

Report Title: Enterprise Arcade Business Plan

Date of meeting:	5 December 2024		
Report to:	Cabinet		
Report of:	Executive Director - Regeneration, Economy and Assets		
Portfolio:	Cabinet Member - Regeneration, Economy and Skills		
Wards affected:	Dukes		
Is this a key decision:	No	Included in Forward Plan:	Yes
Exempt/confidential report:	No		

Summary:

Enterprise Arcade is being delivered and funded as a capital project within the Southport Town Deal Programme. The Enterprise Arcade will provide a co-working and collaborative workspace for creative and digital businesses in Southport with a mix of accommodation comprising a collaborative Ground Floor Food and Drink based offer, a co-working / hot desk and start-up space on the first floor, three 'grow on' offices on the second floor and a large single office on the third floor identified as suitable for an 'anchor tenant' for the project.

In May 2023 Cabinet agreed to a recommendation to adopt direct responsibility for management of the facility, on the basis that a future report would be presented on the operational Business Plan for the building. This report provides a summary of this Business Plan, as physical works on the project progress towards completion early in 2025.

Recommendation(s):

It is recommended that Cabinet:

- (1) Note the Business Plan Profit and Loss Statement of Operation based on the Council taking a direct role in management of the Enterprise Arcade; and
- (2) Note that existing budgets will be utilised to allow the project to become operational and deliver the commitments to outputs set out in the Southport Town Deal.

1. The Rationale and Evidence for the Recommendations

- 1.1 The Enterprise Arcade forms part of the Southport Town Deal Programme and involves the conversion of the vacant former Council operational property Crown Building, Eastbank Street, into a modern shared workspace. Focused on the digital and creative businesses as a key growth sector in the area, the project aims to diversify the town centre and local economy. The building will complete early in 2025 and will incorporate a collaborative ground floor food and drink-based offer, a co-working / hot desk and start-up space on the first floor, three 'grow on' offices on the second floor and a large single office on the third floor identified as suitable for an 'anchor tenant' for the project.
- 1.2 The operation and management of the building was intended to be provided through a third party competent in both building management but also with appropriate experience and expertise in supporting start up and growth businesses in the target sector.
- 1.3 Following a tender process, it has not been possible to identify a suitable commercial operating partner for the project. On this basis in May 2023 Cabinet agreed to progress the project with the Council as the operator of Enterprise Arcade, until and unless an alternative and suitable alternative operator is identified.
- 1.4 In approving this approach for direct management of the project, it was agreed that a Business Plan would be prepared setting out the Profit and Loss statement on how the Enterprise Arcade is to be operated and this report covers the following:
 - Profit and Loss statement for the operation of Enterprise Arcade
 - Specialist Creative and Digital Sector Support
 - General Management Arrangements
 - Marketing and Communications
 - Social Value

2. Profit and Loss statement of operations for Enterprise Arcade

- 2.1 Operational management of this building has been based on the following parameters for the project:
 - The project does not focus purely on profit but aims to break-even in the long term.
 - Assumes a prudent approach in rental assumptions, including potential rent-free space for young people and students etc.
 - The space creates the right mix and ecosystem to support local enterprise and growth in the creative and digital sector.
 - Is commercial in its approach and management to ensure subsidy control compliance.
 - The space provided will aim to appeal to and create the right space to attract young people into this sector.
 - A key anchor tenant will help underpin both the business plan and the "ecosystem" above.

- Wider interdependencies to be reviewed over time with the Atkinson, Southport Town Hall and Gardens and Southport Market.

- 2.2 The Profit and Loss statement of operation report has been prepared in support and as part of the wider Business Plan for Enterprise Arcade. The statement of operation report provides details on the cost and income for the project to provide the most accurate projection possible at this time. It will continue to be developed and refined and where costs are estimated (e.g. energy costs, business rates) these have been estimated based on informed assumptions and technical information available at this time. These may shift in real terms once the building is up and running and will therefore be kept under review.
- 2.3 The uptake from tenants has been estimated prudently with a very selective and gradual growth in occupancy, to allow the project to grow and become established in the market. Rental levels have been estimated against local market evidence and a further formal valuation will be undertaken once the building work is completed.
- 2.4 In summary within the Business Plan Profit and Loss statement of operation, based on the anticipated cost and income per year, the projects is showing a variance across years 1 to 3 as set out in the table below.

	2025-26	2026-27	2027-28
	Year 1	Year 2	Year 3
Variance	-£42,788	-£52,681	-£35,873

Work is ongoing to develop and refine the anticipated costs and income for the project, and this statement will be refined further to aim and get the project to break even by year 5.

- 2.5 Scenario planning and sensitivity analysis has been undertaken on the business plan assumptions, and management's focus will be on meeting or surpassing this prudent scenario herein.

3 Specialist Creative and Digital Sector Support

- 3.1 In the original business case for the project there was recognition of the need to incorporate within the operating model an element of early and ongoing sector expertise in the target creative and digital business sector. This would be in addition to the generic business support, advice and guidance provided through Invest Sefton and the Local Growth Platform.
- 3.2 External support is in place to ensure the venue can achieve the committed outputs in terms of business development and growth. Future specialist support on a part -time basis has been incorporated within the Profit and Loss statement of operations to ensure continuity in the processes of delivering outputs from the project which support the underlying objectives improving skills, diversifying the local economy and supporting local growth.
- 3.3 More generally and in recognising the discrete nature of the Creative and Digital Sector across Sefton, the Invest Sefton Team have now established a Digital

Huddle for the whole of the Borough. This has provided a useful platform to not only sense check design and delivery of the Enterprise Arcade project but also to promote the opportunity and network to potential tenants of the developing space.

4 General Management Arrangements

- 4.1 As a multi tenanted building with common/shared areas and 24/7 operation there is an identified need for a level of nominated responsibility for day-to-day operations. Provision is made within the Profit and Loss statement of operation for a general management role. Building related property management will be managed through the Council as landlord, via Property Services with costs to be built into the service charge to tenants. This relates to the physical envelope (including mechanical and electrical, lifts etc) of the building and not day to day operational management requirements (e.g. cleaning/general utilities provision and general servicing arrangements).
- 4.2 The intention is to explore this element with the future operator of the ground floor collaborative food and beverage offer but until such time as an operator has been secured there needs to be provision in place independent of such an operator.

5 Marketing and Communications

- 5.1 No specific budget line exists for marketing of the project either through Town Deal or under more general provisions. However, a Communications Plan has been developed to support promotion of the project and associated opportunity, and this will form part of the GM role.
- 5.2 As a Town Deal project, Enterprise Arcade featured as a distinct element in all related communication and is also featured on the bespoke element of the Council's web site and associated digital and social media presence.
- 5.3 A bespoke marketing piece is being developed with the project architects highlighting the ground floor collaborative F&B offer and the unique nature of the remainder of the offer this alongside the wider opportunity developing through the Southport Town Deal. A review of the name and brand for the facility is to be undertaken in partnership with anchor tenants early in 2025.
- 5.4 In house resources are being engaged in the production of bespoke video content for use on-line and for wider marketing purposes on an opportunity basis.
- 5.5 Enterprise Arcade and the Digital and Creative opportunity in Southport is being promoted and supported at a Liverpool City Region level and will be highlighted as part of all ongoing inward investment work co-ordinated through the Invest Sefton Team and Local Growth Platform.

6 Social Value

- 6.1 Alongside the wider value of the project in securing local skills development through business development the opportunity exists for the Enterprise Arcade Project to become a local base for Digital Skills development more generally.
- 6.2 The original project outline envisaged the opportunity that the project presented in co locating creative and digital businesses relative to this becoming a focus for sector skills development on a work-based learning model - for example supporting T Level qualification learning.
- 6.3 The contractor on the building project has been working alongside the Council in exploring ways in which the project can support this aim. The contractor is also a signatory of the Caring Business Charter.
- 6.4 A fuller report on social value will be delivered via the Council's usual reporting to Overview and Scrutiny Committee regarding social value in the growth and strategic investment programme.

7 Financial Implications

- 7.1 The Profit and Loss statement sets out the projected income and expenditure for the project over the first 3 years whilst the concept is being established in the local market. The statement includes a number of informed estimates based on local market rates. In addition, rental levels shown are based on realistic current market values in Southport.
- 7.2 The business Profit and Loss statement of operation will continue to exist as a live operating model, will be monitored and managed in a positive and pro-active manner to ensure the best possible outcome (financially, economically and socially) for the Council, the borough, and those businesses and individuals engaged in the provision of this dedicated digital and creative work space.
- 7.3 This statement will be subject to an ongoing review as tenant occupation, including an anchor tenant are confirmed. The project will be subject to active and ongoing marketing to maximise exposure to potential tenants and customers.
- 7.4 The variance summarised below and identified within the Profit and Loss statement of operation will be managed within existing core budget provision by Economic Growth and Housing.

	Year 1	Year 2	Year 3
Variance	-£42,788	-£52,681	-£35,873

8 Legal Implications

- 8.1 The physical project is being delivered in the manner consistently set out within our approved Southport Town Deal funding agreement. The management arrangements are not prescriptive, and the approach adopted in managing the operation of Enterprise Arcade directly sits within the general scope of authority

available to the local authority by virtue of the general powers of competence set out within the Localism Act.

- 8.2 Subsidy Control has been considered and in August 2024 the Council received advice from Geldards LLP Legal of compliance of the Southport Town Deal project. The advice provided offered some observations and recommended the Council keep under review the question of whether tenants are receiving subsidies when it agrees terms with each tenant to ensure compliance with the legislation.

9 Risk Implications

- 9.1 Development and delivery of the project has been managed in the appropriate manner through the operation of a live risk register which has been actively managed throughout the development and delivery.

- 9.2 Key operational risks include:

- Market demand for the facility
- Subsidy Control compliance
- Tenant and customer management
- Diluting concept to ensure commercial viability.

- 9.3 The risk implications of the council not moving forward with the direct management and operation of the building at this time and based on the projected Profit and Loss statement of operations for Enterprise Arcade would be for the project not to open on completion of the contracted works. If the building did not move to an operational phase the following risks might be involved:

- Claw back of grant funding.
- Failure to address the fundamental problems and opportunities identified within the project/business case and Southport Town Deal
- 'Moth balling' costs associated with the asset

10 Staffing HR Implications

- 10.1 The Profit and Loss statement of operation identifies part time staffing requirement under general management arrangements due to the nature of the building in both physical and operational context.

Conclusion

Enterprise Arcade is delivering an important element of the Southport Town Deal seeking to increase the sector representation of Creative and Digital businesses in Southport and across the Borough as a whole. In this way Enterprise Arcade will provide a focus for the sector, a hub for collaboration and a base for skills and learning development in a work-based environment. In addition, it will help diversify the town centre and local economy.

The business Profit and Loss statement of operation will continue to exist as a live operating model, will be monitored and managed in a positive and proactive manner to ensure the best possible outcome (financially, economically and socially) for the Council, the borough, and those businesses and individuals engaged in the provision of this dedicated digital and creative work space.

Next steps for this project involve ongoing dialogue with prospective tenants and marketing of the facility to the market. Further refinement of the operational cost associated with the facility will be undertaken to refine estimated figures.

Alternative Options Considered and Rejected

- i) Commercial Lease to Digital and Creative Operator - The original intention with this project was to lease the entire building and associated operation to an external provider. Tender for an external provider was not successful due to a number of reasons including a limited number of operators in this specialist area and changes within this market. The Council were unable to identify a suitable operator and consequently agreed to operate the facility direct, in the short term, to ensure the facility could open on completion. The Council will however continue to explore a partner to work with so the building can operate in the original manner envisaged, but this may not be necessary for the successful operation of the asset and the opportunity.
- ii) Keep in Council Use - An alternative approach could be for the Council not to progress with letting out the space in the building. This could result in the risk of clawback from the funders as the project was not delivered as intended, reputational risk and a reduced town centre regeneration impact.
- iii) Lease to a non-digital/creative 3rd Party or sell the building on completion – This would result in non-compliance of the Town Deal grant and could result in grant clawback. Depending on the use, town centre diversification and growth of the local economy might not result.

Equality Implications:
There are no equality implication in the nature of the operator model for the building.
Impact on Children and Young People:
There are benefits for Children and Young people as a consequence of the Council's operation of the building as opposed to any other external operator. The facility will be used to develop digital and creative business enterprise and skills and in particular will look to attract young people looking to work or develop skills in this key growth sector. It will be a safe space and, with the proximity to the Atkinson centre, is hoped to assist with engagement and attraction of young people and talent into the facility and encourage networking opportunities.
Climate Emergency Implications:
The recommendations within this report will have a Positive impact. Once in operation which it is the objective of this report to facilitate, the regeneration of the former Crown Building to create the Enterprise Arcade project involved the removal

of gas heating systems, the more sustainable replacement systems can be managed more effectively across the whole of the building footprint across various future independent occupiers. In addition, lighting within the specification meets modern standards for efficiency. Similarly, this applies to the installation of the new passenger lift. The project and all works have been carried out to current building regulations standards and these approved by and through Sefton Council Building Control. The Enterprise Arcade is close to easily accessible, high quality, bus and rail provision in Southport town centre and has no dedicate parking provision within the development which will help encourage more sustainable transport use and active travel.

(A) Internal Consultations

The Executive Director of Corporate Services & Commercial (FD 7816/24) and the Chief Legal and Democratic Officer (LD 5916/24) have been consulted and any comments have been incorporated into the report.

(B) External Consultations

From a project development and delivery perspective extensive consultation took place on the Southport Town Deal and submission to government, including the Enterprise Arcade project. The consultation process and all associated comments and feedback are available online through the Councils web site.

A listed buildings application was necessary in progressing the project for the Bank Building elements and this was open to public comment where there were no objections recorded.

The Councils InvestSefton Team established and operate the Sefton Huddle, a forum for Creative and Digital businesses across Sefton. This Group have been important to the conversations that have helped shape the final content of the project through regular updates and the sharing of ideas and information.

On the specifics of the operator model and the Councils direct involvement, the project opportunity itself and the operation of the Enterprise Arcade was soft market tested on the Chest procurement platform and subsequently openly advertised in the same manner. This approach allowed for dialogue with a range of providers helping to inform the approach to design and delivery of the project.

Implementation Date for the Decision :

Following the expiry of the “call-in” period for the Cabinet decision.

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Appendices:

None

Background Papers:

Sefton Council Cabinet Report 25th May 2023 - Crown Buildings and the Enterprise Arcade Project Update