

SOUTHWOLD TOWN COUNCIL



Mrs. L. Beevor
Clerk of the Council

Town Hall
Southwold
IP18 6EF

15th November 2019

Chairman
Southwold & Reydon Society

This letter addresses questions raised by the SRS regarding Southwold Town Council's acceptance of a Coastal Communities Fund grant of approximately £1 million to redevelop Station Yard as the Southwold Enterprise Hub and establish an Economic Development Team to help all businesses in the Town.

At the time of the application, SRS, which is a member of the Coastal Communities Team that applied for the grant, was fully supportive of a scheme which did not include a garage as evidenced in the letter, set out in full below.



SOUTHWOLD AND REYDON SOCIETY
Protecting the character and amenities of Southwold & Reydon

14 Jan 2019

To Whom It May Concern

Dear Madam/Sir,

Application to Coastal Community Fund for Southwold Projects

I represent the Southwold and Reydon Society on the Southwold and Reydon Coastal Community Team. Our amenity Society, with some 400 members, has contributed to, and fully supports, the priorities of our Coastal Community Team. To ensure that Southwold remains economically viable and has a sustainable local community, it is essential that we do all we can to maintain the prosperity and vitality of the Town Centre, both the High Street and the nearby Arts and Leisure facilities, and we ensure that the range of employment available in the town extends beyond tourism, hospitality and harbour-related work and includes higher value sectors such as design and information technology. The evidence for Southwold's potential to develop as a local hub for design and IT is supported by the work of Tech East and two recent developments of small business unit premises by local builders confirms that businesses are ready to occupy suitable premises.

The Southwold CCT application to the CCF directly addresses both these objectives. Development staff to lead and support the Town Centre, including extending the programme of visitor attractions to cover the whole year as well as supporting the local businesses in marketing etc, will make an immediate and long-term difference to the economic and social life of the town, including the engagement of visitors in what is on offer. The capital scheme to redevelop the Town Council's site at Station Yard to include a flexible range of business units will contribute to employment generally but also, crucially, to diversification of the employment mix.

I hope that you will see the considerable merits of this application and recognise that it is a key part of a well-thought out strategy to maintain the viability of our coastal community. I urge you to award the funding for which Southwold CCT is applying.

With best wishes,

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Now that the grant has been awarded, and accepted, SRS believes that the scheme should, desirably, be amended to include a garage. Herewith are detailed answers to many of your questions set out under topic headings, for the sake of clarity.

Changes in use between the planning application consultation and the grant application

One of the pre-requisites for making a successful CCF grant application was to obtain planning permission for the redevelopment of Station Yard. STC's consented planning application was for a design based on four different types of uses – majority office space (10 units); a small café; 2 two bed flats; and three retail units. The Town Council agreed to this mix of uses based on its 2017 Town Strategy aligned to the continuing uncertainty of redevelopment plans for the Police/Fire Station site.

The CCF is a highly competitive grant, involving a long process (2.5 years), with multiple stages that include submitting an Expression of Interest, and, if this ticks enough boxes, the applicant is invited to make a full application.

After the planning consultation was completed, CCT learned that its Expression of Interest had been accepted. Within a short time, the CCT had to make a full application. This required the Town Council to develop a robust business plan for a financially sustainable scheme at Station Yard that would meet the CCF's specific decision-making criteria.

One of the initial tasks in connection with this was to assess the proposed uses in the planning application against: i) the strategic priorities of the Council; ii) the needs of the Town as identified through multiple consultations between 2012 – 2018 and; iii) *critically*, the priorities of the Coastal Community Fund grant scheme.

Job creation, higher value jobs; the capital cost of generating jobs were thus key priorities, as was the need to ensure the financial viability of the Enterprise Hub.

This is the analysis of the research:

- i) There was little apparent need for additional retail outlets in town. Moreover, retail shops create few jobs and fewer higher value jobs. (A higher value job does not mean a high status job; it means a job that, among other things, does not pay minimum wage or involve a zero hour contract).
- ii) The café/fast food outlet replicated other services provided in Town and would compete directly with the existing convenience store and the Blyth Hotel, putting jobs at risk.
- iii) The first-floor residential units did not generate any jobs or offer a good return in terms of rental. Equally, creating affordable housing was no longer the highest priority. Duncan's Yard and the Blyth Road houses have delivered 24 additional affordable housing units; the old hospital site will be delivering an all affordable scheme of 9 units; and Hastoe Housing Association is working with Suffolk County Council to develop primarily affordable housing on the old Fire Station site.

The results of this analysis led to reconfiguring the development scheme to increase the number of business units from 10 to 15, eliminate the café and housing, and reduce the amount of retail to one convenience store.

The grant application explained this and the need to change the planning consent on the mix of uses. Please note that advice has been sought and the view is that there is no apparent reason for the request to be refused.

Financial viability of a garage scheme

The CCT's grant application for the Southwold Enterprise Hub and Development Management Team was not immediately accepted. Instead, it was put on a reserve list.

The viability of several schemes, including two scenarios that would retain a garage, were considered. Costs were compared, together with the number of jobs that might be created, and how many would be higher value and the capital cost of creating each job, and their Net Present Values (NPV). The outcomes are set out in the Slide below.

What alternatives were considered?

- 6 options were considered. Of these, 4 are sufficiently different to compare.

<p>Southwold Enterprise Hub</p> <p>Cost: £2.8m Grant: £809k Jobs: 73 HV: 66 Capital cost/job: £38k (£27k with grant) NPV: £525,131</p>	<p>Business units & retail</p> <p>Cost: £2.8m Grant: 0 Jobs: 62 HV: 52 Capital cost/job: £45k NPV: -£498,430</p>
<p>Building 1, existing shop, new garages</p> <p>Cost: £1.64m Grant: 0 Jobs: 19 HV: 11 Capital cost/job: £89k NPV: -£963,378</p>	<p>Rebuild garages & workshops</p> <p>Cost: £749k Grant: 0 Jobs: 8 HV: 5 Capital cost/job: £96k NPV: -£531,889</p>

The NPV is a standard measure used to evaluate the rate of return on different types of investments. An NPV of zero (0) means that an investment covers its operating costs. A negative return means that the investment generates losses.

It is important to note that a local authority would not be justified in investing in a loss making Enterprise Hub. It might be able to justify an investment if this delivered a public benefit.

The bottom half of the slide shows the two scenarios STC considered for rebuilding a garage on the site. For both scenarios, there would be a **negative NPV** of, respectively, nearly **minus c £1 million** and **c £0.5 million pounds**. In addition,

- the garage would have to relocate for the period of construction (around 15 months);
- the rent of the new garage would be 2-3 times the normal market rent of a garage due to the high building costs.

Why would the building costs be so high? Because STC would still have to decontaminate, the design would still have to be high specification because of its prominent location in the Conservation Area and the AONB. (See specific Design and Conservation Officer's report on the ESC Planning Portal).

It has been suggested by some that a garage be left in situ, and repaired, with a five year extension of the lease. Page 12 of the Business Plan explains why this is not an option.

"All of the buildings are of poor design and constructed with low-grade materials. The garage buildings have no long-term future, as they are clad in asbestos panels, and are in a very poor condition, partly because no significant maintenance work can be undertaken on them because of the presence of asbestos. It is likely that, even if the lease were to continue, occupation of Station Yard would no longer be safe, and the Council would be forced to 'mothball' the site, ie secure both the buildings and the site itself, to prevent public access. "

In summary:

- A garage scheme would have a negative NPV, meaning that it would be a loss making investment;
- The tenants would still have to move out whilst the Town Council remediates contamination and demolishes the garage structures, which have reached the end of their life;

Artisan/Creative Workshop Spaces

Like a garage, workshops require affordable rents that cannot be delivered on this site because of the design and decontamination build costs described above. The Town Council is looking at other sites around the Town which could be developed for these types of employment.

Tenants

All tenants of the Town Council are important and we acknowledge that all of the independent businesses in town are struggling and under stress. One of the responsibilities of the Economic Development Team Manager will be to work with all businesses, including Station Yard's tenants, to help them meet their challenges. The CCT has just begun advertising for this role.

Decontamination

The planning application required a desk top survey to assess the likelihood of contamination. The planning consent is conditioned on further detailed studies and remediation.

It is important to note that having identified contamination, as expected, in the desk top surveys, remediation of the contaminated land is unavoidable regardless of whether any development takes place.

Decontamination is a routine problem in the UK because most development is on brown field sites. Richard Uttings Associates, a reputable national quantity surveyor, developed the construction costs based on detailed specifications. The site clearance costs take into account the confirmation of contamination on the site. Any unexpected decontamination costs could be covered by the 15% contingency fund (£370,000). Early surveys, along with additional decontamination information including that from the 2004 works on Hurren Terrace, will help to scope out the risks, detailed costs and timescales. Worst case scenario, we would increase the contingency fund somewhat *but it would not be so much as to need to stop the project*. It should also be borne in mind that the Town Council has landlord responsibilities with regard to the decontamination on the site, regardless of any project proposal.

Evidence of demand in the Business Plan

The business plans are evidence-based. They rely on extensive research conducted over many months, as well as direct input from those locally who are involved in the commercial property market and who represent small businesses in the region. The CCT fund providers sought an evidence led business case to consider and support the application.

The rate of £27/sq ft covers not only rental, but heat, light, security, broadband (and potentially telephone services too, depending on the specific provider selected), business support/tuition and networking, waste services, grounds maintenance. There is no inclusion of any repair requirements in the leases, which will all be short-term, as recommended by business representatives. This is a competitive rate, and works out on average at £9 per weekday per person. Note that when you compare this with other sites, they tend to use a per day rate (for the Enterprise Hub this is £6 on average).

STC is confident that the rate is reasonable, because the SouthGen Old Hospital site separately undertook extensive research as part of their business planning, and have priced their dedicated desk package at £150 a month. This fits with co-working hubs around the country and is undoubtedly an affordable rent. It is also in line with two of the smallest units in the Enterprise Hub.

The assessment of demand aligns with the findings of the SouthGen scheme and is supported by data provided by the East Suffolk Development team and Suffolk Chamber of Commerce. Start-up, micro and small businesses are a thread running through the East Suffolk economy. The trend towards self-employment and small scale businesses is a national phenomenon and increasing along with the demand for affordable, flexible work space. Commercial property developers are not satisfying this demand. In Southwold, STC and SouthGen are stepping in to fill this gap.

The SouthGen scheme and the Station Yard scheme serve different business markets but are complementary. SouthGen is offering temporary, serviced, shared work space where a desk can be hired as needed. Its market is solo workers and entrepreneurs moving from a make-shift setting to an office environment. Some of these businesses will outgrow SouthGen and, if no other business office space is available, they will leave the Town, a huge waste in investment, and one that the Town cannot afford.

Risk Analysis

Pp 36-38 of the Business Plan sets out the sensitivity analysis (risk assessment). The chief risks are slow take up/depressed demand and rental rates. Modelling shows that the hub would generate a healthy return on investment even with depressed take-up and lower rents.

We could potentially reduce the rent at the Enterprise Hub to £17.10, the lowest to achieve a positive return on the investment, but this is not a desirable option. It would under-cut SouthGen, whose co-working and nursery income subsidize an affordable rent for the library, and would be conflict with the Town's commitment that Station Yard should add value to the Town's economy and support and enhance community services.

If, after proactive marketing, it turns out that demand for business space has been over-estimated, then the space could be converted to retail or workshops at low cost without losing the CCF grant provided.

Requests for Additional Documents

The Town Council will continue to make public relevant documents as they become available.

Richard Uttings has advised that the Cost Plan should not be released as this is considered commercially sensitive at this pre-procurement stage.

Conclusion

The Town Council understands that it could do a better job of communication on all matters affecting the Town. It is working on a proactive communication strategy and it has begun the process of hiring a Project Manager – one of his or her responsibilities will be to provide the community with regular up-dates on the Station Yard project.

SRS can play a valuable role in this project by regularly attending Town Council meetings, helping to spread the word about the Town Council's work, initiatives, and in providing updates on the work of the CCT. Indeed at the Town Council meeting on Thursday evening members of the public were asked if anyone might like to assist communication. Maybe some of your members would be willing to put their names forward and get in touch in this regard?

Finally, it is important that the whole community recognises the success of the Coastal Community Team in bringing in funds to the Town. It is no mean feat for a Town the size of Southwold to receive such large sums as under:

CCT Economic Plan	10,000
Station Yard/ Town Development Team	995,000
Boating Lake Feasibility Study	15,000
Arts' Centre Seating	35,000
Millennium Foundation Visitor Centre	108,328
Town Centre Strategy	9,630