

**Manchester City Council
Report for Resolution**

Report to: Executive - 2 March 2016

Subject: The Expansion of the Space Project, West Gorton

Report of: Strategic Director (Strategic Development)

Summary

This report updates Members on the design and feasibility work undertaken to date for Phase 2 of The SPACE Project, as approved by Executive on the 7th October 2015. This report also provides an update on the progress there has been with The SPACE Project in its first 18 months of operation and provides detailed proposals to expand this provision, through Phase 2, to compete for new TV and Drama productions and provide an increased employment base for Manchester residents.

Recommendations

Members are requested to recommend that the City Council approve:

- (i) The proposals as set out in Section 3 and to approve an increase to the Capital Budget of £14,000,000 including a Capital Investment of c£8m funded from prudential borrowing and c£6m from the Capital Fund.

Members of the Executive are requested to:

- (ii) Note the progress to date in the development of The SPACE Project as set out in Section 2 of this report;
 - (iii) Note the work undertaken to date to develop the business case and detailed cost analysis for the various proposals covered in Section 3;
 - (iv) Note the plans for Phase 2 as set out in Section 3 of this report that seek to expand the existing facilities on the SPACE Project Campus area;
 - (v) To note the contribution of the project to delivering the Digital Manchester Strategy and expanding the Digital Sector in Greater Manchester;
 - (vi) To note the economic, social and physical benefits projected to be achieved through the implementation of this project;
 - (vii) To note that the recommendations with regards to the commercial considerations are covered in the Part B report elsewhere on the agenda.
 - (viii) To note that the Tower demolition will be funded from AMP for c£1.5m.
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Wards Affected: Ardwick

Community Strategy Spine	Summary of the contribution to the strategy
Performance of the economy of the region and sub region	<p>The proposals to expand the SPACE Project are geared towards strengthening and expanding the growth of Manchester’s Film, TV and Drama sub sector, helping to deepen and broaden Greater Manchester’s existing Creative and Media sector.</p> <p>Expanding the SPACE Project in West Gorton - will help to diversify the economic base of East Manchester.</p>
Reaching full potential in education and employment	<p>A Manchester Digital Skills Strategy has been developed that aims to build a globally competitive skills base within the city, working with young people in the primary, secondary and tertiary education systems. This is aligned with work with Manchester College, the Manchester Chamber of Commerce, Job Centre Plus and Work Programme providers who will play a key role in helping local residents capture the wide range of accessible job opportunities that will be developed at the SPACE Project.</p>
Individual and collective self esteem – mutual respect	Not Applicable
Neighbourhoods of Choice	<p>The SPACE Project is helping to transform the profile and image of West Gorton and the Hyde Road corridor as a place to live, work and invest in.</p>

Environmental and Climate Change Impacts

Phase 2 will be delivered to match the specification of the existing facility which is built to a BREEAM Very Good standard and has achieved an EPC rating of 47 (B). A travel plan will also be prepared for the project to help mitigate detrimental impacts from increased car usage and encourage users of the facility to use sustainable means of transportation. The development will also bring back into use Brownfield land and where possible improve tree and vegetation coverage to create an attractive and well landscaped site design. The detailed design stages will look to make the most of Low Carbon technologies where possible to mitigate the energy use of the new facility and look to minimise the costs of energy usage to the business plan

Full details are in the body of the report, along with any implications for:

- Equal Opportunities Policy

- Risk Management
- Legal Considerations

Financial Consequences

Capital

This report seeks the approval for an increase to the Capital Budget of £14,000,000. This expected to be made of a Capital Investment of c£8m funded from Prudential Borrowing and c£6m from Capital Fund to deliver Phase 2. The Tower demolition will be separately funded from AMP for c£1.5m.

Revenue

Under base case conditions it is expected that there would be a small surplus of £56k per annum after debt repayment assuming c£6m of funding is secured via the capital fund. Performance has been modelled in line with the existing Space Project performance. Should actual performance differ significantly in terms of income generation or the overhead base incurred, then this represents a potential funding pressure to MCC.

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Background documents (available for public inspection):

The following documents disclose important facts on which the report is based and have been relied upon in preparing the report. Copies of the background documents are available up to 4 years after the date of the meeting. If you would like a copy please contact one of the contact officers above.

- Digital Manchester, Executive, 14th March 2012
- The Sharp Project: Expanding Support to the Development of Manchester's Digital Sector, Executive, 12th September 2012
- Digital Manchester Update, Executive, 24th October 2012
- The Sharp Report, Executive, 5th December 2012
- The Development and Future Organisation of the City Council's Digital Asset Base, Executive, 24th July 2013
- The Development and Future Organisation of the City Council's Digital Asset Base, Executive, 22nd December 2014 (Part A and Part B)
- The Development of the Space Project, West Gorton. Executive, 7th October 2015 (Part A and Part B)

1.0 Introduction

- 1.1 In 2011 the digital sector within Manchester employed nearly 15,000 people. Manchester has recognised the need to stimulate the growth and attraction of new entrepreneurs, new business start ups, capital and talent within the City's digital sector as part of our core economic strategy.
- 1.2 The focus has been on expanding the city's digital asset base by focussing on businesses that are engaged in, or who support, the making, moving and / or manipulating digital content, locally, nationally and globally. As such the Council has sought to bring forward evidenced propositions which seek to expand the growth and diversification of digital industries; create pathways for employment; encourage new business start-ups; and in doing so, address where, but for the intervention of the public sector, there would be conventional market failure to respond to the opportunities to grow and accelerate the development of the city's digital economy.
- 1.3 The creation of The SHARP Project on Oldham Road, Newton Heath is one manifestation of that ambition to diversify and grow our digital asset base. The acquisition of One Central Park on Central Park and the development of the SPACE Project in West Gorton have added to our ambition of expanding and diversifying the city's digital economy. Taken together these three "Projects" help make a very visible and meaningful economic contribution to the attraction of new entrepreneurs, new business start ups, capital and talent to Manchester, helping to deliver on our ambitions to be a global digital city.
- 1.4 This report updates Members on the development of the SPACE Project since it opened in 2014 and provides an update on the progress of proposals to expand this facility through the delivery of Phase 2.

2.0 The Development of The SPACE Project: Performance to Date

- 2.1 As previously reported to the Executive The SPACE Project, which opened in November 2014, provides a purpose built TV production facility for the north of England, building on the success of The SHARP Project which accommodates the wider tech and digital companies. The facility was designed to allow the north of England to capture a larger share of a growing market, building on Manchester's historic strength as a TV and Drama production centre.
- 2.2 Developed in direct response to industry needs, and delivered by professionals from the sector, it comprises:
 - Five large scale production stages and required support facilities including make up and dressing rooms;
 - Production offices and workshop space;
 - Creative office space for companies providing services to the production sector;
 - Events and communal space to encourage businesses to network; and
 - On-site secure parking for TV unit base vehicles.

- 2.3 Since November 2014 there has been a high level of use and the project has captured productions that would otherwise have gone to facilities outside of Manchester or outside of the UK. Clients include BBC, Sky, ITV, Channel 4, Sony Big Talk and Tiger Aspect as examples. Productions made at The Space Project include 'The A Word, a Tiger Aspect Drama for the BBC, 'The Rovers' by Jelly Legs, 'Houdini and Doyle' for ITV and Fox, 'Boy Meets Girl' for the BBC and the BBC's 'Dragon's Den.'
- 2.4 As reported to the Executive in October 2015 business tenants have been accommodated at The SPACE Project that directly support TV production and which have supported productions on site including hire facilities and print design for props. Recent interviews with tenants have indicated that they are optimistic about their future growth prospects and hope to expand further at The SPACE Project. A recent evaluation report highlighted that 12 businesses have been assisted to improve performance as a result of support from the facility.
- 2.5 Both UK and international productions attracted to The SPACE Project show that the facility provides the nature and specification of space demanded by the production sub-sector. This is further emphasised through the high level of repeat business already secured in the first year of operation. The SPACE Project will complete its first full year of trading in March 2016 and is anticipated, based on current bookings to make a small deficit, slightly ahead of original business plan forecasts.
- 2.6 The SPACE Project is contributing to the achievement of a series of wider strategic benefits for the city including economic and employment growth in new economic activities; the development of talent and local regeneration. It is also enhancing the city's reputation as a creative and cultural hub of national significance and directly helping to rebalance the economy.
- 2.7 The SPACE Project works with SharpFutures, a social enterprise seed funded by Manchester City Council in 2011 to support delivery of new entrant skills at The Sharp Project. SharpFutures aims to nurture and grow new talent in the creative and digital sector. The Front of House 'runners' at The SPACE Project are all apprentices or training placements who are able to gain further experience through being hired directly to productions on site. Working relationships are also being built with local schools and youth clubs to allow young people in the area to gain an understanding of the production sector and the employment opportunities it offers. Professional skills development are delivered through BECTU (UK's media and entertainment trade union), Creative Skillset (sector council for creative digital) and tours and workshops delivered through the RTS (Royal Television Society) and Directors UK.
- 2.8 The original estimated number of potential full time equivalent jobs to be accommodated at the facility was in the region of 475. Against the original business plan targets, preliminary analysis estimates that the regular programme of on-site production activity has supported at least 250 full time equivalent jobs in the first year of operation, with an associated GVA benefit of £9.0m to the Manchester economy. In addition, The SPACE Project has

supported the creation of 13 direct jobs on-site through direct employment and amongst tenant businesses, with an associated GVA uplift of £0.46m. There are 3 apprentices plus 16 work experience placements currently providing direct support for the delivery of services including Front of House, PR, Marketing and production runners through SharpFutures. Several other apprentices have successfully moved on to full time positions.

- 2.9 A recent evaluation report highlighted that of the 250 jobs supported, 146 of these jobs have been created in the North West, in production related companies who use the facility and a further 66 jobs safeguarded in the North West as a result of the SPACE Project. Overall, the building has been used by more than 1,700 people employed within the industry. Of these 771 are from within the Greater Manchester area, including the largest share of 268 from Manchester. These figures also highlight the national catchment of the Project, with more than a third of the users coming from outside of Greater Manchester. The full economic benefits of The Space Project will be realised over time and will be enhanced by the proposals covered in Section 3.

3.0 Future Growth and Development of The SPACE Project

- 3.1 Following the approval of funding by Executive in October 2015, a detailed Masterplan for Phase 2 has been produced detailing the future expansion of the project. The proposals as set out in the Masterplan seek to double the size of the existing Space Project using existing City Council assets, including the Armstrong Pumps site, the former Microsystems Building site and the Wenlock Way Offices Car Park in order to grow the project. This plan also reinforces the wider regeneration momentum established in West Gorton over the last five years by bringing back into use low quality or redundant employment space.
- 3.2 Proposals and the development of the business case have also evaluated the possibility of third party funding support, including potential opportunities for private investment. At this stage it is considered too soon in the growth of the project to pursue private investment or partnership. Once the business becomes established, it is recommended at this stage the Council seeks to secure private investment into the scheme, which may also accelerate a return to the Council. The commercial rationale for the delivery of Phase 2 is covered in a Part B report elsewhere on the agenda.
- 3.3 In addition to the economic outputs already witnessed in the first year of operation at The SPACE Project, it is forecast that Phase 2 will support an additional 275 jobs (145 jobs supported by production activity in the stage and support space and 130 jobs accommodated within the business units) and generate an additional GVA impact of £9.9m. The business units will house businesses on a more permanent basis and will generate the types of jobs which will be accessible to the local demographic. The SPACE Project and SharpFutures will work with tenant companies to ensure that job opportunities are made available, working with partners to ensure that companies have the access to appropriately skilled employees. The growth and collaboration of companies on site will serve to increase these job opportunities.

The SPACE Project Phase 2: Proposals

- 3.4 Phase 2 proposes to develop nearly 86,000 sq ft of new buildings for production and related support activities including a 30,000 sq ft stage, 6,396 sq ft of production support space, 40,000 sq ft of business units for supply chain businesses and a 10,000 sq ft flexible workshop space. The Masterplan has been developed following site investigations, early consultation with Planning, the development of a business case and detailed cost analysis which has been undertaken by independent cost consultants, using detailed cost information from the delivery of Phase 1 and the latest market information.

The SPACE Project: Demolition and Further Expansion

- 3.5 As previously reported to Executive in October 2015, subject to a further business case, future phases of The SPACE Project beyond Phase 2 will look to utilise the site which currently houses the Wenlock Way Tower, the former R&D block, the former Executive suite and the former Canteen block. The development of this site as a future phase could deliver a further 50,000 sq ft of new buildings for production and related support activities creating the largest purpose built TV and Drama production facility in England outside of London and the South East.
- 3.6 The Tower, the former Executive suite and Canteen block are currently accommodated by City Council staff plus sports organisations and work is underway to begin moving staff on a phased basis to alternative premises as part of the Estates Transformation. Staff will begin to move out of the building in early 2016 with all buildings being vacant by Autumn 2016. This will make way for the demolition of the Tower and former R&D block. It is anticipated that following the completion of staff moves, the site will be handed over to a demolition contractor. Approval of this budget will allow relevant surveys and procurement to commence. More detailed feasibility work will be undertaken to determine the method of demolition and the exact uses to be located in this area will be subject to further review. Two separate feasibility studies, one commissioned by MCC and another by the HCA, have estimated the costs of demolition of the Tower and R&D block to be c£1.5m.
- 3.7 The Executive suite and former canteen are considered to be in better condition and as such these buildings will be retained and refurbished for future use. In the short term following demolition, there is potential for the land to be used for unit base/ car parking, with the retained Executive Suite and former Canteen used for production offices and storage generating further income. More feasibility work is required to establish the longer term use for this part of the site as the current level of demand for production office and storage is considered sufficient to justify the re-use of the Executive suite and Canteen. This will eliminate liability to MCC by avoiding holding costs (business rates, security, maintenance etc) and it is anticipated that the use for the above will be self financing over the short term whilst the buildings remain fit for re-use. However, some capital may be required to refurbish

these buildings in the medium term. This will be subject to additional feasibility work and a better understanding of the impact on the business, to be presented to a future Executive.

The SPACE Project Phase 2: Remediation and Site Abnormals

- 3.8 In order to deliver Phase 2, to minimise disruption to existing operations and to provide a development ready site there is requirement for capital funding to be used to de-risk the site. Site investigations undertaken utilising the £450K approved by the Executive in October have flagged up issues which are to be expected on brownfield land. It is proposed that Capital funding is used to prepare a development ready site as would normally be expected in a transaction or joint venture in partnership with a private developer or investor in order to ensure commercial viability.
- 3.9 Surveys and site investigations of the former Armstrong site have established that a culvert (Corn Brook) running east to west across the northern part of the site is structurally unsound. The proposed access to Phase 2 will utilise the area under which the culvert runs. Therefore, works have been proposed to cover and protect the culvert to a specification which will allow Heavy Goods Vehicles to track over it and to de-risk the future operation of the site. This is the only feasible access to ensure HGV's avoid surrounding residential areas, sharing the existing access to the SPACE Project from Vaughan Street. Consultant structural engineers and cost consultants have reviewed potential options and officers have opted for a preferred solution which minimises the risk to the project and minimises the capital cost, subject to a detailed condition survey and market testing. This proposal will safeguard the value of the asset and prevent any future structural failure from impacting on the sites operations.
- 3.10 In addition to the above, surveys and site investigations have identified a requirement for remedial and groundworks to the wider Armstrong Pumps Site and the Wenlock Way Car Park to allow for the proposed scheme. These proposed remedial works have been market tested by an appropriate contractor and agreed with our independent cost consultants, as well as MCC's internal cost managers.
- 3.11 Further funding is also requested to undertake works to the former Microsystems Site and the existing SPACE Project Car Park. Surveys of the existing SPACE Project car park have revealed several underground voids which appear to be basements from historic buildings. The car park is existing from the former ICL/ Fujitsu complex and was not treated as part of the SPACE Project. Due to the use of the site by heavy goods vehicles there is continuous degradation and a high risk of failure which would harm the long term reputation of the project. This currently has a detrimental impact on the operation of the site, due to the requirement to place a restriction on unit base parking. It also impacts negatively on the value of the overall asset. To overcome this issue the entire car park is required to be stripped back to allow for additional surveys to establish the extent of the voids. This will also allow for appropriate groundwork to take place and for a new car park to be re-laid

in its place.

- 3.12 Works to the former Microsystems site are required to serve two purposes. The first will be to provide temporary vehicle parking to allow the proposed works as detailed above to the main SPACE Project car park to be phased. It will also allow for a potential suitable location for the construction compound for Phase 2 which will allow construction vehicles to avoid residential areas. In the longer term the proposal is for the site to be used for both car and unit base parking, which can provide an income to the project. The works for both the main car park and the Microsystems site will need to be carefully phased to accommodate the construction of Phase 2 and to minimise disruption to the existing facility. The initial scope for the both the main car park and Microsystems site has been prepared by our consultant engineers and costed by an independent cost manager. The works to the main car park will be subject to further surveys to be carried out during the works and market testing.
- 3.13 The capital cost for delivering Phase 2, the remediation works and site abnormalities is estimated at c£14m. These costs are based on current market information, including inflation and are considered robust for the present stage of design, having been reviewed by independent cost consultants. The costs include the works as described above, as well as the construction of the stage, support space, business units and external works with other associated fees.
- 3.14 In order to accommodate the current level of demand, as detailed in Part B and capitalise on the social and economic benefits of further growth, officers are of the view that the City Council should seek to progress with Phase 2 partly by investing c£8m utilising prudential borrowing, to be supported by c£6m from the Capital Fund. The Tower demolition is estimated to cost c£1.5m and will be separately funded from AMP.

4.0 Concluding Remarks

- 4.1 The proposals set out in this paper to grow and accelerate the development of the city's digital economy, have the potential, not only, to extend and deepen the support given to Manchester's digital economy but also to help reinforce the development of a digital content "ecosystem" within the city that can compete with and rival the "second tier" of global digital hubs by 2020. The benefits of the investment made to date, and the proposals set out in this report, will continue to add to the growth of the City Council's digital asset base at The SPACE Project, continuing to create new employment opportunities through the growth and attraction of new entrepreneurs, new business start ups, capital and talent.
- 4.2 Detailed recommendations appear at the front of this Report.

5.0 Contributing to the Community Strategy

(a) Performance of the economy of the region and sub region

- 5.1 The proposals to expand the SPACE Project are geared towards strengthening and expanding the growth of Manchester's Film, TV and Drama sub sector, helping to deepen and broaden Greater Manchester's existing Creative and Media sector.
- 5.2 Expanding the SPACE Project in West Gorton - will help to diversify the economic base of East Manchester.

(b) Reaching full potential in education and employment

- 5.3 A Manchester Digital Skills Strategy has been developed that aims to build a globally competitive skills base within the city, working with young people in the primary, secondary and tertiary education systems. This is aligned with work with Manchester College, the Manchester Chamber of Commerce, Job Centre Plus and Work Programme providers who will play a key role in helping local residents capture the wide range of accessible job opportunities that will be developed at the SPACE Project.

(c) Individual and collective self esteem – mutual respect

- 5.4 Not Applicable

(d) Neighbourhoods of Choice

- 5.5 The SPACE Project is helping to transform the profile and image of West Gorton and the Hyde Road corridor as a place to live, work and invest in.

6.0 Key Policies and Considerations

(a) Equal Opportunities

- 6.1 The SPACE Project will capture significant employment opportunities and ensure that Manchester residents have the opportunity to compete for the jobs that are created. In addition, there is a commitment to ensure that this facility is accessible and well connected.

(b) Risk Management

- 6.2 The risk of the main scheme will be the management of the budget with the requirement for prudent cost and risk management throughout the delivery of the project.

(c) Legal Considerations

- 6.3 The proposed arrangements will be subject to appropriate legal documentation. The City Solicitor shall advise and support the delivery of this aspect of the work.