

Report to Cabinet

Subject: Arnold Market Place: First Floor Enterprise Centre and Market

Date: 9 November 2023

Author: Head of Regeneration and Welfare

Wards Affected: Ernehale

Purpose

The report provides an update of the plans for the fit out and letting of the first floor of the Arnold Town Centre (AMP) development including a refresh of the Business Case.

Key decision

This is not a key decision.

Recommendation:

1. Approve the revision to the original Arnold Market Place (AMP) Business Case Appendix 1 that includes:
 - i) The proposal for an Enterprise Centre on the first floor of the AMP compromising of a number of lettable spaces to support start up and SME businesses.
 - ii) The proposal to consult on the permanent location of the Arnold Market
 - iii) The revision of the financial assumptions related to market provision.
2. To approve the establishment of an AMP Enterprise Centre budget from the UKSPF Town Centre Improvement budget in the Capital Programme (Exempt Financial Position Appendix 2

1 Background

1.1 Original Business Case

The AMP Business Case 2020 included 7 small retail outlets designed to be attractive to small local independent businesses with a first-floor area earmarked for flexible commercial space/office accommodation. The Business Case also assumed an expansion of market provision and income generation.

The Business Case included an external appraisal by Cushman & Wakefield that a basic building shell (“first fit”) would be more attractive to commercial occupiers than fitted out/serviced offices. Their advice was to market the building for a period of up to 18 months before sub dividing the space into 2 or 3 offices or services offices. If further capital investment was required, it was understood that this would be subject to a separate Cabinet approval.

The Cushman & Wakefield appraisal included an assumed first-floor rental of 12sqft providing an assumed income of £45,000 pa (£13sqft). The appraisal also included an assumed lease period of 3 years with no break clause and a 3-month rent free period with operating costs recoverable through a service charge in line with normal market offers.

The lettings of the ground floor retail units have exceeded expectations as the business case assumed that these units would not be fully let until 21 months of operation.

1.2 Current Position

The AMP development was handed over to the Council in October 2022. During the course of the construction programme the design specification was reengineered to reduce costs with the result that the 3,500 sqft of first floor space was handed over as a shell and core. The flooring, WCs, cleaner’s store and meeting/conference room having all been removed from the cost plan.

The agents, New West, have marketed the first-floor space for flexible commercial use with on-site parking (12 parking spaces including 2 disabled parking spaces and an EV charging point). The shell and core finish requires a prospective tenant to commit to a considerable investment in a challenging market. This financial commitment alongside the significant size of the first-floor space has limited the number of enquires. However, during the course of the last 12 months, the agent has reported interest from several businesses enquiring for units of not more than 1,000 sqft.

The approved AMP Business Case included income assumptions for the expansion of a market located on the development’s public square. During the construction the market was relocated to Eagle Square. Although this was intended to be a temporary move traders have indicated a preference to remain on this site permanently. The current market location at the entrance of the Town has been positive, with the stalls enlivening this area of the retail centre. However, the regular market has not attracted new traders and increased revenue income is considered to be unrealistic.

Although the Council is looking to utilise the AMP public area for speciality markets and events, this is unlikely to generate significant income and the Council are looking to ensure

a cost neutral position in the short term. With this in mind, the Economic Growth and Regeneration Service has procured a professional market operator for a 12-month period that will be reviewed. The primary focus of the markets and events is to draw footfall and spend to the Town to support the new start up and existing retail businesses. This supports the Council's aim within the Council Plan to provide vibrant town and local centres that attract shoppers.

The model of procuring a professional market organiser for the Eagle Square Market could be considered in the future if this proves to be successful with the option of a single market operator managing both sites.

1.3 UK Shared Prosperity Fund

To support a viable plan for the first-floor area the Council submitted a funding proposal within the UK SPF Investment Plan. This proposal included the creation of a serviced flexible office facility, an enterprise centre, on the first floor of the AMP that would be subject to a business case and approval. The UK SPF Investment Plan includes a financial provision to support the creation of an enterprise centre which is detailed Appendix 2 (Exempt Financial Position). The enterprise centre contributing to the following UKSPF interventions and outcomes.

Intervention	Measure	Target
E1: Improvements to town centres and high streets	Number of commercial buildings improved.	1
E22: Enterprise infrastructure and employment/innovation sites	Amount of commercial buildings developed or improved m2	343
E24: Training hubs, business support offers, incubators and accelerators.	Number of potential entrepreneurs provided assistance to be business ready	25

1.4 Commercial Letting Appraisal

To test the viability of an enterprise centre/serviced office facility and other office options the Council has sought independent commercial advice from both the current agent, New West and HEB.

The agents considered a number of options that included:

- i. Continue Marketing of the First Floor – single let
- ii. Serviced Office Accommodation
- iii. Smaller Commercial Suites

(i) Continue Marketing of the First Floor

The agents' assessment confirmed that the size of the first-floor space along with the limited fit out would be prohibitive to prospective tenant in view of the significant up-front investment. The agents' view being that there is a trend for shorter lease arrangements and therefore even with rent free periods the investment required, and duration of occupancy is unlikely to be attractive to the market.

The agents have drawn attention to the fact that post covid there has been a shift to hybrid working and learning leading to a subsequent fall in demand for large office spaces. Also, the "suburban" location of the AMP is a factor that would impact on the appeal of the space. The AMP being a more attractive offer for local smaller businesses as it is unable to compete with similar spaces within the city centre which benefit from transport hubs and other services and amenities.

(ii) Serviced Office Accommodation

Both agents were of the view that the option of securing a serviced office operator such as Regus and Bizspace (who operate Arnold Business Centre, Brookfield Road) would be challenging in the current market. They also commented that one of the major players in the market had fallen victims of the change to working practices "We Work" and gone out of business. The agents have made the case that the AMP first floor area although significant does not offer the scale that a larger operator would consider viable alongside its location. The agents also considered that in view of the risks involved in the financial set up of the service office operator it would be unlikely that the Council would be able to secure a tenant.

New West in particular have made the case that local serviced office operators such as Exeid have not come forward since the premises have been marketed and are dealing with voids in their current premises. In view of the costs and risks involved in setting up a service office operation it is not considered to be viable for the Council to take on this risk.

(iii) Smaller Commercial Suites

The agents' recommendation in view of enquiries received, location and costs are that the Council creates smaller commercial suites with shared WC and kitchenette. Smaller units with rateable values of £12,000 or less per year could entitle any tenant to 100% business rate relief if eligible, which is more attractive to small local businesses in the Borough particularly if they are let on 3-year or 6-year terms. These could also incorporate break options giving the prospective tenants flexibility, along the same lines as the tenancies that have been secured on the ground floor retail units in the development. This option would still necessitate the need for management of the space, and this would be incorporated into a service charge fee.

The option to provide smaller commercial suits would support local businesses and be aligned to the physical interventions included in the UKSPF Investment Plan.

1.5 Arnold Market

During the AMP construction, the former market was temporarily relocated to Eagle Square with the intention that the public space outside of the AMP would be designated as the permanent Arnold Market post practical completion. The AMP Business Case forecasted

a substantial increase in income for market provision that in the current economic climate is considered to be unrealistic.

During and post construction the market stallholders have indicated a preference to remain at Eagle Square, but indicated a need for public realm works to be undertaken to level the area by removing steps. As the market has provided an active frontage into the main gateway to the town. UKSPF Investment Plan monies have been earmarked to fund these works. Approval is to be sought to formally consult on the permanent location of the Arnold Market and the current temporary licence to operate a market on Eagle Square has been extended to facilitate this consultation. At this stage members are being asked to support this ongoing work for permanent relocation.

To promote footfall into the town, the Council has procured an AMP Market Organiser to provide a programme of event markets to complement rather than compete with the provision at Eagle Square. The contract includes responsibility for all costs associated with running the AMP market programme including the Market Charter payable to the Nottingham City Council. This is intended to provide a cost neutral position for the Council whilst promoting and supporting local retail businesses. The arrangement is to be reviewed on an annual basis, but significant income generation is unlikely in the current climate.

The works to Eagle Square and the provision of event markets at the AMP will ensure that the Council meets and exceeds its obligations under the terms of the original D2N2 (LEP) funding agreement. The funding requirement included the requirement to:

- Remove of 90 market stalls in poor condition
- Provide of 20 new market stalls

2 Proposal

- 2.1 Both of the commercial agents identified that a major barrier to securing a tenant is the current shell and core finish of the first-floor area.
- 2.2 To address this barrier the UK SPF Investment Plan includes provision for the fit out of the first-floor area to provide an Enterprise Centre that comprises of
 - Individual offices of between (482 – 915 sqft)
 - Conference room/Training Room
 - Reception area (controlled accessed via the lobby)
 - Kitchenette
 - WCs
 - Shower
- 2.3 Subject to Cabinet approval it is proposed that the Council procures services for the fit out of the first floor is through an approved compliant framework and that the Council awarded to an appropriate contractor in compliance with the Councils Contract and Procurement Rules. A full market tender was rejected primarily on the grounds of the funding constraints of the UKSPF.
- 2.4 It is proposed that external independent expertise is procured to manage the construction contract and advise the internal project team. It is recommended that this support be secured via a suitable framework. The internal project team is to be led by Property

Services with support from Economic Growth and Regeneration, Legal, Finance and Procurement colleagues.

- 2.5 It is proposed that the Council seeks approval to formally consult on the permanent location of the Arnold Market and ensures that a programme of events and specialist markets are held on the AMP public space whilst this consultation is undertaken. This programme being provided on a cost neutral basis to the Council and reflected in the revised AMP Business Case.

3 Alternative Options

3.1 Option One: Do Nothing

The Do Nothing is not recommended as the AMP is a high-profile Council flagship building. The Council has succeeded in letting all of the commercial retail units which exceeds the original business case assumptions.

The original business case recommended an 18-month period of marketing the space prior to the Council committing to further investment. However, if the first-floor area is to remain void for a considerable period the Council could be at risk of financial pressure and reputational damage.

The UK SPF Investment Plan includes provision to fund the completion/fit out of the AMP first floor. A do-nothing option could result in loss of funding and reputational damage in respect to the Council management of the UKSPF allocation.

3.2 Option Two: Residential Units

The Council could proceed to converting the first floor into residential units. This option would require a change of use planning consent as well as alternative funding source as the UKSPF grant cannot be used for residential purposes.

If the Council were minded to convert the first floor into residential units it would incur a potential risk of a tenant exercising a Right to Buy at a later stage at a discounted market value.

The Council could consider converting the first floor into Temporary Accommodation units. However, the AMP is a high-profile flag ship development in the centre of Arnold. Temporary accommodation units would not be aligned to the objectives of regenerating and supporting start-up businesses within one the Borough's key retail/business areas.

Option 3: Fund Fit Out from Capital Reserves and Borrowing

- 3.3 The option to borrow has been rejected as this would create financial pressures for the Council and an unviable business case.

4 Financial Implications

- 4.1 The anticipated costs of the AMP fit out and budget is outlined in the attached Appendix 2 Exempt Financial Position

It is anticipated the fit-out costs will be fully funded from the UKSPF Grant, therefore no additional borrowing will be required.

Failure to utilise the UKSPF Grant would result in significant increase in borrowing costs unless alternative funding is identified.

It should be noted that the actual costs are to be confirmed prior to contract award.

Assumptions Refresh

4.2 The refresh of the Business Case is illustrated below and based on soft market testing and includes the following assumptions:

- Enterprise Centre: 4 offices (482 – 915 sqm each), shared welfare facilities and conference room
- Rental income assumed to be circa £14 sqft, providing an annual income of £36,500+pa however should the actual costs exceed the UKSPF funding available, the rental levels could be reviewed unless other sources of funding could be identified.

NB: High rental levels may be prohibitive to potential tenants and therefore counterproductive.

- The original business case projected the First Floor would be tenanted by around July to September (Q2) 2023/24. However, the revised projection for completion of the Enterprise Centre would be around Q2 in 2024/25.
- Year 1 has been refreshed to reflect actual position for 2022/23, with the exception of financing see note below.
- The running costs have been refreshed to reflect actual Year 1 (2022/23) expenditure.
- The First Floor would incur additional management and maintenance charges however it is proposed that these would be recouped through a service charge to tenants and is not included in the table below.
- The financial model assumes in year 3 (across 2025/26 and 2026/27) that there will be a reduction of income for the ground floor units. The model allows for a 9 month void and 3 month rent free incentive for new lettings.
- First Floor occupancy and income in 2024/25 assumed to be 50%.

4.3 Business Case Refresh

Table 1 illustrates the forecasted position from the original business case

Table 1 . Original Business Case						
	2022/23	2023/24	2024/25	2025/26	2026/27	Total
Expenditure						
Running Costs	£93,000	£47,500	£3,000	£18,500	£66,500	£228,500
Financing	£61,500	£61,500	£61,500	£61,500	£61,500	£307,500
Income						

Ground Floor (GF)	(£20,500)	(£44,700)	(£50,600)	(£30,100)	(£26,400)	(£172,300)
First Floor (FF)	£0	(£33,300)	(£44,400)	(£44,400)	(£11,100)	(£133,200)
Market Rents	(£7,500)	(£15,000)	(£15,000)	(£15,000)	(£15,000)	(£67,500)
(Surplus)/ Deficit	£126,500	£16,000	(£45,500)	(£9,500)	£75,500	£163,000

The business case has been refreshed for current incomes levels and revised income projections for the First Floor. For comparison purposes, the interest rate from the original case has been used. The reason for this is because no additional borrowing is anticipated for the Fit-out as this will be entirely grant funded through the UKSPF. Therefore any adverse impact on rising interests is not a result of the first floor fit-out.

The Ground Floor rental income is an improvement on the original business case due to the units being occupied quicker than anticipated, in addition the original business allowed for 20% irrecoverable VAT in which we have now been able to charge and recoup.

The First Floor income has been revised down from the original projections of £44,400 due to reduced lettable space and market rental levels.

Pending the outcome of the relocation of Arnold Market Stalls, the planned income from original expansion of the stalls has been removed from the updated business case.

Overall the revised business is showing an improved position on the original business.

	2022/23	2023/24	2024/25	2025/26	2026/27	Total
Expenditure						
Running Costs	£44,600	£40,500	£15,200	£15,200	£40,200	£155,700
Financing	£66,100	£66,100	£66,100	£66,100	£66,100	£330,500
Income						
Ground Floor	(£19,300)	(£75,000)	(£77,500)	(£58,200)	(£21,600)	(£251,600)
First Floor	£0	£0	(£18,300)	(£36,500)	(£36,500)	(£91,300)
Service Charge	£0	(£2,600)	(£2,600)	(£2,600)	(£2,600)	(£10,400)
Market Rents	£0	£0	£0	£0	£0	£0
(Surplus)/ Deficit	£91,400	£29,000	(£17,100)	(£16,000)	£45,600	£132,900
Variance to Original Business Case						
(Surplus)/ Deficit	(£35,100)	£13,000	£28,400	(£6,500)	(£29,900)	(£30,100)

4.4 Interest Rate Impact

Interest rates have increased significantly since the original business case, the impact of these have been omitted from the table above due to the Fit-out having no direct impact on the amount borrowed.

Based on current rates as of 31st October, the latest rates are 5.64% over 40 years.

	Borrowing Requirement	Interest Rate (40 years)	Annual Repayment
Original Business Case	£1,556,100	2.47%	£ 61,500

Actual Requirement	£1,674,800	2.47%	£ 66,100
Interest Rate Refresh (31.10.23)	£1,674,800	5.64%	£105,900

The table 4 below illustrates the impact of current interest rates on the project.

Table 4 . Refreshed for latest interest rates						
Year	2022/23	2023/24	2024/25	2025/26	2026/27	Total
Expenditure						
Running Costs	£44,600	£40,500	£15,200	£15,200	£40,200	£155,700
Financing *	£105,900	£105,900	£105,900	£105,900	£105,900	£529,500
Income						
Ground Floor	(£19,300)	(£75,000)	(£77,500)	(£58,200)	(£21,600)	(£251,600)
First Floor**	£0	£0	(£18,300)	(£36,500)	(£36,500)	(£91,300)
Service Charge	£0	(£2,600)	(£2,600)	(£2,600)	(£2,600)	(£10,400)
Market Rents	£0	£0	£0	£0	£0	£0
(Surplus)/ Deficit	£131,200	£68,800	£22,700	£23,800	£85,400	£331,900

4.5 Market Stalls

The Original Business Case built in increased market income of £15,000 per annum following the build of the AMP. Some of this income is mitigated by increased income for the Ground Floor, due to the business case factoring in irrecoverable VAT, which subsequently is being charged in the lease. Below is a summary of the financial position for 2022/23. Therefore, the revised business does not assume income growth.

Arnold Market - Stall Traders	Annual
Running Costs	
Market Charter (Notts City Council)	£10,000
Toilet Rentals (Café)	£ 2,700
Business Rates (Eagle Sq.)	£ 2,500
Electricity (Eagle Sq. Pop.up)	£500
Refuse Collection (Internally charged)	£7,400
	£23,100
Income	
Trader Income (22-23 actuals)	(£16,100)
Current Subsidy/Deficit	£7,000

5 Legal Implications

- 5.1 The Council should ensure it complies with the Contract and Procurement Rules in part 22 of the Councils Constitution. Specifically, when considering the use of a compliant framework, consideration should be given to the terms of a framework agreement to ensure they are sufficiently precise to cover the call off. If those terms are not, then a mini

competition would be necessary in line with the procure contained within the framework. This is detailed in the Councils constitution at paragraph 13.3 of part 22.

5.2

A contract with a value of over £75,000.00 as would be in this case would require execution by seal.

5.3

Lease agreements for any units to be let would need to be reviewed, checked and or prepared by Legal.

5.4

All rental agreements are offered at market rent and are not being offered at a subsidised rate.

5.5

All funding requirements associated with UKSPF must be complied with to avoid any risk of clawback.

5.6

Further legal advice will be provided if the proposal to relocate the market to Eagle Square is progressed. Current restrictions on street trading on eagle Square would need to be reviewed to enable a permanent relocation to that site. Further approvals would also be required in relation to the Market Charter for a permanent operation at this location.

6 Equalities Implications

6.1 No direct implications as a result of this report.

7 Carbon Reduction/Environmental Sustainability Implications

7.1 The AMP development includes solar panels and EV charging points. The completion of the first floor fit out will give consideration to carbon emissions that will form part of the specification development and procurement undertaken.

8 Appendices

8.1 Appendix 1 Arnold Market Place First Floor Enterprise Centre and Market Business Case

8.2 Appendix 2 Exempt (Financial Position)

8.3 Appendix 3 Refreshed AMP Equality Impact Assessment

9 Background Papers

9.1 Cabinet Report: Arnold Market Place Final Scheme 6th August 2020

9.2 Leader Report: Arnold Market Place Redevelopment Phase 3 Delivery 22nd April 2021

10 Reasons for Recommendations

10.1 The AMP first floor remains void due to limited interest that commercial agents have identified to be associated to the current level of fit out and the necessary investment required of a prospective tenant within a challenging economic climate and within an environment of changing patterns of working.

- 10.2 A Do-Nothing approach is unlikely to secure a tenant and the UKSPF Investment Plan has provided the Council with funding to complete the first floor of the AMP and provide facilities and terms that meet demand and support small and start-up businesses.
- 10.3 By developing the first floor into smaller commercial units the Council is not only maximising the chances of securing income for the Council through rental income but also encouraging regeneration in the Town Centre as well as encouraging new business start-ups in the local economy.

Statutory Officer approval

Approved by:

Date:

On behalf of the Chief Financial Officer

Approved by:

Date:

On behalf of the Monitoring Officer