



**CAMBRIDGESHIRE
& PETERBOROUGH**
COMBINED AUTHORITY

Agenda Item No: 2.4

iMET Opportunity and Combined Authority Accommodation needs

To: Cambridgeshire and Peterborough Combined Authority Board

Meeting Date: 25 August 2021

Public report: Yes

Lead Member: Mayor Dr Nik Johnson

From: Roger Thompson – Director of Housing and Development

Key decision: Yes

Forward Plan ref: KD2021/054

Recommendations: The Combined Authority Board is recommended to:

- a) Consider a potential opportunity to make an offer of £3.15m (or more) to acquire the freehold interest of the iMET centre at Alconbury Weald with a view to the CPCA occupying a significant part of the space for its own office occupation and use.

Or

- b) Consider instructing a market search exercise for other potential opportunities to secure office space to meet CPCA's future office needs, including understanding the potential space availability from property assets owned or leased by the CPCA constituent council's and other public sector agencies or bodies. Output to be reported back to the Board with options for consideration.

Voting arrangements: A simple majority of all Members present and voting

1. Purpose

- 1.1 This paper is to advise the Board of the latest position on the iMET Building where an offer has been received from a local business following a marketing exercise that was instructed in November 2020.
- 1.2 More recently the Combined Authority (CPCA) has looked to see if the building might offer a solution to its own office accommodation requirement and use.
- 1.3 Alternatively, the CPCA might consider instructing a market search for the availability of other potential premises to meet CPCA's future office needs. If instructed, results of that search would be reported back to the Board at a future date.

Choice Between Proceeding with Market Sale and Potential Opportunity for CPCA to Offer to Acquire the iMET Centre

2. Background

- 2.0 The Business Board approved in Nov 2020 the principle of partial recovery of the Local Growth Fund (LGF) investment of £10,502m in the legacy project design and build of a vocational training centre at Alconbury Weald and to recommend an approach to dispose of the iMET to recover funding.
- 2.1 Following the LEP investment in this project in 2016, ownership and management of the iMET Centre transferred to Huntingdonshire Regional College (HRC), with Urban & Civic retaining the freehold property rights. However, HRC subsequently ran into financial difficulty, and merged with Cambridge Regional College (CRC). The original outcomes for the Centre had largely failed to materialise, with the Centre operating at a considerable loss.
- 2.2 In line with the Local Assurance Framework and National Guidance, the Combined Authority, as the Accountable Body for the LGF, is charged with approving clawback of funds on underperforming or non-compliant projects. The Business Board, as administrators of the LGF make recommendations to the CPCA on the risks and implications of recovery.
- 2.3 The Business Board at its meetings in May and November 2020 considered options for reuse or financial recovery of the iMET assets in light of the project closing down delivery at the LGF funded site in Alconbury Weald. The meeting in November 2020 agreed to market the iMET unit for sale.
- 2.4 The Director of Business & Skills, acting as directed by the Business Board, explored all the options with the primary option of finding a Vocational Educational Provider to agree to take over the lease of the iMET with a view to continuation of Educational and Skills activities and outputs on the site as per its current granted use by the Landlord.
- 2.5 Several Educational Provider Organisations had shown interest in buying the facility with a view to continuing the delivery of educational activities but none of the discussions have concluded in any deal.

- 2.6 The other disposal options explored in parallel did not conclude with any successful outcomes or interest, so this left the only 'do-something option' being to take the current lease for the building to the open market. This requires agreement between Combined Authority, Cambridge Regional College (CRC) and Urban and Civic.
- 2.7 Any Financial receipts to the CPCA are proposed to be recycled into new LGF grants, awarded to deliver new outputs and outcomes in the LGF programme and potentially to fill the funding gap between the expenditure of the current LGF by 31 March 2021, and the anticipated arrival of new Shared Prosperity Funding in April 2022.

iMET Marketing, Offer from local business & CPCA Accountability

- 2.8 The intention is to release Cambridge Regional College (CRC) from its obligations under both the Grant Funding Agreement with CPCA as well as the iMET Lease with Urban & Civic.
- 2.9 The CPCA is now the accountable body for monitoring financial spend and the educational outcomes in the Grant Funding Agreement paid to HRC for the iMET Building. The CPCA is obligated to ensure that it can fully account for all spend on the construction and fit-out of iMET in any future audit carried out by Central Government.
- 2.10 The CPCA is the accountable body for the local growth fund and is responsible for approving clawback of funds on under-performing or non-compliant projects.
- 2.11 The CPCA, as accountable body for the Business Board, agreed on 10 November 2020 to market the iMET building through agreements with U & C and CRC via a sale on the open market with a view to securing a purchaser, clawing back a share of the sale receipts and returning this to the local growth fund recycled budget.
- 2.12 The Business Board have received the offer from a local business for £3.15m for the freehold interest in the iMET building. If that transaction proceeds it is expected that £2.4m will be returned to the local growth fund.

Urban and Civic (U&C):

- 2.13 CPCA and U&C have informally agreed to collaborate to maximise the sale value of iMET to ensure the best outcome for both parties.

Inter Dependency:

- 2.14 The CPCA, CRC and U & C are totally inter-dependent upon each other to complete a transaction that provides a positive future outcome.
- 2.15 The current legal position on the iMET is provided in the Appendix 1 (iMET Legal Position document)

Marketing & Offer Received for iMET from a local business

- 2.16 The Freehold of the iMET building has been marketed by Savills and an offer received from a credible local business for the sum of £3.15m. We understand that this is a genuine offer that could be progressed within normal commercial timescales.

Positives;

- The local business that has made an offer is an organization who will complement the existing offer and dynamics on the Alconbury Weald campus and their offer has the support of U & C in managing to bring best future use to a rather specialized and bespoke building.
- We understand that the local business will use the property and location to enable further expansion of the company that was originally founded in Huntingdon in the 1980's and is now a market leader in its sector.
- The local business plans to create many high quality jobs, initially looking to hire 50 engineers at the facility and using cutting edge technology and research. U&C advise that this is exactly the type of high-tech industry that they had wanted the enterprise zone to attract.
- The local business has worked with the local authorities and LEP on the skills agenda, local recruitment initiatives and being a collaborative employer within a network of high value manufacturers and advanced engineers.
- The local business offer appears to be the only commercial offer that is currently available.

Negatives;

- If proceeding, CPCA will not be able to proceed in potentially taking the space for their own occupation and use and will have to source alternative premises from the market.

CPCA Interest in iMET for its own occupation and use

- 2.17 The CPCA is starting to consider and its own future office requirements now the prospect of the constraints of the Covid pandemic and fulltime remote working for all CPCA staff look like easing with the successful national vaccine programme rollout. CPCA will most likely adopt a flexible working regime with employees combining working from a new office base along with remote and home working where that is effective.
- 2.18 As the CPCA has an involvement with the iMET building and it could potentially be quickly available for occupation, it is reasonable for the building to be considered as a potential solution for the CPCA's future office requirement.
- 2.19 The CPCA could consider making a counter offer of £3.15m, or above, to secure the property for their own office occupation and use.
- 2.20 It should be noted that the intended use and the original design of the iMET building was not as a bespoke office and the building comprises a much larger area than that required for the CPCA's own office requirement. The building will therefore be likely to require some adaption and an occupier sought as a sub-tenant for those parts of the premises that the CPCA would not occupy.
- 2.21 We have also commissioned Savills to undertake a review of the existing planning permission with a view to the CPCA's proposed office use of a significant part of the premises. Their report is attached as Appendix 2. The report suggests the building or any part of the building can now be used for any of the uses listed within class E on page 2 of their report, including E(g)(i) as an office. If the CPCA decide to proceed with

making an offer that is accepted to acquire the IMET Building to occupy principally for its own occupation and use (at least in part) then it might be prudent to confirm the planning position by applying for and securing a certificate of lawfulness for existing use.

2.22 Some initial thinking has gone into how the space might be used if the CPCA proceed. It is likely that the CPCA would look to occupy the first floor comprising 948 sq m. This would be likely to provide 3 meeting rooms and something between 26 and 60 desks or workstations dependent upon a final space planning exercise and requirement for a fit out, like breakout space, kitchen, sharing with facilities on the ground floor etc.... The existing floorplans of the iMET building are shown in Appendix 3.

Positives;

- Property is in an established location familiar with the CPCA and its staff, Alconbury Weald having been the location of the CPCA's previous office.
- Well connected to the national road network and in a location that the last CPCA staff survey suggested was more desirable by a significant proportion of staff members.
- Property could be available in relatively quick time. No major external construction works required.
- The building is located in close proximity to Cambs County Council's new office offering close communication.
- The overall premises provide more space than the CPCA will require and so will offer an opportunity to potentially sublet a part and generate an income stream from a sub-letting if successful.
- The interest CPCA is showing in iMET is resulting in U&C suggesting to CPCA other options to take bespoke office space on the Alconbury campus. These could be explored as part of a search exercise to find bespoke office space to meet future CPCA needs if the board want to instruct such an exercise.

Negatives;

- CPCA occupation will deny the building being used by the local business for its original purpose and potentially result in them finding alternative premises outside of Alconbury, Huntingdonshire and potentially the entire CPCA area.
- Effectively the benefits of the local business occupation, including the jobs and skills being offered will be forgone for the sake of the CPCA occupying, when there are likely to be other more bespoke office buildings available in both the short and long term to meet the CPCA's future office requirements. The 'operational cost' lost to the local economy through not securing the local business operation if CPCA take the premises instead will be high.
- U & C are clearly supportive of the local business offer and the benefits they believe their occupancy will provide. U & C have hinted that this may affect the future approach that they have with CPCA if CPCA reject the local business proposal in favor of their own offer to use the building, if CPCA intend to make a similar or better offer of £3.15m. Not proceeding with the offer from the local business would in U & C's eyes be a 'major disappointment and real setback' for Alconbury Weald.
- Some works will be required to adjust the access, layout and to fit out the offices, particularly if sub-letting is intended. No specifications or £ costings have yet been secured at this time to identify the potential costs.
- Successfully subletting any part of the property represents a risk if this is being relied upon as a future income stream. Based upon the previous experience of not finding new owners

or occupiers of the building as 'easy to come by' expectations around the potential for sub-letting should be treated with caution. Whilst any part of the building is empty, it will act as a cost and a drain on the financial resources of the CPCA rather than a benefit.

- 2.23 It should be noted that if the CPCA board want to delay or defer a decision over the IMET building, then this will still effectively frustrate the progress of a deal with the local business. We would expect them to immediately look for alternative premises that may well result in them withdrawing from any interest in the iMET. The deal for their occupancy would be being put at risk and potentially lost.

Conduct a market search exercise for other potential opportunities to secure office space to meet CPCA's future office needs

- 2.24 If the IMET property is not standing out as an outstanding opportunity that the Board wish to secure now, then a market search should be conducted to determine what other appropriate bespoke office alternatives are be available for the CPCA to consider for its future office needs.
- 2.25 It is proposed to search for office accommodation of between 500 and 1,500 sq m, ideally to acquire as a freehold or long leasehold with a ground rent and therefore utilise CPCA Capital rather than Revenue monies in the long term. We would utilise a commercial agent to assist in this search. A provisional budget for costs of £20,000 should be allowed for the search and investigating into the viability of potential options (for example space planning, investigating IT solutions, agents costs if no transaction subsequently occurs etc)
- 2.26 Initial indications have been made that U & C may have more than one short/medium term alternative option for CPCA to consider involving leasing other space at Alconbury Weald whilst there is also a potential long term deal to consider for an agreement for lease to purchase a purpose built office that U & C would construct and sell to CPCA to meet CPCA's long term occupational needs. So if Alconbury Weald is a preferred location there appear to be alternatives to secure bespoke office premises other than the iMET building.
- 2.27 As part of that search, CPCA will themselves seek to check again with the CPCA constituent District, City and County Councils to see if they might be able to offer the CPCA any office space from their existing premises and portfolios.
- 2.28 By conducting a market search we can present a future paper to the Board with all current occupational options and anticipated costs fully identified, including those with U & C at Alconbury Weald. That should enable to Board to make a fully informed decision.

3. Financial Implications

- 3.1 There are minimal direct financial costs in pursuing a deal with the local business to the Combined Authority or Business Board – while significant grant allocation has been made, there are no ongoing costs as the asset it owned by CRC and will be handed over to the

purchaser, with an anticipated grant recovery of £2.4m (purchase price of £3.15m less £0.75m to U & C). Some legal and other work will need to be done on behalf of CPCA to discharge any potential liability of the college in relation to clawback of the grant.

- 3.2 In the situation where the Combined Authority successfully offer £3.15m or more and acquire the freehold from U&C there will be legal and other costs associated with the purchase, including potentially Stamp Duty Land Tax at 5% on the £3.15m purchase costs (£157,500). There will also be the building operating costs from the anticipated lag between the Combined Authority completing the purchase and then completing any required fitting out to occupy for its own benefit and for the period of time it will take to secure subletting of the surplus ground floor areas. These costs will include business rates, insurance, maintenance, utilities etc.
- 3.3 A high level financial model was constructed comparing CPCA purchase, use, and re-sale at a later date of the iMET building to the sale of iMET to the local business and the CPCA leasing alternative space. The results suggest that purchase of the iMET building would represent a worse financial outcome over a 5-year period, but starts to be comparable if CPCA were to occupy iMET for 10 or more years.
- 3.4 This model assumed that half of the iMET would be sub-let to other occupiers. If this were unachievable acquisition of the iMET would never be financially preferable as the running costs of the building are likely to be higher than the costs to lease alternative accommodation of the size required by the CPCA.

4. Legal Implications

- 4.1 The full legal position is covered in Appendix 1. The transaction as currently envisaged will require the continued cooperation and agreement of the three parties (CPCA, CRC and U&C).
- 4.2 If the offer from the local business proceeds, all three parties should achieve their stated outcome of ensuring the iMET Building is occupied and fully functional, and CPCA recoups as much of the original LEP grant funding as is reasonably possible.
- 4.3 If the CPCA decide and are successful in making an offer to acquire the iMET Building, the upper parts will be occupied for CPCA office use and an appropriate sub-tenant will be sought to occupy the bulk of the ground floor.

5. Other Significant Implications

- 5.1 There are no other significant implications.

6. Appendices

- 6.1 Appendix 1 – Summary of the current legal position on iMET
- 6.2 Appendix 2 – Savills report into existing planning use and planning position in relation to alternative uses
- 6.3 Appendix 3 – Existing floor plans of the iMET premises

7. Background Papers

7.1 None.