

Report to:	Cabinet	Date of Meeting:	25 May 2023
Subject:	Crown Buildings and the Enterprise Arcade Project Update		
Report of:	Executive Director of Place	Wards Affected:	Dukes
Cabinet Portfolio:	Regulatory, Compliance and Corporate Services		
Is this a Key Decision:	Yes	Included in Forward Plan:	Yes
Exempt / Confidential Report:	Main report and Appendix A - No Appendices – Yes, Appendices B & C are NOT FOR PUBLICATION by virtue of Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972. The Public Interest Test has been applied and favours the information being treated as exempt		

Summary:

Report to update Cabinet on the Southport Town Deal project, The Enterprise Arcade. It provides a summary of progress to date and an update on the proposed operating model. The report also provides details of the enabling works required to the Crown Buildings to facilitate the project.

Recommendation(s):

That Cabinet:

- (1) To note the progress to date and forthcoming project milestones. Finalisation of the procurement strategy for the main contractor of the refurbishment works for the Enterprise Arcade and the enabling works required in the Crown Buildings will be delegated to the Executive Director of Place in consultation with the Cabinet Member, ensuring the capture of good practice and lessons learned from recent contractor procurement processes and construction projects.
- (2) To approve the proposed alternative operating model and that the Executive Director of Place can progress discussions / procurement with potential partners and tenants as detailed in Option C.
- (3) To approve Officers developing the business plan model for Option C and, if in line with current assumptions that the project will not require any revenue subsidy, delegate authority to the Executive Director of Place in consultation with the Cabinet Member to approve.
- (4) Recommend that Council approve a supplementary capital estimate of £0.24m for the enabling works in the Crown Buildings to be funded from Capital receipts.

Reasons for the Recommendation(s):

To ensure that the build project continues to progress in line with the agreed Town deal funding parameters.

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

In summary:

- a) Do nothing, reopen negotiations with the preferred operator.
- b) Re tender the opportunity to the market.
- c) Delivery in-house and maintain control and management responsibility of the project.
- d) Create new CIC with partner organisations.

Section 3.5 of the report and Appendix C (Summary of Operator Model Options) provides further details on the options considered.

What will it cost and how will it be financed?

(A) Revenue Costs

It has always been intended that the running costs will be cost neutral to the Council with the occupants contributing to the service charge covering operating cost such as utilities and maintenance fund for longer term cyclical/full life repairs and maintenance of the Enterprise Arcade, once fully operational.

(B) Capital Costs

The Enterprise Arcade is part of the Southport Town Investment Plan and has been identified as one of the projects to be delivered using part of the Towns Deal funding, with £1.5million being earmarked for this project. Refurbishment costs of £1.315m were estimated at the outline business case stage along with fees and other projects costs in the region of £185,308, giving a total project budget of £1.55m for the Enterprise Arcade.

The enabling works that fall outside of the Town Deal funded contract have been identified in the region of £240k. This is broken down in the main body of the report – item 2.2.2 and Appendix B. The enabling works are required to maintain the envelope of the building (maintenance backlog identified prior to the current project development (previous assumption being that Crown Building would no longer be required operationally by the Council) and the associated realignment of shared services and ICT infrastructure with the adjacent Atkinson building. Although these services are separate to the Enterprise Arcade project, they are required to enable the Enterprise Project to progress and maintain IT provision to the Atkinson and Southport Town Hall. In the interests of best value and meeting the Town Deal funding programme, they may be included as a package within the main works contract. When the two projects are combined, the potential total costs will equate to £1.79m with the intention that the enabling works are incorporated into the refurbishment works package.

Implications of the Proposals:

Resource Implications (Financial, IT, Staffing and Assets):

Existing assets, the Crown Buildings and the ground floor retail units in the Bank Building, will be brought back into use, curating and fostering collaborative workspace for digital and creative start-up and scale up businesses. There is a potential of Business rate generation as a result of new occupiers in the building.

The implications include staff time in the regeneration, property services and InvestSefton teams, along with ancillary support from legal and finance teams. The implications are being managed within the current Council resource envelope and prioritising work as required. External contract management consultancy has been secured within the project budget, but other external expertise may need to be procured to develop a viable alternative operating model.

Whilst the refurbishment works are 100% funded by the Town Deal, financial support is also required to ensure the backlog maintenance works are completed to the Crown Buildings envelope to enable the Enterprise Arcade project to proceed.

Legal Implications:

Refurbishment Contract:

The project team are leading on the works contract for the refurbishment works. This will be a JCT Design and Build Contract with Sefton Council standard amendments. Finalisation of the procurement strategy will be delegated to the Executive Director in consultation with the Cabinet Member, ensuring the capture of good practice and lessons learned from recent contractor procurement processes and construction projects.

Lease:

The operating model will determine how the space will be let. Moving away from a single operator with a head leasehold interest, the alternative model looks at Sefton Council retaining the management responsibility and letting the premises to the interested parties directly, thus replicating the successful model used for Southport Market. Delivery options include being managed in-house and the use of a managing / facilities agent. The terms of the lease and schedule of requirements were approved previously and are broadly still fit for purpose. Again, Southport Market operator model provides a good benchmark in this respect. A business plan will be developed for the project, but at this time the expectation remains that the project will not require any revenue subsidy from the Council, given the anticipated receipt of rental income from tenants and operators within the Enterprise Arcade.

Equality Implications:

The equality Implications were identified at the business case stage and will be reviewed and updated during the construction phase. Some equality implications regarding accessibility remain due to refurbishing an existing asset. A copy of the Equalities Impact Assessment is included in Appendix A.

Impact on Cared for Children and Care Experienced Young People: Yes

The Council will aim to secure the main contractor for the build elements of the project, and all partners and tenants of the Enterprise Arcade in operation, as signatories to the Caring Business Charter, which seeks to secure support in providing employment, apprenticeship, training, mentoring, work experience and other opportunities for care experienced young people in Sefton. This is already underway, with K2 Architects (who are working on the project) already signed up to the Charter and delivering support to care experienced young people. Local schools and colleges will also be key project partners, and further opportunities will be developed in partnership with them.

Climate Emergency Implications:

The recommendations within this report will

Have a positive impact	Yes
Have a neutral impact	No
Have a negative impact	No
The Author has undertaken the Climate Emergency training for report authors	Yes

The Energy and Environmental Management Team were consulted at the Business case Stage. The indicative Mechanical and Electrical proposals as part of the refurbishment works include replacing the current gas fired boilers with a complete energy efficient heat pump Variable Refrigerant Flow (VRF) heating and cooling system. This is subject to review with the successful tendering contractor as there may be greater cost/ benefit in retaining more of the existing mechanical and electrical infrastructure where fit for purpose for the short to medium term.

The Crown Buildings are located in the town centre, a short walk from the train station serving Liverpool, Manchester and surrounding areas, bus stops and the general town centre parking provision. Shower facilities have been incorporated in the scheme design to encourage walking and cycling and promote active and sustainable travel.

Contribution to the Council's Core Purpose:

Protect the most vulnerable: The Town Deal projects will support the post COVID-19 recovery of Southport economy by creating new employment opportunities across the town and extending the traditional tourism season.

Facilitate confident and resilient communities: As part of the aspirations of the Town Investment Plan and the Town Deal projects, this project will enhance the community and the town as a place to live and work, providing a new hub for digital and creative businesses and new business start-ups in a prominent accessible and aspirational Town Centre location.

Commission, broker and provide core services: The Town Deal and associated Town Investment Plan will support the core value of providing core services in the optimum and most accessible way, also making best use of digital now and helping to future proof services at the front of delivery.

<p>Place – leadership and influencer: The Council will directly contribute to an improved visitor destination creating further confidence in Southport that could lead to future private sector investment.</p>
<p>Drivers of change and reform: Providing a long-term sustainable future for Southport creating a new diverse use meeting the expectations of residents and visitors and bring a vacant building back into use. Making Southport an increasingly attractive place to live and work and embrace the needs of current and future businesses, residents, and visitors.</p>
<p>Facilitate sustainable economic prosperity: The proposals will support new business start-ups and scale-ups, help established businesses to create additional employment and sustainable business growth, as well as new digital and creative hub in the Town Centre.</p>
<p>Greater income for social investment: Whilst the initial proposals are not profit led, the scheme will look to be self-sufficing. Once established there will be the opportunity to support the generation of income that can support the delivery and enhancement of positive social impact.</p> <p>The refurbishment contract will also be tendered and evaluated on social value criteria in 5 key areas:</p> <ol style="list-style-type: none"> 1) Employment related opportunities for key priority groups, in particular; local car leavers and local (30 mile radius) apprenticeships 2) Educational opportunities for the next generation; initiatives with local schools and colleges 3) Innovate ideas & contribution to Sefton’s environmental and sustainability goals 4) Use of local supply chain (within 30 miles) 5) Health and well-being initiatives for both the project team and local community <p>The contractual target outputs will be agreed with the selected tenderer prior to commencement of the works.</p>
<p>Cleaner Greener: Reviewing the proposed heating infrastructure and upgrading the system will reduce the carbon footprint of the operational building and support the Councils Zero Carbon ambitions.</p>

What consultations have taken place on the proposals and when?

(A) Internal Consultations

The Executive Director of Corporate Resources and Customer Services (FD7224/23) and the Chief Legal and Democratic Officer (LD5424/23) have been consulted and any comments have been incorporated into the report.

(B) External Consultations

Extensive external consultation and engagement took place throughout the Town Deal bid development process, in line with the advice from of Sefton’s Public Engagement and

Consultation Panel. Stakeholders were engaged through the detailed design stages for the project. Further statutory consultations have taken place through the planning process. Informal consultation has been undertaken via a presentation at the inaugural Sefton Huddle, a new networking group for the digital and creative sector.

Implementation Date for the Decision

Immediately following the Committee / Council meeting.

Contact Officer:	Keith Molloy /Clare Wright
Telephone Number:	07989 222 723
Email Address:	Keith.molloy@sefton.gov.uk / clare.wright2@sefton.gov.uk

Exempt Appendices:

Appendix A – Equalities Impact Enterprise Arcade March 2022

Appendix B – Cost breakdown of the Enabling works (Exempt)

Appendix C – Summary of Operator Model Options. (Exempt)

Background Papers:

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

Southport Town Deal and Town Investment Plan:

<https://www.sefton.gov.uk/miscellaneous-pages/southport-town-deal/>

1. Introduction/Background

- 1.1 This report will provide a summary of progress to date, including improvement and backlog maintenance works to the Crown Building, and the proposed operating model for the Enterprise Arcade Project.
- 1.2 The Enterprise Arcade will reimagine Southport's Crown Buildings, linked to the Atkinson Arts Centre by way of the ground floor retail units in the Grade II listed Bank Building and alongside the adjacent Cambridge Walks shopping arcade. The refurbishment will create collaboration space, a floor for a large SME anchor tenant and 2 floors for growing SMEs as office workspaces as well as co-working and meeting spaces. Approximately 70% of the gross floor area will be lettable, and 30% given to shared communal facilities and circulation. Overall, there will be c.890m² of modern flexible space for digital and creative start-ups and scale-ups.
- 1.3 The Enterprise Arcade is part of the Southport Town Investment Plan and has been identified as one of the projects to be delivered using part of the Towns Deal funding, with £1.5million being earmarked for this project. Refurbishment costs of £1.315m were estimated at the outline business case stage along with fees and other projects costs in the region of £185,308, giving a total project budget of £1.55m. Additional works have now also been identified to maintain the envelope of the building and realign the shared services and ICT infrastructure with the adjacent Atkinson building. This results in potential total project costs of approximately £1.74m.
- 1.4 The contract procurement is underway. Value engineering will be undertaken as part of the tender process and RIBA Stage 4 Design development to ensure the integrity of the project budget and outputs are maintained. The project is already designed and costed to RIBA Stage 3 and cost plans have been further tested by the consultants recently appointed to help accelerate project delivery.
- 1.5 The Council has continued to evaluate potential operating models and solutions, and as per section 3 of the below it is recommended that the model that delivers best economic and social value, with focus on local businesses and entrepreneurs, is option C, referred to as retaining management responsibility for the Enterprise Arcade and deliver the project in-house. This also enables progression of the project within the timescales required by the Southport Town Deal funding process. A previous procurement process had identified Baltic Creative as a potential operating partner, but the progression of this alternative route to an operating model has been mutually agreed with Baltic Creative, and discussions on this project with them have been concluded.

2.0 Progress to date

2.1 Enterprise Arcade

- 2.1.1 The RIBA Stage 3 design work was completed late 2022, and Listed Building consent and planning permission were secured in January 2023.

- 2.1.2 Procurement of the cost and project management consultant was concluded March 2023, and the consultants have been undertaking a detail review of the design work undertaken by the design team at K2 and their design consultants in preparation of the forthcoming contractor procurement exercise.
- 2.1.3 Current timescales will result in the contractor tender taking place Spring 2023 with a start on site of the CAT A fit out works in Autumn this year. A Cat A fit out is the finishing of the interior space. This type of fit out includes the installation of a building's mechanical and electrical services, finished internal walls, reception areas and lift lobbies providing a 'blank canvas' for the tenants to complete the CAT B furnishings. Depending on the construction period, the tenant / operator fit out can take place afterwards around Spring/Summer 2024 with a scheme opening of summer 2024.

2.2 The Crown Buildings

- 2.2.1 Cabinet members have previously agreed in principle to the use of capital receipts from recent asset sales linked to the Growth Programme against the enabling works (envelope works to maintain the fabric of the building and relocation of ICT equipment) in the Crown Buildings, recognising that the backlog of maintenance works need to be addressed to facilitate the Enterprise Arcade project. Finance officers have made a capital allowance in the 2023/24 budget (subject to approval) for these works, in addition to the Town Deal funded project.
- 2.2.2 The enabling works need to be progress to avoid delays to the Enterprise Arcade and meet the Town Deal funding programme dates. Long lead orders such as the relocation of the ICT equipment is required to enable works to commence on the Enterprise Arcade.

The breakdown of the indicative costs is detailed in Appendix B.

3.0 Operating model

- 3.1 In the Cabinet report presented in March 2022, it was agreed that the completed scheme would be managed by an external operator through a leasehold interest in the building and an appended schedule of requirements to monitor and ensure fulfilment of the project and Town Deal Funding objectives.
- 3.2 The requirements were set out in the tender documentation seeking a competent company able to both manage the building also having the resource and expertise available to provide or curated support services for start-up, scale up and high growth potential businesses with a particular focus on Southport's emerging creative, digital and tech sector.
- 3.3 The procurement exercise to secure the 'anchor tenant' was concluded last summer with Baltic Creative being identified as the preferred tenant and project operator. However, the progression of this alternative route to an operating model has been mutually agreed with Baltic Creative, and discussions on this project with them has been concluded.
- 3.4 The project objectives remain the same:

- to provide refurbished office workspaces for start-up, growing SMEs and co-working space for creative and digital tech businesses,
- be a catalyst for creating new digital eco-system in Southport Town Centre,
- Meet the Town Deal funding conditions and project outputs,
- Running costs to be cost neutral to the Council.

3.5 To preserve the project objectives, an alternative operator model needs to be considered. A breakdown of the options is included in Appendix C and summarised below.

- Do nothing**, reopen negotiations with the preferred operator. This may no longer be the optimum solution and will delay the project, with no guarantee they will want or be able to pursue this opportunity in the future.
- Re-tender the opportunity** to find an alternative operator. Feedback from the first tender was that this project, in isolation, was not large enough to benefit from economies of scale and was not a viable business opportunity for the larger known managed workspace operators. There is also the danger of an operator looking at this as a pure commercial venture, whilst it is imperative that this scheme covers its own costs, the ultimate driver is the creation of a new digital and creative hub. This option could jeopardise the project objectives if ran as a pure commercial operation.
- Retain management responsibility and deliver in-house** (adopt existing delivery model on a similar basis used at Southport Market). The arrangements in place are flexible to allow an anchor tenant with additional responsibilities to help facilitate the core functionality. This could be replicated for the Enterprise Arcade with an F&B tenant and anchor tenant in the office space on a lease agreement with a schedule of requirements to ensure delivery of the required outcomes for the project.
- Create new CIC** with existing Sefton Council partners. This would formalise the approach in option C setting up a new company structure, arm's length from the Council. It's likely that this would be time consuming process and difficult to achieve a level of surety necessary to committing to a lease and the associated output requirements.

3.6 The optimum operating model being proposed to deliver within existing time and budget restraints is option (c) noted above. This will enable delivery of the Enterprise Arcade project in line with the Town Deal funding programme and in line with the summary Business Case as part of the funding application.

3.7 Whilst this will remedy the legal interest and management of the completed project, Sefton Council do not have the inhouse expertise to foster and curate building a digital economy eco-system and meet the long-term aspirations of this project. Sefton Council could look for a support role to shape the proposition, as the preferred operator would have fulfilled. There are crea-tech industry specialists that that have expressed an interested the project and see the potential value to this proposition. As part of the ongoing development of the operator

model officers will continue to engage with sector specialist and explore ways of securing appropriate input in supporting the objectives and output requirements of the project.

- 3.8 An operational business plan will be developed for the project, but at this time the expectation remains that the project will not require any revenue subsidy from the Council, given the anticipated receipt of rental income from tenants and operators within the Enterprise Arcade. This will be approved by the Executive Director in consultation with Cabinet member, unless these assumptions change, and revenue support is required in the business plan forecasts.

4.0 **Conclusion**

- 4.1 In conclusion, in light of the above report, subject to the agreement of Cabinet, Sefton Council are to progress the Enterprise Arcade project operator model based on the recommendations in this report. Economic Growth and Housing Officers are instructed to progress discussions and procurement with potential partners and tenants to agree an appropriate operational management solution for the preferred in-house option stated.