



Report to: Policy and Resources Committee, 25th April 2019

Report of: Corporate Director - Place

**Subject: CULTURAL DEVELOPMENT FUND (THE ARCHES WORCESTER PROJECT)
FUNDING AGREEMENT**

1. Recommendations

- 1.1 That the Committee authorises the Corporate Director Finance and Resources to sign the Cultural Development Fund agreement with Arts Council England, relating to The Arches Worcester Project;**
- 1.2 That the Committee agrees to Worcester City Council being the accountable body for The Arches Worcester Project; and**
- 1.3 That the Committee delegates authority to the Deputy Director Governance, Corporate Director Finance and Resources and the Corporate Director Place to enter into all necessary legal agreements, submit applications for relevant consents and take all operational steps required to deliver The Arches Worcester Project in consultation with the Chair and Vice Chairs of the Committee.**

2. Background

- 2.1 In June 2018, the Department for Digital, Culture, Media and Sport launched a fund of £20m, open to towns and cities outside of London. The Cultural development fund is focused on developing the economic impact of creative industries, arts and heritage. It is administered by Arts Council England.
- 2.2 Following approval by the Committee on 11 September 2018, officers submitted a bid to this fund in October 2018, in partnership led by the City Council with The University of Worcester, Severn Arts, Network Rail and the County Council, including a contribution of £310,000 from the City Plan Fund.
- 2.3 Five locations within England were offered grant support and Worcester was awarded £3million funding towards a £4.67million project, with the remaining funds being sourced locally from a combination of public and private sector partners.
- 2.4 Since the announcement in January 2019, the City Council and its partners have been working on putting together the detailed project plan and allocating resources for delivery.

3. Overview of The Arches Worcester Project

- 3.1 Eight newly restored Victorian railway arches will regenerate a heritage-rich part of the city into a modern, 21st century workplace for creative industries and a cultural destination for tourists and local communities. A new pedestrian connection will be created between Foregate Street Station and the river via The Hive and the University of Worcester.
- 3.2 The redeveloped arches will house creative businesses, a flexible public cultural space for performances and exhibitions and a rehearsal and making space for artists and companies.
- 3.3 Festivals and events need support with key skills, such as fundraising and sponsorship; production; technology; commissioning; commercial development; marketing and artistic programming. The project will create a Festivals Hub designed to deliver high quality events and support event organisers across the city, the objective being to transform Worcester's status as a festival City.
- 3.4 The project aims to build long-term creative capabilities for the city through graduate retention, a highly developed voluntary sector, training of young people and support for creative businesses. It seeks to acknowledge the work of volunteers, providing skills development and opportunities for growth to strengthen the sector.
- 3.5 It will seek to retain and nurture graduates in cultural and creative industries related areas through entrepreneurial mentoring and progression to angel investment for start-ups.
- 3.6 A programme of support will be established for young people who seek employment in the creative industries.
- 3.7 The project seeks to develop the sense of place around the arches, building on existing cultural assets in the neighbourhood including the Museum and Art Gallery, The Art House and The Hive.

4. Governance arrangements and Legal Agreements

- 4.1 The project will be managed through a series of workstreams reporting to an Operational Board, chaired by the City Council and overseen by a Worcester Cultural Development Fund Partnership Board, which will have City and County Council Member representation.
- 4.2 Arts Council England have provided a draft funding agreement which covers:
 - Key milestones for the capital and revenue aspects of the project
 - A schedule of payments of Cultural Development Funding upon achievement of milestones
 - Security over assets which have been supported by Cultural Development Fund Grant
 - Arrangements to cover the use of assets supported by the grant for cultural activity
 - Monitoring and Evaluation Arrangements.

The content and requirements of the agreement have been negotiated to ensure the programme, security and use requirements are reasonable and reflect the programme. There are clauses within the agreement to ensure that changes to the programme can be accommodated should they arise. A copy of the draft agreement is provided in a confidential Appendix.

- 4.3 To ensure that the City Council can fulfil its responsibilities as the accountable body for the grant, a series of agreements will be put in place with the partner organisations including the University of Worcester, Severn Arts, The County Council, Arch Co and Network Rail. The most significant of these at this stage are those with the University of Worcester and Severn Arts who along with the City Council will deliver the overall programme.
- 4.4 In summary, Heads of Terms for these agreements seek to:
- Share / transfer the key obligations of the funding agreement
 - Ensure proper procurement of contracts and the employment of staff
 - Set out the procedures for claiming grant which will be administered by the City Council
 - Confirm the resource contributions that each partner will be making
 - Set out the delivery timetable and clear roles and responsibilities for each phase and element of the project.
- 4.5 Once the Funding and Partnership Agreements are in place a series of negotiations will secure contractual commitments from the third party landowners in order to release the sites for development. Contracts will also be required with design and construction teams to deliver the capital development and associated public realm. Additional contracts for delivery of the arts programmes will also be required.
- 4.6 The delivery of the capital part of the project has been structured into three phases, reflecting three discrete zones of development. The first phase is the delivery of the five arches which are within the University's control, starting at the Hive. The second two phases relate to the delivery of the arches from Farrier Street up to Foregate Street and involve third party land interests. The phased approach will ensure that early delivery of some key project outputs can be achieved without delay, while allowing negotiations for later phases to progress alongside.
- 4.7 A number of statutory consents and permissions are required for the capital development, including planning permission for each stage.

5. Preferred Option

- 5.1 The Council will enter into agreements with the partners associated with the project to ensure the proper use of public funds and that the objectives of the programme are delivered.
- 5.2 The fund is administered by Arts Council England and is subject to their monitoring procedures. Before funding can be released, their funding agreement must be signed by the Council as the accountable body.

6. Alternative Options Considered

- 6.1 If the funding agreement is not signed, the funding allocation will be forfeited and the entire project is at risk.

7. Implications

7.1 Financial and Budgetary Implications

The total value of the project is £4.67m, of which £3m is funded by the DCMS/Arts Council England Cultural Development Fund. Worcester City Council has committed £310k City Plan funding to the project, as approved by the Policy & Resources Committee on 11 September 2018 and as part of the budget report approved by Full Council on 19 February 2019.

Worcester City Council is the accountable body and is therefore responsible for ensuring that all costs and income are fully accounted for and is able to account to the funding body at each stage, as required by the funding agreement and associated schedules. Consequently the Council is responsible for managing the cash flows associated with the project and for establishing a suitable accounting system across all of the partners.

The CDF grant is separated into a revenue element of £1,412,634 and a capital element of £1,587,366. The revenue grant can be drawn down as required three times per year in advance of need, subject to evidence of progress on the various workstreams. The Capital grant is drawn down in arrears, three times per year, on completion of programmed works. This means that the Council will incur expenditure for which it has not yet received funding and will have a negative cash flow at various stages in the project. This can be planned for and managed within the Council's normal cash management system.

Failure to complete each capital phase may result in expenditure being incurred for which grant may not subsequently be paid or may be clawed back. As the accountable body, it falls to the Council to manage this risk and to establish commitments from the partners who are responsible for each workstream, before making claims for grant. The funding agreement has been separated into three phases and the Arts Council have confirmed in writing that any assessment of progress and completion will apply to each phase separately. The clawback risk exposure can therefore be managed one phase at a time.

The City Council will enter into a commercial lease for 2 arches with Arch Co (the long leasehold owner of the railway arches) to house cultural activity. Obligations in the funding agreement will require the use of these arches for cultural and creative uses to 2027. The City Council will need to secure sufficient income from tenants to meet its lease payment obligations. The project includes some support for rental costs until April 2022 and the commercial negotiation with Arch Co will need to reflect the extensive capital works being undertaken with grant aid to bring the arches in question in to use.

7.2 Legal and Governance Implications

The key legal and governance implications are set out earlier in this report. The Arts Council funding agreement contains a series of legally binding grant conditions which the Council must comply with in its capacity as the accountable body.

The satisfaction of these conditions will be secured through the establishment of a series of back-to-back agreements with the key partner organisations that are working with the Council to deliver this project.

The Council will also need to make planning applications for the capital phases of the project and deal with a number of other consents and permissions, working with the other project partners.

Any significant decision for the Council which is outside the parameters of financial commitment and/or risk set out in this report, will be brought back to Committee for approval.

7.3 Risk Implications

The full project risk register will be regularly reviewed as part of the project management activities. The key strategic risks for the Council are as follows:

- Non-completion or significant cost overruns of all or parts of the capital works
This risk is mitigated in part by the phased approach which should ensure that works are not entered into until all appropriate agreements and securities are in place. This is a condition of the funding agreement.
- Partnership agreements are not established and the arts festival elements cannot be delivered.
Partnership agreements are a condition of grant funding and must be in place prior to the first payment on 1 August 2019. Proposals for the festivals programme will be subject to further reports for consideration by the relevant Committee.
- Earned income is not achieved, resulting in negative cashflows for the project.
The income from the converted arches falls to the property owner, with an agreed income flow to the project to support its activities and from events and other activities within the project. In the event that the projected income flows do not materialise in full, costs will need to be scaled back to ensure that the project can be delivered within the budget estimates. Earned income is estimated to be approximately 3% of the total value of the project.
- Negotiations for the second two capital phases of the project do not progress on satisfactory terms.
The project funding has been split into three phases and so if third party negotiations do not progress on satisfactory terms within the project timescale, then the Council will not claim funding for that phase, and the third party land owners will forego the opportunity of benefitting from redevelopment of their properties and regeneration of the immediate area. In that circumstance the Council could propose to the Arts Council a modification to the scope of the project – for example, potentially involving different arches, but this would require Arts Council consent and no assurances can be given at this stage.
- The longer term aims of the project are not fulfilled.
The funding agreement requires that the properties are made available to the project for 10 years following completion. This will help to ensure that there are long-term benefits arising from the funding and maintain the facilities to support the festivals programme.

7.4 Corporate/Policy Implications

The Arches Worcester Project supports all five of the City Plan themes, with particular emphasis on becoming a Heritage City for the 21st Century and Sustaining and Improving our Assets. The development of the Arches area from Foregate Street to the Hive fits with the intentions set out in the Masterplan and will make a significant contribution to the Council's aims for the development of the City as place for inward investment, tourism, cultural development and entrepreneurialism.

7.5 Equality Implications

There are no direct equalities implications. The development of the facilities will adhere to Equality Act access standards.

7.6 Human Resources Implications

The project will require dedicated Project management support. This is to be provided by the County Council as part of its contribution to the project. There will be a demand for client-side management by the Economic Development Officer and Finance colleagues. These posts will be back-funded from project resources as required.

7.7 Health and Safety Implications

None directly arising from this report. Capital works will be subject to agreed health and safety standards, signed off by the Council's Health and Safety Officer.

7.8 Social, Environmental and Economic Implications

The project will Develop the city's visitor economy through a destination management plan that is aligned with the festivals and events programme and enhances the existing strengths of the City's cultural and heritage offering by

- Using culture and creativity to unlock economic growth and productivity
- Creating a high quality artistic festivals programme to bring in new audiences and develop new ones
- Supporting leadership and skills development within the creative industries.

Ward(s):

Cathedral

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Background Papers:

None