment will be made as land release for development progresses.

The two existing grant agreement will be replaced by a single new combined agreement. The aggregate of the Hengrove grant commitment and the agreed market value for TBYS will be repayable by the Council to HCA as a share when land receipts are delivered alongside development at Hengrove Park. This will enable the liability to repay the £8.5m from the Council's accounts.

## **BACKGROUND**

### **The Bottle Yard Studios/Constellation site**

#### History

The site of the Bottle Yard Studios (TBYS) formerly operated as the offices, bottling plant and distribution centre for Harvey's then Matthew Clark/Constellation. Around 300, mostly local people were employed by the bottling process. The bottling facility closed in 2005, losing the 300 jobs and leaving void space in excess of 350,000 sq. ft. The site was threatened with complete closure in 2006 following the takeover by Constellation Europe who proposed relocation of the business outside of the Bristol area.

The whole site was purchased in 2007 by Bristol City Council using Homes and Communities Agency funding allowing the office operations on site to continue and helping to secure around 420 local jobs. The bottling premises stood empty representing a liability of around £330k plus rates payable of £154k per annum.

In 2010, the medical TV drama series, Casualty, which had filmed in Bristol since its inception in 1986 departed the City for Cardiff in 2010 threatening significantly to impact Bristol's economy.

In response to the Casualty departure and to use the vacant property, The Bottle Yard Studios (TBYS) were opened in in 2010 as an experiment seeking to restore lost employment and contribute to the City economy. The following six years have seen year on year growth. TBYS now contribute to the City Economy and Cultural Offer (media and arts) - £16.8m pa. Having started as a 'meanwhile' use, the facility has now developed into the second largest UK film production facility.

A business plan prepared with support from specialists Olsberg SPI outlined future options for TBYS with growth forecast over a 10 year period. Starting from nothing, TBYS have grown to eight sound stages, ancillary offices and workshops and produced a £155k financial surplus in 2015/16 financial year with growth having accelerated as the Site Director became full-time and with the benefit of the opportune introduction of UK Government Tax Incentives.

#### Current position

Through its intervention, the Council secured the 420 Matthew Clark/Constellation office jobs on site with film making now providing an estimated additional 327 FTE jobs including those of 17 permanent tenants, over two dozen storage tenants and an average of three "visiting productions" using the studio space. Within the filmmaking supply chain it is estimated that a further 900 jobs are supported. In all, as currently operated, the facility supports employment levels 50% higher than its heyday in its original use.

TBYS supports training and development of media related people. In 2015/16, 35 trainee posts were created. TBYS have close ties with local schools and FE institutions.

## **Hengrove Park land**

### History

Once the location of the original Bristol airport, the land known today as Hengrove Park has remained in Council ownership. Substantial redevelopment of the original site has taken place over the years, but of the original site almost 50 hectares remain available for development, making it the largest regeneration site in the city.

Hengrove Park received outline planning consent for mixed use development including a public park in 2005. This was not implemented and eventually became superseded by what became known as Phase 1 including Leisure Centre, Hospital, College, development plots and associated infrastructure. The site is allocated for housing (an estimated 1000 new homes), offices and open space in the form of a large high quality public park.

Hengrove Park Phase 1 delivery took place between 2008 and 2012 at a cost to the Council of circa £20m funded primarily by Council capital programme and an £8.5m grant from HCA. The grant is repayable in 2020 if the Council fails to deliver comprehensive development on the remainder of the site (see summary of main grant conditions below).

### Current position

A feasibility study on the delivery of the sites within the South Bristol Housing Zone is now underway and expected to be completed in autumn 2016. The feasibility study will identify the number of homes that can be delivered within the zone and programme for delivery. Entering into the new grant agreement with the HCA will support and facilitate the delivery of housing at Hengrove Park.

## **Grant Agreements**

There are currently two separate agreements for grants between the Homes and Communities Agency (HCA) and Bristol City Council (BCC). Each of these agreements reflects the expectations from the time that they were entered into. The passage of time, and changes in intentions mean that each of the current agreements presents significant difficulties for BCC. Engagement with the HCA, and their general supportive partnership for the prosperity of the city, has enabled us to agree principles for a new single grant agreement to replace the two current agreements.

## **Current Agreements**

### Hengrove Park

The existing agreement is dated 23 February 2010 and relates to grant provided for infrastructure works for Phase One of Hengrove Park. The scope relates to the whole Hengrove Park area (phase One and Two).

Key provisions:

- Grants received           £8,500,000
- Purpose of grant was to help fund design and construction of infrastructure and public realm works serving Phase One.
- Progress – the works were all implemented, infrastructure and public realm works that enabled the development of Phase One. Using this infrastructure, a Community Hospital, Leisure Centre and Skills Academy have been delivered. A developer has been secured to deliver over 200 homes on the remaining Phase One land.

- Repayment of the Grant Funding amount is due by BCC to HCA by 31 March 2020 unless all delivery milestones have been achieved.
- Delivery milestones include Phases One and Two. There are numerous milestones relating to masterplanning, developer appointment, plot disposal and building construction and phase completion.
- Phase Two progress has been substantially delayed for reasons including Town & Village Green proceedings, economic weakness, changes in delivery approach. There is no realistic prospect that the phase could be completed before the final milestone date.
- Hengrove Park is being progressed as part of the South Bristol Housing Zone, with HCA support. The parties both recognise the benefit of entering into the revised grant agreement that will secure repayment of this grant amount linked to delivery of the Hengrove development.

### TBYS

The existing agreement is dated 30 March 2007 and varied on 31st March 2010. It relates to a property described as Land and Premises at Whitchurch Lane. This comprises the entire site including TBYS and the offices leased to Matthew Clark Wholesale.

#### Key provisions:

- The grant of £8.6m enabled purchase of the freehold by BCC from Matthew Clark using funds provided by way of grant by HCA.
- The freehold of the property is owned by BCC subject to obligations to HCA regarding management, disposal or transfer to HCA.
- HCA may require BCC at any stage to sell the property and transfer all sales proceeds to HCA. up to the amount of the grant (£8.6m).
- On 31 March 2017, BCC is required to transfer the property to HCA for nil consideration, bringing the grant agreement to an end.

#### **The Grant Agreement Proposal:**

Two existing grant agreements between HCA and the Council, separately concerning Hengrove Park and TBYS to be replaced with a new single grant agreement which will enable:

1. The regeneration of the Hengrove Park land, which is fundamental to achieving the strategic housing and economic regeneration objectives;
2. BCC to retain permanent freehold ownership and control of TBYS site;
3. Deferment of the land cost payment by BCC for the Constellation/TBYS land and buildings (agreed price £600k). The price is based on the market value of the whole property based on it being fully vacant.
4. Release of the Council's existing balance sheet provision of £8.5m which covers repayment due under the current Hengrove Park upon completion of new agreement;
5. HCA to recover the same amount (£8.5m plus the deferred price for TBYS) by receiving 50% of future Hengrove land sale receipts until the total is paid down in full.

## **The Operational and Investment Proposal:**

While the facility has enjoyed year on year growth, its prospects have been constrained by the limitations of ageing and energy inefficient buildings. As a continuing 'meanwhile' use, long term investment has been avoided and short term spend has necessarily been elevated. The success of the facility, its prospects for future growth and its importance to the City and the Regional economy leads us now to recommend that the 'meanwhile' status is formally lifted to allow investment in future growth as a 'going concern'. Investment required falls into two categories:

1. Strategic renewal of building fabric and services – roofing, data infrastructure, replacement of fire alarms systems which remain operable but beyond future repair, and the provision of disable toilet facilities.
2. Creation of additional office space with IT infrastructure needed for 2016/17 to support additional visiting productions.

£692k of capital funding is required. The extra office accommodation will increase lettable space and generate income from conversion of currently unusable / under used areas of the site. With investment, a surplus of £100k is forecast for 16/17, £63k for 17/18 and £139k for 18/19. The facility typically over performs its financial targets.

It is proposed that this investment is funded from the £8.5m balance sheet provision that will be released. Finally, it is proposed that the governance arrangements for the facility be reviewed in light of the continuing commitment to TBYS.

## **Consultation and scrutiny input:**

### **a. Internal consultation:**

Regular briefings are held with the Mayor, Deputy Mayor and Cabinet Member for Place

### **b. External consultation:**

Downstream development at Hengrove Phase 2 is currently being master planned. Proposed governance arrangements for the Bottleyard will be consulted upon with industry and other stakeholders. The Homes and Communities Agency (HCA) has been heavily involved in the formulation of the subject proposal.

## **Other options considered:**

1. Decline to extend Bottleyard meanwhile use status. This would potentially mean the loss of all current employment on site and large capital costs to either re-let the site to an alternative occupier or the undertake land remediation (around £3.5m) to allow redevelopment. The broader economic benefits of Bottleyard activity would be lost to the City.
2. Other sites – relocate the Bottleyard activity to an alternative site. The Council does not own suitable alternative accommodation and removal costs would be significant.

**Risk management / assessment:****FIGURE 1****The risks associated with the implementation of the (subject) decision :**

No.	RISK  Threat to achievement of the key objectives of the report	INHERENT RISK (Before controls)		RISK CONTROL MEASURES  Mitigation (i.e. controls) and Evaluation (i.e. effectiveness of mitigation).	CURRENT RISK (After controls)		RISK OWNER
		Impact	Probability		Impact	Probability	
		1	The new grant agreement cannot be completed in line with the principles of the currently proposed deal		High	Low	
2	The proposed works to TBYS incur greater cost than anticipated as repair to older buildings are difficult to predict	Medium	Medium	Adjust scope of works to contain within agreed cost budget			Howard Swift

**FIGURE 2****The risks associated with not implementing the (subject) decision:**

No.	RISK  Threat to achievement of the key objectives of the report	INHERENT RISK (Before controls)		RISK CONTROL MEASURES  Mitigation (i.e. controls) and Evaluation (i.e. effectiveness of	CURRENT RISK (After controls)		RISK OWNER
		Impact	Probability		Impact	Probability	
		1	The HCA requires TBYS to be sold after March 2017		High	High	
2	The Hengrove Park grant monies (£8.5m) need to be repaid by BCC to HCA in 2020	High	High	The existing contingent sum of £8.5m is retained within BCC finance to meet the obligation	High	High	Richard Fear/s151 Officer

**Public sector equality duties:**

There are no proposals in this report which require either a statement as to the relevance of public sector equality duties or an Equalities Impact Assessment. An Equalities Relevance review will be undertaken and an Equalities Impact Assessment undertaken as appropriate before the proposal is allowed to proceed.

**Eco impact assessment**

1. There are no environmental impacts associated with transfers of finances and liabilities. Works to improve the site will increase emissions and waste production. Increasing the use of the site will increase emissions of carbon and air pollution, travel, and waste production on the site on an ongoing basis. It should be noted that these impacts will be offset at least partially by the increased energy efficiency of the buildings in use. Since some of the major production companies are using Albert and Albert+ methodologies to measure carbon emissions associated with productions, this may improve the attractiveness of the Bottle Yard Studios.
2. These increased impacts will be mitigated by consultation with the council's Sustainable City and Climate Change team, Energy Service, and Conservation team and implementing agreed measures. A travel plan will be written, or an existing one modified to allow for increases in traffic flows on and off site. A site waste management plan will be written and implemented during works. Asbestos will be



handled in accordance with the council's Asbestos Arrangements document. Ongoing management of environmental impacts from the site via the council's certified environmental management system will mitigate any additional impacts.

The net direct impact of the proposals is likely to be negative, but minor.

**Advice given by:** Giles Liddell  
**Date:** 12 August 2016

#### **Resource and legal implications:**

#### **Finance**

##### **a. Financial (revenue) implications:**

The Bottle Yard Studio is forecasting an in-year surplus of £100k for 16/17. The proposed capital investment will enhance the ability for future revenue generation.

**Advice given by:** Tian Ze Hao / Finance Business Partner  
**Date:** 18 July 2016

##### **b. Financial (capital) implications:**

The proposed investment in The Bottle Yard Studio (£692k) mainly consists of capital expenditure. The funding options have been identified as follows:

**Option 1:** A combination of The Bottle Yard site remediation fund and a contribution from the Place Development Earmarked Reserve up to £192k. Current available balance on remediation fund is £251k, and an additional 16/17 part year contribution from tenant is circa £50k. (It was agreed as a part of the tenancy agreement with Mathew Clark Ltd that the tenant will make an £100k p.a. contribution to the remediation fund over the 5-year contract period up to a maximum sum of £500k.)

**Option 2 (preferred option):** the proposal seeks approval for a new combined grant agreement with the HCA aggregating the previous Hengrove grant commitment (£8.5m) and the market value for The Bottle Yard Studio, which is to be repaid by the Council when land receipts are delivered alongside the development at Hengrove Park. This new grant agreement would give rise to the immediate release of the £8.5m long-term grant liability under the previous grant conditions. It is proposed that the Bottle Yard capital works (£692k) would be funded by part of this reversal.

**Option 3:** Funded by prudential borrowing and repaid by the surplus generated by The Bottle Yard Studio going forward, minimum payback period is 7 years.

**Advice given by** Tian Ze Hao / Finance Business Partner  
**Date** 18<sup>th</sup> July 2016

##### **c. Legal implications:**

As it stands the report is directed at primarily consolidating the two existing grant agreements and dealing with the consequences of that, and in principle, there should be nothing problematic in doing this. We will of course need to look closely at the terms of the new grant agreement.

**Advice given by**      **Eric Andrews, Senior Solicitor**  
**Date**                      **11 August 2016**

**d. Land / property implications:**

The position in relation to the future of TBYS needs to be resolved as the existing grant agreement with HCA commits the parties to the current use through BCC ending in March 2017. BCC commitment to continued film studio use needs to be supported by an appropriate regime of works to deliver repairs and refurbishment. The replacement of the two existing grant agreements by the proposed consolidated agreement will enable the Council to release the provision it holds for the liability to repay the £8.5m grant on Hengrove Park. That amount and the asset value for permanent ownership of TBYS will be payable to HCA contingent on future land sales receipts at Hengrove Park, linking repayment to future outcomes.

**Advice given by**      **Robert Orrett, Service Director – Property**  
**Date**                      **24 August 2016**

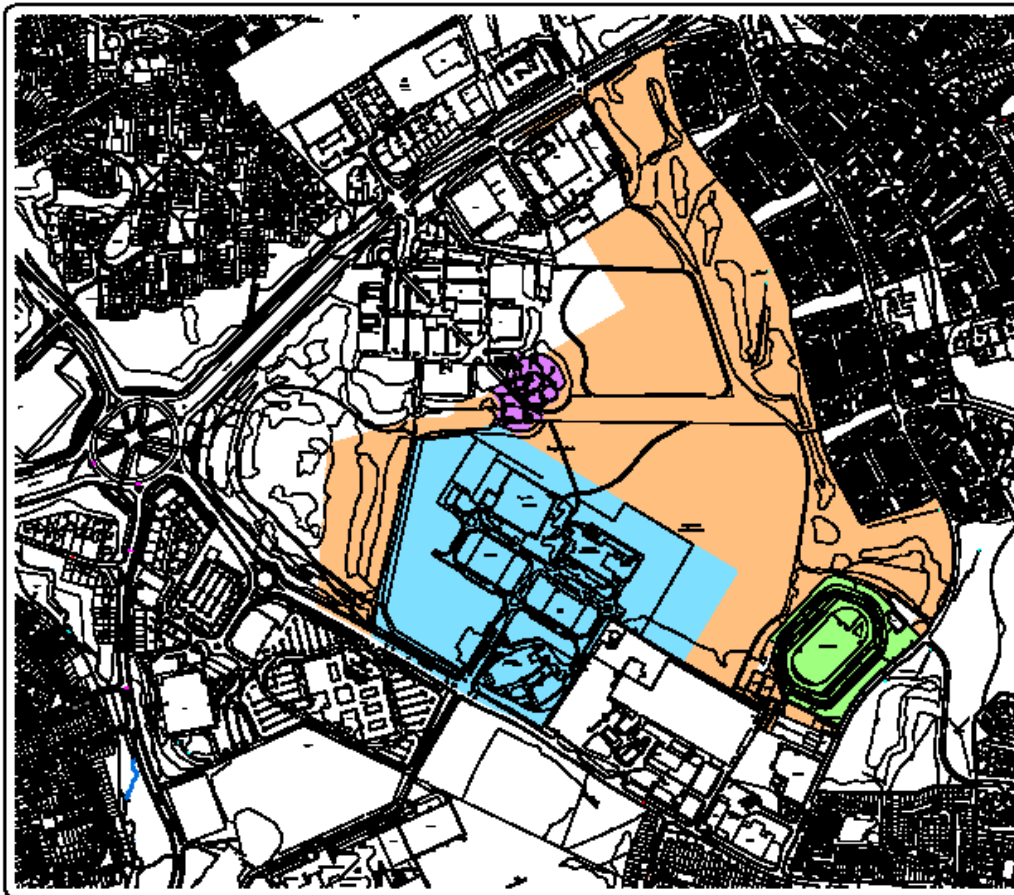
**e. Human resources implications:**

The City Council delivers its mission on the Bottle Yard site under contract through Purcell Partnership Limited. No staff on site are employees of the Council. A single Project Manager, an employee of the Council, oversees facility management and development on site alongside other projects. The subject proposal would have no impact on the status of that employment.

**Advice given by:**      **Mark Williams, People Business Partner**  
**Date:**                      **9 August 2016**

**Appendices:**

Appendix 1 – Site Plan



**Various sites at Hengrove Park**

- Hengrove Park Phase 1
- Hengrove Park Phase 2 site area
- Whitchurch Athletics Track
- Hengrove Park Children's play area

NOTE: Plans to extend boundary enclosure, please refer to book.

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We hereby declare that the information contained in this document is true and correct to the best of our knowledge and belief and that we are not aware of any material omissions or misstatements of fact. This document is intended to provide information only and does not constitute an offer of any financial product or service. It is not intended to be relied upon in making any investment decision. It is not intended to be used for any other purpose.

**PROPERTY**

Plan No : N6974a  
 Prop ID Ref : 125214 (part)  
 Polygon Ref : 103839 (part)  
 Scale : NOT TO SCALE  
 Date : 10/08/2016

  
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