

<b>Report to:</b>	Cabinet	<b>Date of Meeting:</b>	10 March 2022
<b>Subject:</b>	Town Deal: The Enterprise Arcade		
<b>Report of:</b>	Executive Director (Place)	<b>Wards Affected:</b>	Dukes
<b>Portfolio:</b>	Cabinet Member - Regeneration and Skills		
<b>Is this a Key Decision:</b>	Yes	<b>Included in Forward Plan:</b>	Yes
<b>Exempt / Confidential Report:</b>	No		

### Summary:

Report to update Cabinet on the Southport Town Deal project, The Enterprise Arcade, and to present the preferred option for progressing the commitment of Town Deal funding for the project. The report also includes a summary of the business case for submission by the Council, as accountable body, to Government on behalf of the Southport Town Deal board.

### Recommendation(s)

That:

- (1) Agree that the Business Case for this project is endorsed to go forward as part of the Town Deal investment package;
- (2) delegate to the Executive Director of Corporate Resources and Customer Services, in consultation with the Executive Director (Place) in consultation with the Cabinet Member for Regeneration and Skills, and, the Chair of the Southport Town Deal Board, the signing and returning of the Project Documentation to Department for Levelling Up, Housing & Communities (DLUHC) in line with Town Deal funding deadlines, in order to trigger the release of funding and commence the project activity; and
- (3) Cabinet recommend to Council the approval of a supplementary capital estimate of £1.25m funded from the Town Deal.

### Reasons for the Recommendation(s):

Under the Town Deal Heads of Terms, Sefton Council is required to submit businesses cases within 12 months of the offer (by March 2022).

The preferred option for Enterprise Arcade is set out in the business case and in the Design Feasibility RIBA Stage 2 Report which will allow for the provision of 898 m<sup>2</sup> of improved floor space comprising of Crown Building\* and 3 adjacent retail units on Eastbank Street, Southport.

(\* the Dove Properties management suite is excluded from this initial phase 1 work but may be drawn into the proposed works subject to agreeing a release of this office with the current leaseholder).

Securing a Tenant who will act as an operating partner for the Enterprise Arcade will be integral to the long-term success of the project. Through agreeing a Property Lease, with embedded contractual obligations, the risks of ongoing financial liability for the operation and day-to-day costs of running the building will be transferred to the Tenant partner, meaning that there will be no ongoing financial burden to the council relative to any operating costs. The Council will continue to have responsibility for the structural integrity of the building and associated services, and provision will be made in the lease agreement for a contribution to these costs from the lessee/operator. The freehold of the building will remain with the Council as will the long term benefit of the Town Deal funding for improvements to the asset.

### **Alternative Options Considered and Rejected:** (including any Risk Implications)

The RIBA Stage 2 report lists the alternative options considered in delivering Enterprise Arcade across 8 options differentiated by scale/levels of finish and associated cost.

The Do Nothing option is rejected on the basis of not meeting the Core Objectives of the Project and output requirement committed within the Town Investment Plan and related Heads of Terms.

The preferred option delivers to the required level of outputs within the available budget and all associated Project Risks for this project at Design Stage 2 are addressed in the Stage 2 Design Feasibility Report.

### **What will it cost and how will it be financed?**

#### **(A) Revenue Costs**

The Design and Delivery Team costs relating to development into the next stages of design fees will be capitalised and fully funded via the Town Deal. These cost will be met via the early release of the first 5% of the awarded Town Deal funds. The project funding will provide the resources required to deliver the development. This will allow for a level of fee allocation to cover the costs to the Council as the project client - contract management and associated costs. The Town Deal programme makes provision for Programme Management costs and will provide the project support in the processes associated with administering claims, monitoring and reporting requirements. The Schedule of Requirements associated with the Lease will require from the operator a regular report on performance against key performance indicators linked to Town Deal.

In October 2021 it was reported to Cabinet that the financial implications associated with the proposed Property Lease will be reported in a future update to Cabinet as part of the Business Case.

Delays in finalising the designs for the project due to the reduced settlement for the Southport Town Deal and consequential loss of Enterprise Store project, resulted in the need to balance project scale against operator requirements and viability. On that basis the operator procurement has been pushed back as a result we do not have at this stage the detailed revenue models that will emerge through that process. A further report will

now be presented on completion of the operator procurement which is now ongoing. This will tie in with the lease and link to progressing the commitment to implementing the capital works.

Delivery of the physical project will be self-contained and the Exit Strategy for the project is represented by the conclusion of the works and at that point the property being made available to the leaseholder and operator for the project. The project is intended to be cost neutral to the Council whilst both securing investment in an existing Council asset, and impacting positively on the Council's Core Purpose and agreed Town Deal outcomes and priorities.

### **(B) Capital Costs**

The Southport Town Deal will fund the Capital costs of this project in its entirety to the agreed level of fit out. Any final fit out cost to meet the specific operating requirements of the Tenant/operator/occupiers will be met by the lease holder/operator of the Enterprise Arcade if required. Based on the RIBA Stage 2 Design, these costs have been estimated to be £1.5m. The business case provides a sensitivity analysis for information and to support decision making.

The project is profiled to deliver the capital elements in 2022/3 financial year and within the capital programme £250k is already approved, a further £1.25m will be required to provide for project delivery. These costs will be fully recovered through the Town Deal Programme subject to DLUHC approval of the Business Case and meeting the requirement of the associated Grant Funding Agreement.

Any risk associated with claw back will be mitigated through the implementation of appropriate project and programme management and all works will be delivered in accordance with the Councils financial and wider regulatory and governance procedures.

Wider risk management and risk mitigation as this relates to delivery of the project features as an element of the RIBA Stage 2 Feasibility Report (Project Risk Register) and moving forward will be managed within the project and contract management processes associated with further design and delivery stages.

Subsidy Control (formerly State Aid) will be addressed through the lease and operator procurement process and will require the operator to demonstrate compliance through its organisational structure and the associated business model for the project.

### **Implications of the Proposals:**

<b>Resource Implications (Financial, IT, Staffing and Assets):</b>
The project is being progressed by Council staff, funded from existing Council budgets.
<b>Legal Implications:</b>
There are no legal implications anticipated with the project that are not addressed herein.
<b>Equality Implications:</b>
A Public Sector Equality Duty proforma has to be submitted to show any equality impacts, under Town Deal guidelines and will be included as part of the submission to Government.

**Climate Emergency Implications:**

The recommendations within this report will

Have a positive impact	Y
Have a neutral impact	N
Have a negative impact	N
The Author has undertaken the Climate Emergency training for report authors	Y

The Enterprise Arcade project aims to significantly improve the energy and water efficiency of assets it occupies and in the way it operates contributing towards the council's Climate Emergency targets. No provision is made for car parking, as the site is very well served by public transport in the form of both rail and bus services. In addition the proposed design will incorporate bespoke secure cycle storage facilities.

**Contribution to the Council's Core Purpose:**

**Protect the most vulnerable:** As with all council regeneration projects, the project business case will identify and develop inclusive opportunities in employment and training for all people across Sefton.

**Facilitate confident and resilient communities:** Acting as a beacon to raise levels of aspiration and support the delivery of desired life outcomes, including direct support to start and sustain viable business and created employment opportunities for residents. Clear connectivity between business, education and communities.

**Commission, broker and provide core services:** The Enterprise Arcade's proximity and relationship with the Atkinson and library services will add value to the services offered. It will also support delivery of elements of the Sefton Economic Strategy, working alongside the InvestSefton service. This includes supporting new business starts, sustainability, business growth ambitions. New and growing business will also provide employment opportunities, aligned to objectives and delivered in conjunction with Sefton@work

**Place – leadership and influencer:** The proposed project will be the first initiative of this type in the Town Centre. It will be an enabler for transformational change and lead to further private sector investment in Southport.

**Drivers of change and reform:** Providing a long-term sustainable future for underutilised assets in the Town Centre. Supporting economic diversification and retention of young people in Southport.

**Facilitate sustainable economic prosperity:** Providing a long-term sustainable future for underutilised assets in the Town Centre. Supporting the creation and sustainability of new business starts, business growth and sectoral development of the Creative, Digital and Technology Sector(s) in Southport. Supports jobs creation.

**Greater income for social investment:** The project will be required to demonstrate through the delivery stages social value outcomes commensurate with the value of the contract

Cleaner Greener: The future operation will contribute to Sefton's objectives in respect of climate emergency.
---

## What consultations have taken place on the proposals and when?

### (A) Internal Consultations

The Executive Director of Corporate Resources and Customer Services (FD.6721/22) and the Chief Legal and Democratic Officer (LD.4721/22.) have been consulted and any comments have been incorporated into the report.

### (B) External Consultations

The Enterprise Arcade project is part of the Southport Town Deal's Town Investment Plan which was submitted following an extensive public consultation with residents, visitors, business owners and young people (on which more than 7,000 responses were received). The project was identified as a priority by the Town Deal Board, in both the submission of the bid in October 2020, and in the allocation of the awarded funding in March 2021. In addition the Town Deal Board considered the Business Case in Feb 2022 and approved its submission to Government subject to Cabinet consideration in March 2022.

The recommendations are supported by the feedback of Operator Soft Market Testing, undertaken during the Summer of 2021. The recommendations are support by the stakeholder consultation which was undertaken for the RIBA Stage 2 feasibility report and detailed therein.

<b>Contact Officer:</b>	Keith Molloy
<b>Telephone Number:</b>	Tel: 0151 934 2734
<b>Email Address:</b>	<a href="mailto:Keith.molloy@sefton.gov.uk">Keith.molloy@sefton.gov.uk</a>

### Appendices:

The following appendices are attached to this report:

Appendix A  
Enterprise Arcade Business Case  
Append B  
Enterprise Arcade RIBA Stage 2 Design Feasibility Report

### Background Papers:

The following background papers, which are not available elsewhere on the Internet can be accessed on the Council website:

Cabinet meeting 1<sup>st</sup> April 2021, Southport Town Deal – Heads of Terms: [http://smbc-modgov-03/documents/s102024/Southport%20Town%20Deal%20Heads%20of%20Terms.pdf?LO\\$=1](http://smbc-modgov-03/documents/s102024/Southport%20Town%20Deal%20Heads%20of%20Terms.pdf?LO$=1)

Cabinet meeting 7<sup>th</sup> October 2021, Town Deal: Enterprise Arcade Project

## **1. Background**

- 1.1 Following the successful submission of Southport's Town Investment Plan, under the government's Town Deal funding programme, Southport has been allocated £37.5m for a range of projects. All project funding allocations through the Town Deal have been developed with the agreement and support of the Town Deal Board and in line with the Town Deal Programme Heads of Terms.
- 1.2 One of the projects agreed and allocated £1.5m of funding is The Enterprise Arcade. The Town Investment Plan set this out as the regeneration and transformation of Crown Buildings into Southport's first flexible office collaborative co working space; designed to act as an incubator and flexible/co-working space for start-up businesses with the purpose of nurturing the growth of the creative digital and technology led business base which already exists in the town but currently has no identifiable geographic focus.
- 1.3 In a break away from traditional office space and embracing the move towards flexible and hybrid working the Enterprise Arcade will be a 'Place for Pioneers', playing a part in Sefton's and the City Regions Economic Recovery Plan. The benefits being seen in an outward looking resilient economy, underpinned by the infrastructure which connects the whole of the Liverpool City Region.
- 1.4 The preferred option sets out the business case for the Councils delivery of the project and subsequent lease of the building to suitable tenant who will then be responsible for and contractually committed to the operation of the Enterprise Arcade and achieving the outcomes and outputs required under the Town Deal Heads of Terms.
- 1.5 The tenant will be appointed under a Property Lease with contractual obligations as set out in the Cabinet report dated 7<sup>th</sup> October 2021.

## **2. Project Outcomes**

2.1 Key objectives of the project include:

- Support the diversification of the local economy
- Deliver refurbished floorspace to create a business incubator and meet the needs of new and growing businesses through flexible, experiential workspaces
- Increase the number of business in the target sector(s)
- Support new business starts and encourage entrepreneurship
- Support business and provide the right space for them to expand
- Support the creation of new jobs and training opportunities
- Act as a hub for businesses and innovation in Southport, facilitate the networks and connectivity to support a thriving business ecosystem

- Drive private sector investment and help to deliver a new Creative, Digital and Tech led district
- Help retain younger people in Southport
- Help ensure greater integration between education and business

### **3. Delivery Approach and Recommendation**

3.1 A range of options for delivering these objectives has been assessed and a Recommended Option developed. The Recommended Option is set out in the RIBA Design Report and will involve in the first Phase, the renovation of 898m<sup>2</sup> of floor space in the Crown Building and three vacant adjacent shop units.

3.2 The RIBA Stage 2 Feasibility Report identifies a wider opportunity incorporating elements of space within the Bank Buildings (the Atkinson) and sets out how this wider opportunity might be realised. The report also recognises the limits of the current funding to deliver the Project and on this basis the scope of works identified in the report as Phase 1 of the project involves works only to Crown Building and the vacant Eastbank Street retail units which will link together through the proposed works. Associated with the identification of a suitable tenant operator the ability to deliver future phases of the wider project opportunity will be explored together with potential future routes to funding.

### **4. Business Case**

The Business Case developed for the project meets the requirement set out by Government and funding approval through the Town Deal Programme. The Business Case adopts a Treasury Green Book approach providing a 5 Case Model as a methodology detailing for the Project the:

- Strategic Case
- Economic Case
- Financial Case
- Commercial Case
- Management Case

A summary of each of the 5 cases as contained within the Business Case as follows:

#### **STRATEGIC CASE**

The Enterprise Arcade will provide a focal point for the development of the CreaTech sector in Southport and address a significant shortfall in the provision of commercial office space for SMEs whilst at the same time repurposing legacy retail property.

CreaTech is the umbrella term used to cover the emerging activities in which technology enables creativity to produce new, value added products, services, or experiences and vice-versa.

In the UK the CreaTech sector is one of the fastest growing sectors and provides high paid and highly productive opportunities for the workforce – typically focused

on a younger demographic. Southport is home to a number of successful CreaTech companies but in relative terms has not developed the same proportion of its business base and employment from the sector. One of the critical aspects in this underdevelopment has been the lack of a 'hub' around which businesses can establish, grow, learn and collaborate.

Those wishing to work in the sector, many of whom have achieved sector relevant qualifications from Southport College, either leave the area as they enter the workforce or take ongoing studies or out-commute. This is a lost opportunity in a town which is seeking to diversify its economic base and retain a greater proportion of people in the younger demographics.

The characteristics of the sector with dynamic new entrants offering limited covenant strength from a commercial property perspective present a significant challenge in attracting the provision of new office space. Southport in general presents viability challenges for office developers but this is compounded by the nature of the sector.

The opportunity to create the Enterprise Arcade represents a perfect opportunity to repurpose a legacy retail asset which is one of many voids in a town centre badly affected by general UK high street issues and Covid-19. It creates a new and highly attractive office development for a modest cost in a priority area of the town centre and can be entirely focused on the CreaTech centre and operated by a provider with experience of driving growth within that sector.

## **ECONOMIC CASE**

The scheme offers strong value for money. A prudent approach has been taken in the development of a Benefit Cost Ratio (BCR) value for money calculation. Gross jobs accommodated within the scheme has been estimated at 74 for the purposes of the economic case. The employment has been adjusted for deadweight, leakage and displacement before a multiplier impact was applied. The discounted GVA benefits of the scheme were calculated with a persistence effect of 3 years at £5.3m. The discounted costs were adjusted upwards for optimism bias and after this adjustment the scheme demonstrates a BCR of 3.34 which represents very good value for money against DLUHC guidance (a figure above 2 is considered good).

In addition to the BCR the scheme provides 898m<sup>2</sup> of repurposed floorspace which is a key measure for Towns Fund urban regeneration schemes and contributes against a number of qualitative factors relating to sector development, workforce retention and town centre footfall and vibrancy.

## **FINANCIAL CASE**

The financial case considers the capital costs associated with the conversion of Crown Buildings and the retail elements of Bank building into the Enterprise Arcade. The intention is that the completed building will be operated by an experienced provider of similar space for the CreaTech sector, but the provider is yet to be procured. As such, none of the operational costs or future rental receipts are incorporated into the business case – the financial case is concerned only with the refurbishment.



The architects (K2) have been working within the budget envelope of £1.5m provided by Towns Fund. The scheme will result in the conversion of 898m<sup>2</sup> to a Category A standard accommodation. This approach provides a full refurbishment and provision of services to the standards required of a business hub facility. The remaining partitioning and fit out works will be the responsibility of the Tenant operator – and this is considered appropriate given their specialist input into the nature of the final co-working and lease space for the sector.

The architect's approach has been fully validated by the work of a Quantity Surveyor (Gleeds) and they have provided a full cost estimate that demonstrates the affordability of the scheme, complete with a buffer for contingency. On this basis the final budget estimate is £1.5m when taken together with associated fees and costs.

## **COMMERCIAL CASE**

The delivery of the refurbishment project will be undertaken by a lead contractor, under a fixed price contract. This approach will then ensure that the scheme is delivered to budget with the appropriate contractual conditions aiming to ensure that the scheme is delivered against the timetable provided. This contract will be procured in compliance with public sector procurement rules and the process will be managed by Sefton Council officers.

The management of the centre beyond refurbishment will be undertaken by an experienced operator, also to be selected through a robust procurement exercise. This approach has been informed through soft market testing with operators experienced in the provision of collaborative business hubs for the CreaTech sector. The freehold interest of the final scheme will remain with Sefton Council.

The compliance of the scheme within Subsidy Control regulations has also been assessed and given that the scheme will remain in public ownership and the procurement approach being undertaken combined with the requirement for businesses to pay a market rent for occupation the scheme is deemed to be compliant with the regulations.

## **MANAGEMENT CASE**

The project will be managed in accordance with the well-established assurance and management framework established by The Council. Within this framework a programme, cost plan, risk register and evaluation process has been defined.

A summary of the Business Case for Enterprise Arcade can be seen at Appendix A. The status of the Business Case is described as a 'Business Case Light' given the status of the project Design and associated costings. This approach is consistent with and compliant to Towns Fund Guidance, using the template provided for this purpose. On this basis the next stages of design and development will include cost review provisions to allow for ongoing management and cost control as part of the normal risk management process.

## **5. Securing Preferred Operator**

- 5.1 Securing a preferred Tenant operator for the project is identified as key in achieving the main objectives of the project at section 2 above. Independent advice was sought in establishing the most appropriate way to secure a suitable operator for the project.
- 5.2 The advice provided recommended a lease agreement with performance requirements linked to a schedule within the lease arrangement as the mechanism to secure the delivery, recording and reporting of the necessary Town Deal outputs. This approach will ensure the Tenant operator meets all the requirements. The tenancy/operator opportunity is marketed through The Chest-North West Procurement Portal and build out construction works and in particular final fit will be dependent on the identification of a suitable tenant/operator through this process.

## **6. Town Deal Funding Assurance**

- 6.1 Soft market testing was carried out on The Chest procurement platform, in order to help inform and shape the Operator Model and proposals for an Operating Partner for Enterprise Arcade. The market testing exercise is intended to allow the council to consider the most appropriate Operator model for the long-term delivery of its strategic objectives associated with this project.
- 6.2 In addition to the market testing officers received external advice through the Town Deal Partnership from Grant Thornton (commissioned by government to support towns with their Town Deal processes). We evaluated both Delivery and Procurement Methods against the needs of the Council, to narrow down and identify the preferred option(s) for delivery of the Enterprise Arcade and to consider the options for securing an operator.
- 6.3 A number of options were outlined for consideration including:
- Lease and Service Level Agreement with operating partner
  - Procure an operating partner, with management agreement
  - Council form new arm's length company/CIC to deliver
  - Council deliver and operate directly
- 6.4 Considering the requirements to meet the Town Deal delivery timescales to have the business case approved at the very latest by March 2022 and assessing on a risk-based approach officers recommend that a Property Lease for the Enterprise Arcade assets, containing robust lease obligations as to the operation of the asset is pursued. It is considered that this approach will appeal to a wide range of potential Tenant operators and will therefore secure the right operator for the project, whilst also setting out requirements for the purpose of the operations to achieve the outcomes and benefits set out under the Town Deal.
- 6.5 It is also recommended that giving operators the option to form a Community Interest Company (CIC), by which it can explicitly demonstrate social purpose and through the inclusion of an asset lock (so the asset is tied into the delivery), and having a requirement to operate with a clear social objective, would add

synergy to the purpose of the Town Deal investment and economic growth in the town

- 6.6 It is considered that the single-document approach of embedding all obligations within the lease is preferable to a dual document approach or a bare lease and separate operating contract, both to eliminate the risk of any gaps between how the two documents dovetail with each other and also to mitigate against the operator contract being subject to a separate procurement exercise. The Property Lease will include Crown Buildings, vacant retail Units 3 & 5-7 Eastbank Street.

## **7. Asset Regeneration**

- 7.1 Alongside developing options for the operating model officers have been progressing the building design options with externally appointed architects who prepared a RIBA Stage 2 design (feasibility). This confirms the total floor area of the Enterprise Arcade Phase 1 works and will be shared with potential lessee/operators and aid the development of their submissions and business model.
- 7.2 The procurement of the next stages of design and delivery will follow the Stage 2 report. The options available for compliant procurement will be assessed based on their potential level of risk:

1. Open Procurement through the Chest
2. Compliant Public Framework

Using a compliant framework is considered the option with the lowest risk and more easily meets the timescales required to comply with Town Deal Heads of Terms for producing the business cases.

- 7.3 The decision on the Procurement route for the next design stages through to project delivery and construction has previously been delegated to the Executive Director (Place), in consultation with the Cabinet Member for Regeneration and Skills.

## **8. Next Steps**

- 8.1 As previously agreed by Cabinet, the Property Lease has been drawn up and advertised with a view to agreeing the Lease and operator before the final design stages of the project are fixed.
- 8.2 Officers will shortly commence procurement through a compliant framework for design and build phases of the project. Moving to the construction stage of the phase 1 works will only progress on confirmation that the Project Business Case has been approved by Government and funding secured on that basis.
- 8.3 Further information on the refurbishment/design and outcome of the Property Lease for the operating model for the Enterprise Arcade will be subject of progress updates to Cabinet Member for Regeneration and Skills and Cabinet Member for Regulatory, Compliance & Corporate Services.

- 8.4 The Business Case and Summary Document which is required by DLUHC will be submitted to Town Deal Board for their information and in order to meet the government deadlines for release of further funding to deliver the Enterprise Arcade Project.