

# **PERTH AND KINROSS COUNCIL**

## **Strategic Policy and Resources Committee**

**13 June 2018**

### **DEVELOPMENT OF THE CREATIVE EXCHANGE IN THE FORMER ST JOHN'S PRIMARY SCHOOL**

**Report by Depute Chief Executive (Chief Operating Officer) (Report No. 18/195)**

#### **PURPOSE OF REPORT**

The purpose of this report is to:

- (i) Note the progress made in launching the Famous Grouse Ideas Centre, delivering the business support programmes for creative businesses and the staging of the successful Final Showcase event for the first Accelerator cohort on 9 May 2018.
- (ii) Seek approval to progress the project to convert the former St John's Primary School to a Creative Exchange Hub, confirm the funding envelope and provide approval under delegated powers awaiting the announcement of the Tay Cities Deal.
- (iii) Seek approval to dispose of the former St John's Primary School by way of a long lease to WASPS (Workshop and Artists' Studios Provision Scotland) on the terms referred to in this report and provide delegated authority to finalise the Service Level Agreement (SLA) to the Executive Director (Housing & Environment) in consultation with the Head of Legal and Governance.
- (iv) Seek approval for a sublease from WASPS in favour of the Council for two of the completed units (to provide accommodation for the proposed Famous Grouse Ideas Centre) on the terms referred to in this report or otherwise on terms to be agreed by the Executive Director (Housing & Environment) and by the Head of Legal and Governance.

#### **1. Vision and Ambition**

- 1.1 Our ambition is to create a hub for business innovation and enterprise in the creative industries, in the heart of Perth, which will catalyse a latent cluster of businesses and creative activity across the sector. Our vision is the establishment of a space where productivity, creativity and innovation coalesce and where cultural, creative and digital enterprises meet and where entrepreneurs and creative practitioners can connect with each other and, importantly, the wider community.
- 1.2 Specifically, Creative Exchange Perth (CEP) will be a creative industries hub comprising workspace, studios, co-working and social space. Fundamentally, it will provide business incubation and acceleration facilities and support; and

an access point and outreach base for communities to participate in cultural activities, to encourage individuals to become more enterprising and to develop business ideas. It will also provide a much needed Project Space gallery and shop window for contemporary visual art.

- 1.3 Creative industries (including digital) are one of six key sectors of the Scottish economy with growth potential and where Scotland's Economic Strategy states that Scotland has a competitive advantage. The 2012 study into the Economic Contribution of the Arts and Creative Industries in Scotland estimated that the sixteen sub sectors of creative industries accounted for a Gross Value Added (GVA) of between £3.2 billion and £3.7 billion and accounted for direct employment of 84,400. At the Perth and Kinross level, a sector analysis undertaken for the Scottish Cities Alliance in 2013, estimated that creative industries accounted for total employment of 1,000 in the local area (1.7% of total local employment) and comprised 370 businesses (5.8% of total businesses). The sector is seen as having further growth potential, particularly in the context of graduates from Perth College University of the Highlands and Islands, and the ambition to develop Perth's cultural and creative offering and to increase the number of jobs in knowledge intensive industries.

## **2. Project Progress Update**

- 2.1 Pending the completion of the renovation of the former St John's Primary School for the Creative Exchange the project has progressed with the launch of the Famous Grouse Ideas Centre (FGIC) on 24 January 2018 which is housed in its temporary location in the 'Makers Space' on the first floor of the AK Bell Library.
- 2.2 A key aim for FGIC is to support exceptional creative business creation, development and growth. Over the next year, this project aims to develop the next generation of creative sector leaders and employers by inspiring them through working with Scotland's entrepreneurs and creatives. This will be achieved through an innovative suite of dedicated support programmes: the **Pipeline** programme, **Incubation** programme, and **Accelerator** programme.
- 2.3 There were 14 existing and fledgling businesses signed up to the first Creative Cohort on the Accelerator Programme and their journey culminated in a Final Showcase Event on 9 May 2018 at AK Bell Library. The feedback from the participants has been very positive and each has progressed their business ideas.

## **3. Project Background**

- 3.1 The report justifies why a peppercorn rent should be attributed to the lease to enable economic, social and cultural impact. This was previously presented in an Outline Business Case to Council on 22 June 2016 [Report Ref: 16/277] seeking capital investment as part of the capital programme. The regeneration project was granted £2.7m capital funding through that process (£2.45m capital funding and £250k Commercial Property Investment

Programme(CPIP) investment).Prior to that, agreement in principle for disposal through a sale had been given by the Property Sub-Committee on 4 September 2013 [Report Ref:13/434].

- 3.2 The regeneration of the former St John's Primary School project was granted planning permission at the end of August 2017 for the development of Creative Exchange a hub for creative industries, visual artists and innovative entrepreneurs. The facility will comprise of 26 artists' studios, 13 offices for creative industries, a project space, a teaching/workshop room, a café and an innovation lab in the former gym hall.
- 3.3 It is intended that construction will start in July 2018 and be delivered by a main contractor who has been procured through the HubCo procurement framework. The project is planned to be completed by September 2019.
- 3.4 The project costs have risen to £4.4m due to the requirement of new heating and electrical systems, within which the target construction cost envelope has been set at £3.65m, extensive drainage improvements and additional costs due to vandalism and theft damage.
- 3.5 The funding package that is in place to deliver the project is detailed below and includes funding from P&KC, Scottish Government, The Economic Regional Development Fund, The Scottish Cities Investment Fund and The Gannochy Trust.

PKC Capital	£2,450,000	Confirmed
PKC CPIP (Commercial Property Investment Programme)	£250,000	Confirmed
ERDF (European Regional Development Fund)	£250,000	Confirmed
CIF (City Investment Fund)	£100,000	Confirmed
Gannochy Trust	£150,000	Confirmed
RCGF (Regeneration Capital Grant Fund)	£335,000	Confirmed
Tay Cities Deal (The Housing & Environment Service, H&ES, budget under third party contributions)	£1,000,000	Pending
<b>Total</b>	<b>£4,535,000</b>	

#### Tay Cities Deal Funding

- 3.6 The project is part of the Tay Cities Deal bid presently being negotiated with Scottish and UK Governments. The capital 'ask' for Creative Exchange is £1m which would complete the funding requirements. However as the outcome of these negotiations will not be known until early Summer 2018, a provision has been made from H&ES capital budgets where £1m has been allocated to enable the contract to proceed, acknowledging third party funding contributions. This was approved by the Strategic Policy & Resources Committee on 13th September 2017 [Report Ref: 17/280].

## **4. A Partnership Approach**

### **WASPS – Principal Partner**

- 4.1 WASPS is a social enterprise and not for profit organisation. They were funded in 2014 by the Scottish Cities Alliance to assess the demand for a creative hub in Perth in line with the successful operational model they operate in Glasgow at South Block (established in 2009).
- 4.2 WASPS operate 18 properties across Scotland providing low cost studio accommodation for 900 tenants from Shetland to the Borders. WASPS is home to Scotland's largest creative community and as such has developed a reputation among the creative sector as providing low cost accommodation in a supportive, collaborative working environment which fosters creative productivity and development. WASPS would deliver the business model developed with consultants EKOS to operate Creative Exchange on a 25 year lease and would minimise operational risk to PKC. They would attract creative tenants which might not ordinarily associate themselves with a local authority but with a creative organisation such as WASPS, with access to the Scotland wide network they have and the opportunities that presents, including the Meadowmill Studios in Dundee.
- 4.3 Creative industries are one of six strong growth sectors set out in Scotland's Economic Strategy. WASPS have a considerable track record of nurturing and developing this sector elsewhere in Scotland and will bring this experience and reputation to Perth.
- 4.4 This project has been developed as a partnership with WASPS under an understanding that the relationship would continue as per the terms recommended in this report. WASPS' vision is to provide an inspirational home for creative practice and expand the number of sustainable creative businesses in the region.
- 4.5 Other partners represented on the Board and expected to operate in the building include Elevator (Business Gateway), Perth College UHI and Culture PK.

## **5. Project Development**

- 5.1 At its budget meeting on 14 February 2008 the Council [Report Ref: 08/92] agreed to the disposal of properties which were to become surplus as a result of the Investment in Learning Project. At its meeting on 16 April 2008 the Strategic Policy & Resources Committee [Report Ref: 08/212] re-affirmed the Council decision. The properties identified for disposal included the former St John's Primary School which later closed in October 2011.
- 5.2 Subsequently, at a meeting on 4 September 2013 the Property Sub Committee agreed to the disposal of the former St Johns Primary School to Workshop and Artists' Studio Provision Scotland Ltd (WASPS) for

refurbishment as a contemporary art and creative industries hub for Perth [Report Ref: 13/434].

- 5.3 Since then WASPS have developed their proposals and held discussions with Council officers to develop a detailed business plan. The new proposals envisage that the Council undertakes redevelopment of the former St Johns School to create the new contemporary art and creative industries hub and then leases the new facilities to WASPS who will thereafter manage the new facilities in accordance with the objectives of an agreed Service Level Agreement.
- 5.4 This new approach has been adopted in order to ensure deliverability of the project and to ensure that the Council retains ownership and control of the building in the longer term as part of its asset portfolio.

## **6. Operational Stage: Key Issues**

### Head Lease Arrangements and Best Value

- 6.1.1 The Council has statutory duties under Best Value as set out in Section 1 of the Local Government in Scotland Act 2003. Relevant aspects of this duty include:
- Making best use of public resources, including land and property.
  - Being open and transparent in transactions.
  - Ensuring sound financial controls are in place to minimise the risk of fraud and error.
  - Assessing the full financial consequences of decisions at an appropriate level before major financial decisions are taken or commitments entered into.
  - Demonstrating responsiveness to the needs of communities, citizens, customers and other stakeholders, where relevant.
- 6.1.2 The Council also has a statutory duty in terms of Section 74 of the Local Government (Scotland) Act 1973 to achieve best reasonable consideration when it disposes of its land and buildings.
- 6.1.3 On completion of the redevelopment, it is proposed that the Council will grant a head lease in respect of the new Creative Exchange to WASPS for £1 per annum for 25 years.
- 6.1.4 A disposal by head lease at £1 per annum will be at less than Market Rent. As required by the Disposal of Land by Local Authorities (S) Regulations 2010, a market rental valuation has been undertaken by a suitably qualified and experienced valuer and this indicates that the fully refurbished subjects could reasonably be expected to achieve a Market Rent in the region of £70,000 per annum.
- 6.1.5 By leasing the subjects to WASPS for £1 per annum, the Council will be foregoing this potential rental income (£70,000 per annum) in order to support

the financial viability of the project and in support of the objectives of an agreed Business Plan and in accordance with a Service Level Agreement.

- 6.1.6 The Disposal of Land Regulations require that, where a Local Authority proposes to dispose of a property at less than full market value, an appraisal of the proposed disposal should be undertaken to show compliance with the Regulations. The key benefits of the disposal to WASPS are summarised below:

### **Economic Impact**

- 6.1.7 An initial economic impact study was commissioned by WASPS and undertaken by consultants Ekos. This work appraised the potential economic impacts of the creative industries studio space including net additional output, Gross Value Added (GVA) and employment. The study estimated the cumulative impact over a 20 year period and also the wider impacts including creativity, networking, profile and complementarity with other cultural institutions.

### Specific economic benefits

- 6.1.8 The economic benefits of the facility being operated by WASPS at low annual rental are as follows:
- Bringing grant funding of £500k to the project (Gannochy plus support on Scottish Government Regeneration Capital Grant Fund ,RCGF)
  - 66 creative people as tenants in the building
  - 4 people employed to manage the building
  - Retention of creative industry graduates in the City in a supportive environment
  - Retention and development of creative industry graduates, businesses and individuals in the City
  - Providing a viable future for a long term vacant building reducing risk to PKC
  - 11.8 FTE jobs would be created during the construction phase.
  - Create 4.7 FTE jobs in the wider economy. The net additional employment has been based on the amount of output required to support a full time equivalent job
  - GVA over 20 years of £2.8 million. In the case of infrastructure projects the consultants assess the impact over a longer period of time, hence the estimate in relation to 20 years
  - 1 city centre building regenerated: approximately 1,800 sq m of business, studios & workshops, and gallery space created
  - Support 43 artists, 10 creative industry businesses and 3 cultural organisations contributing to Perth's vibrancy.
  - The innovation/accelerator hub element of the project would provide space and support for up to 20 entrepreneurs at any one time, each of these businesses will support a further 3 jobs in the wider economy (E-Spark 2015 Impact Report).

## **Social & Cultural Impact**

- 6.1.9 The project will regenerate a building that has been unused for over seven years. The building has started to attract anti-social behaviour through vandalism and also been the victim of theft. Local residents will see an improvement in their social as well as physical environment when work begins.
- 6.1.10 The building is also very close to some of the most deprived communities in Perth and therefore it will be a base for outreach activity for business development and cultural activities. Access by a range of community based cultural organisations and enterprises will also be provided as part of the exchange of skills, knowledge and ideas. The intention is to develop the hub as a focus for creativity, the arts and enterprise for as wide a catchment as possible.
- 6.1.11 There are numerous examples of the economic and social benefits occupation of buildings for creative use has on surrounding areas. Creative people spend money locally, encourage audiences at exhibition and workshops, attract clients and visitors, animate redundant buildings and make areas feel safer with more regular footfall not just during normal “office hours”.
- 6.1.12 The proposed disposal complies with the Council’s statutory duties in respect of Best Value and Best Consideration in that the potential loss of rental income to the Council of £70,000 per annum is considered to be justified in light of the wider expected benefits to the local economy and community.

## **6.2 Management Fees**

- 6.2.1 In exchange for the head lease, WASPS will undertake to manage the new facility to deliver the objectives of an agreed Business Plan (jointly developed by the Council and WASPS) and in accordance with the terms of a Service Level Agreement.
- 6.2.2 The Business Plan and Service Level Agreement will be reviewed and revised as the project progresses. Day to day management of the new facility will be undertaken by WASPS. Oversight and strategic governance will be by a Partnership Management Board which will include on-going representation from the Council and WASPS.
- 6.2.3 The Business Plan envisages that the day to day management costs incurred by WASPS in running the Creative Exchange Project will be met from the rental income that they secure by leasing out floor space to local businesses from the creative industries sector.
- 6.2.4 It is agreed that WASPS will take a management fee that is proportionate in percentage terms of their total headquarters overhead and that continued draw down of this will be dependent on successful delivery of the business plan.

### **6.3 Profit Arrangements/Sinking Fund**

- 6.3.1 The Business Plan includes provision for creation of a sinking fund which will be built up in value over the duration of the Head Lease from project revenue income primarily the rental income secured by WASPS in their management of the new facility. The size of sinking fund will depend on occupancy and rental levels however it is envisaged that a sinking fund of circa £400,000 could be secured by the end of the 25 year Head Lease. The sinking fund will then be available for refurbishment of the facilities at the end of the Head Lease. Any surplus income or profit from the project will be used to augment income to the sinking fund.

### **7. The Famous Grouse Ideas Centre**

- 7.1 In addition, the Business Plan relies upon an annual income of £25k via the Council in respect of two of the completed suites. These suites will be used and managed by the Council as an Innovation Lab. The cost of occupying this space will be met from a £500k sponsorship agreement between the Council and Edrington. The sponsorship agreement sets out that the funding is to be used for business incubation space and associated expert business support and requires, in exchange, naming rights for the new Innovation Lab to be known as The Famous Grouse Ideas Centre. The sponsorship will support the new innovation centre for 10 years with annual support of £50k.
- 7.2 The cost to the Council in respect of the new Innovation Lab will be £25k per annum comprising a market rent, service charges and commercial rates. The balance of £25k per annum will pay for expert business support.

### **8. Recommendations**

- 8.1 The planning, fundraising and business case development of Creative Exchange has taken place over several years in partnership with WASPS and with guidance from The Creative Exchange Project Board. The project is now ready to proceed to the physical development stage and authority is required to allow the project to proceed. The Strategic Policy & Resources Committee is therefore asked to:
- (i) Note the progress made in launching the Famous Grouse Ideas Centre, delivering the business support programmes for creative businesses and the staging of the successful Final Showcase event for the first Accelerator cohort on 9 May 2018.
  - (ii) Approves the proposal to progress the project to convert the former St John's Primary School to a Creative Exchange Hub, confirm the funding envelope as set out in the report, and provide approval under delegated powers awaiting the announcement of the Tay Cities Deal.
  - (iii) Approve the disposal of the former St John's Primary School by way of a long lease to WASPS (Workshop and Artists' Studios Provision Scotland) on the terms referred to in this report and provide delegated authority to finalise the Service Level Agreement (SLA) to the



Executive Director (Housing & Environment) in consultation with the Head of Legal and Governance.

- (iv) Approve a sublease from WASPS in favour of the Council for two of the completed units (to provide accommodation for the proposed Famous Grouse Ideas Centre) on the terms referred to in this report or otherwise on terms to be agreed by the Executive Director (Housing and Environment) and by the Head of Legal and Governance.

**Author(s)**

<b>Name</b>	<b>Designation</b>	<b>Contact Details</b>
Finlay Kerr	Project Officer	01738 47500

**Approved**

<b>Name</b>	<b>Designation</b>	<b>Date</b>
<b>Jim Valentine</b>	<b>Depute Chief Executive and Chief Operating Officer</b>	<b>27 April 2018</b>

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## 1. IMPLICATIONS, ASSESSMENTS, CONSULTATION AND COMMUNICATION

<b>Strategic Implications</b>	<b>Yes / None</b>
Community Plan / Single Outcome Agreement	<b>Yes</b>
Corporate Plan	<b>Yes</b>
<b>Resource Implications</b>	
Financial	<b>Yes</b>
Workforce	<b>Yes</b>
Asset Management (land, property, IST)	<b>Yes</b>
<b>Assessments</b>	
Equality Impact Assessment	<b>Yes</b>
Strategic Environmental Assessment	<b>Yes</b>
Sustainability (community, economic, environmental)	<b>Yes</b>
Legal and Governance	<b>Yes</b>
Risk	<b>Yes</b>
<b>Consultation</b>	
Internal	<b>Yes</b>
External	<b>None</b>
<b>Communication</b>	
Communications Plan	<b>None</b>

### 1. Strategic Implications

#### Community Plan / Single Outcome Agreement

- 1.1 The Community Plan/Single Outcome Agreement 2013 – 2023 lays out five outcomes focussed strategic objectives which provide clear strategic direction, inform decisions at a corporate and service level and shape resources allocation. They are as follows:
- (i) Giving every child the best start in life
  - (ii) Developing educated, responsible and informed citizens
  - (iii) Promoting a prosperous, inclusive and sustainable economy
  - (iv) Supporting people to lead independent, healthy and active lives
  - (v) Creating a safe and sustainable place for future generations
- 1.2 This report relates to objective (iii) by maximising and enhancing economic development opportunities to the benefit of businesses and local communities, encouraging new business creation and growth of existing businesses through support of the creative industries sector.

## 2. Resource Implications

### Financial

#### 2.1 Capital –

The funding package that is in place to deliver the project is detailed below and includes funding from P&KC, Scottish Government, The Economic Regional Development Fund, The Scottish Cities Investment Fund and The Gannochy Trust.

PKC Capital	£2,450,000	Confirmed
PKC CPIP (Commercial Property Investment Programme)	£250,000	Confirmed
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<b>Total</b>	<b>£4,535,000</b>	

#### 2.2 Revenue –

The Creative Exchange will be operated on a commercial basis and subject to the Business Plan developed by WASPS. There is no revenue commitment required from the Council.

### Asset Management (land, property, IT)

#### 2.3 Asset Management issues arising from the operations of the Creative Exchange are detailed in the report.

## 3. Assessments

### Equality Impact Assessment

#### 3.1 Under the Equality Act 2010, the Council is required to eliminate discrimination, advance equality of opportunity, and foster good relations between equality groups. Carrying out Equality Impact Assessments for plans and policies allows the Council to demonstrate that it is meeting these duties.

#### 3.2 The information contained within this report has been considered under the Corporate Equalities Impact Assessment process (EqIA) and has been assessed as **not relevant** for the purposes of EqIA.

### Strategic Environmental Assessment

#### 3.3 The Environmental Assessment (Scotland) Act 2005 places a duty on the Council to identify and assess the environmental consequences of its proposals.

- 3.4 The information contained within this report has been considered under the Act. Pre-screening has identified that the PPS will have no or minimal environmental effects, it is therefore exempt.

#### Sustainability

- 3.5 Under the provisions of the Local Government in Scotland Act 2003 the Council has to discharge its duties in a way which contributes to the achievement of sustainable development. In terms of the Climate Change Act, the Council has a general duty to demonstrate its commitment to sustainability and the community, environmental and economic impacts of its actions.
- 3.6 The information contained within this report has been considered under the Act. The proposals will enhance socio economic and economic development opportunities to the benefit of businesses and local communities.

#### Legal and Governance

- 3.7 The Head of Legal and Governance and the Head of Finance have been consulted on these proposals and there are no legal implications.

#### Risk

- 3.8 The key risks associated with the proposed programme are:
- (i) Funding – Tay Cities Deal: At the time of writing the outcome of the negotiations of the Tay Cities Deal is not known. As outlined in the report this project is negotiating a capital investment of £1M to complete the funding package. While provision has been made within the TES budget to enable the project to proceed this would be to the detriment of other, planned capital projects without the benefit of TCD support.
  - (ii) Funding – European Regional Development Fund (ERDF): While this grant has been awarded, as the project begins to drawdown the grant funds there are some issues arising over agreed scope. There is a degree of risk around the funding (£250,000), discussions are ongoing with the Project Management Office and Managing Authority to remove this risk or at least provide clarity prior to financial closure in June 2018.

### **4. Consultation**

#### Internal

- 4.1 The Head of Finance and the Head of Legal and Governance have been consulted in the preparation of this report.

#### External

- 4.2 The project has been the subject of extensive consultation with the creative sector across Perth & Kinross and a community consultation was undertaken prior to the planning application being determined.

## **5. Communication**

- 5.1 The recommendations from the report will be communicated to stakeholders and the press through the Board and the corporate media team.

## **2. BACKGROUND PAPERS**

- 2.1 No background papers, as defined by Section 50D of the Local Government (Scotland) Act 1973 (other than any containing confidential or exempt information) were relied on to any material extent in preparing the above report.