

Report to the Leader

Subject: Arnold Market Place: First Floor Enterprise Centre

Date: 8th February 20224

Author: Head of Regeneration and Welfare

Wards Affected: Ernehale

Purpose

The report provides a further update of the costs of fitting out the first floor of the AMP development into an Enterprise Centre, and requests additional budget to complete it.

Key decision

This is a key decision.

Recommendation:

1. To approve a revised budget allocation of £655,000 to support the completion of the AMP Enterprise Centre, that is to be funded from the UKSPF Town Centre Improvement budget in the Capital Programme.

1. Background

- 1.1 On 9 November 2023 Cabinet approved the revised Arnold Market Place (AMP) Business Case that included the establishment of an Enterprise Centre budget funded from the approved UK SPF Town Centre Improvement Budget in the Capital Programme.
- 1.2 The Enterprise Centre forms part of the UK SPF Town Centre Improvement allocation within the Investment Plan with the project supporting the following interventions and outcomes.

| Intervention | Measure | Target |
|---|--|--------|
| E1: Improvements to town centres and high streets | Number of commercial buildings improved. | 1 |
| E14 Relevant feasibility studies | Feasibility Study | 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 |

1.3 The Business Case set out the rationale for the creation of an Enterprise Centre to support both start up and SMEs in the Borough. The Business Case outlined that the current shell and core finish and size of the first floor was prohibitive in attracting a prospective tenant whilst local agents reported demand for smaller business units. To accommodate the demand for smaller units it was proposed that the first-floor area would be fitted out to provide:

- Individual offices of between (482 – 915 sqft)
- Conference room/Training Room
- Reception area (controlled accessed via the lobby)
- Kitchenette
- WCs
- Shower

Progress

1.4 Following the approval of the AMP Business Case the Council undertook a selection process for a preferred contractor via the compliant Pagabo framework. A full market tender was rejected on the grounds of the funding constraints of the UKSPF grant. The Council intends to enter into a Pre-Construction Services Agreement (PSSC) with the preferred contractor for technical designs to be developed prior to a main contract being agreed.

1.5 Although the November 2023 AMP Business Case approved by Cabinet was based on soft market testing, the subsequent contractor costs exceed the approved budget allocation. To ensure that these costs reflect the current market position they have been subject to independent scrutiny and bench marking.

1.6 The increased budgetary requirement arises from the increased costs associated with mechanical and electrical works required for the Enterprise Centre, and a revision to the Risk Allowance as per the advice of independent advisors. The revised budget also includes GBC technical and project management fees and NEC (Contract Management) supervisor costs. The budget also includes an allowance for furniture and equipment (F&E) and marketing. The overall costs of the project are provided in the table below.

| Costs | £ |
|---|----------------|
| Contractor Feasibility Report (3/11/2023) | |
| PSSC – Design Works | 19,000 |
| Construction Costs | 540,000 |
| | 559,000 |
| GBC - Costs | |
| Project Risk Allowance (10% of main contractor's costs) | 56,000 |
| GBC Technical and PM management | 25,500 |
| NEC Supervisor | 6,500 |
| Sub Total | 647,000 |
| | |
| Other GBC Costs | |
| Allowance for Furniture/Commissioning and Marketing | 8,000 |
| Revised Project Requirement | 655,000 |
| | |
| Previous approved budget | 417,318 |
| | |
| Additional budgetary requirement | 237,682 |

- 1.7 A review of the UK SPF Town Centre Improvement budget allocation has confirmed that there are sufficient funds to address the increased funding requirement to complete the AMP Enterprise Centre. The allocation of these funds detailed below, will ensure that the Council achieves the delivery of the UK SPF Investment Plan interventions and targets referenced above.

| Intervention | Y2 | Y3 | Totals |
|--|-----------------|-----------------|-----------------|
| E1: Improvements to town centres & high streets | £45,000 | £128,850 | £173,850 |
| E14: Relevant feasibility studies | £5,000 | | £5,000 |
| E22: Enterprise infrastructure & employment / innovation sites | £38,468 | £314,682 | £353,150 |
| E24: Training hubs, business support offers, incubators & accelerators | £60,700 | £62,300 | £123,000 |
| | £149,168 | £505,832 | £655,000 |

1.8 Below is a high-level summary of the AMP First Floor Enterprise Centre delivery programme.

| AMP Enterprise Centre Programme | |
|--|----------------------------------|
| January 2024 | Pre-Construction Services |
| January – February 2024 | RIBA Stages 3 and 4 drawings |
| March 2024 | Design Review and Market Pricing |
| April 2024 | Construction Contract |
| May 2024 | Contractor Mobilisation |
| June 2024 | Works Commence |
| October 2024 | Completion and Handover |
| November 2024 | Commissioning and Occupation |

1.9 A review of the UK SPF Town Centre Improvement budget allocation has confirmed that there are sufficient funds to address the increased funding requirement to complete the AMP Enterprise Centre. The allocation of these funds will ensure that the Council achieves the delivery of the UK SPF Investment Plan interventions and targets referenced above.

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The Council's costs up to RIBA 4 (UKSPF Year 2) include:

1. GBC Technical and PM Management: £17,500
2. Pre Construction Services Agreement: £19,000

The remainder of the UKSPF allocation for Year 2 will be carried over to Year 3 which is permissible under the terms of this grant

- 1.10 The reason why this report is urgent is because of the timescales for spending the UK SPF allocation by March 2025. Also, that the approved revenue budget assumed that the first floor would be achieving rental income at this point in the business plan, and additional delays will impact this further.

2. Proposal

- 2.1 Subject to approval it is proposed that the Council proceeds with the contract to fit out the first floor of the AMP to create an Enterprise Centre to support Start Up and SMEs.
- 2.2 It is proposed that the funding for the works is fully met from the Town Centre Improvement allocation within the UKSPF Investment Plan of the Council's Capital Programme (Refer to Section 1).

3. Alternative Options

- 3.1 The original business Case included a range of options that are listed below. These options have been reviewed and continue not be recommended on the grounds set out below.

Option One: Do Nothing

- 3.2 The Do-Nothing option continues not be recommended as the AMP is a high-profile Council flagship building. The Council has succeeded in letting all the commercial retail units which exceeds the original business case assumptions.
- 3.3 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.
- 3.4 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

Option Two: Residential Units

- 3.5 The Council could proceed to converting the first floor into residential units. However, 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.
- 3.6 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.
- 3.7 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

- 3.8 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 additional projected costs for fit out of the first floor as highlighted in section 1 will be covered by a further allocation from the UKSPF.
- 4.2 The revenue implications as reported in the report on 9th November 2023 will remain unchanged as the additionality will be covered entirely by grant funding.

5 Legal Implications

- 5.1 The Council should ensure it complies with the Contract and Procurement Rules in part 22 of the Councils Constitution. The Council has entered into a compliant framework, for the provision of professional services and construction works. The contract for the professional services has been entered into compliantly. The contract for the construction works has not been entered into yet, but the legal services team are involved in the contract negotiations under the framework call off. The contract value will exceed £75,000 so this contract will require execution by seal.
- 5.2 Lease agreements for any units to be let would need to be reviewed, checked and or prepared by Legal. All rental agreements are offered at market rent and are not being offered at a subsidised rate.
- 5.3 All funding requirements associated with UKSPF must be complied with to avoid any risk of clawback.

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 consider carbon emissions that will form part of the specification development and procurement undertaken.

8 Appendices

- 8.1 Carbon 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
- 9.3 Cabinet Report: Arnold Market Place: First Floor Enterprise Centre and Market 9th November 2023

10 Reasons for Recommendations

- 10.1 The AMP first floor continues to remain 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 The costs of completing the fit out of the first floor exceeds the Business Case assumptions approved in November 2023.
- 10.3 A Do-Nothing approach is unlikely to secure a tenant and the UKSPF Investment Plan Town Centre Improvement allocation 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.
- 10.4 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