

REPORT TO RESOURCES PDG

REPORT OF: Property Development Manager

REPORT NO: PD019

DATE: 24 July 2014

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| TITLE: | Redevelopment of St Peters Hill, Grantham. Procurement and Budget allocation update. | |
| KEY DECISION OR POLICY FRAMEWORK PROPOSAL: | Key Decision | |
| PORTFOLIO HOLDER: NAME AND DESIGNATION: | Councillor Frances Cartwright Grow the Economy and Economic Development Councillor Mike Taylor Strategic Resources - Well Run Council | |
| CONTACT OFFICER: | Neil Cucksey n.cucksey@southkesteven.gov.uk 01476 40 62 24 | |
| INITIAL IMPACT ANALYSIS: Equality and Diversity | Carried out and Referred to in paragraph (7) below | Full impact assessment Required: |
| FREEDOM OF INFORMATION ACT: | This report is publicly available via the Your Council and Democracy link on the Council's website: www.southkesteven.gov.uk | |
| BACKGROUND PAPERS | Redevelopment of St Peter's Hill Grantham Cabinet- PD015, 03 February 2014. | |

1. RECOMMENDATIONS

- 1) That Rescources PDG note the progress made on developing the scheme and changes made to the component parts of the scheme from those presented in report No PD015 and to progress the scheme on this basis within the capital costs highlighted.
- 2) That the PDG recommends to Cabinet an amended allocation in the capital programme for this scheme of £4.9m from the £6.1m currently allocated.

2. PURPOSE OF THE REPORT

The report provides an update from the Cabinet report PD015 on the makeup of the components of the proposed scheme, the procurement route being progressed and allocation of capital towards the component parts of the scheme.

3. DETAILS OF REPORT

- 3.1 In order to potentially bring forward a Business Incubation Centre (BIC) in the town, in the absence of other identified and available sites, the previously reported scheme included provision for a BIC on two floors over the A3 restaurant space adjacent to the cinema.
- 3.2 In order to test the viability of a BIC on this site a leading consultancy in economic development assessment and research, were commissioned to undertake a feasibility study and develop business plan options for the BIC.
- 3.3 The study includes a comprehensive demand analysis examining current levels of enterprise activity, business start-up rates and confidence in the market. The study also includes consultations with stakeholders and agents, a review of current supply and identification of potential gaps in the market.
- 3.4 A modelling exercise was also undertaken to determine the viability of building a BIC as part of the St Peter's Hill development and the optimum layout was investigated for the centre with associated operating costs and resulting economic impacts. Options were tested to examine the best financial and economic returns. Three options were presented.
- 3.5 A demand analysis was completed based on an assessment of data sourced from national statistics, a small office/ home office database, local demand/ enquiry data, a review of local strategies, plans and studies, consultations with stakeholders, and commuting data and population statistics.
- 3.6 The study evidenced a good level of companies being run from home, which indicates that there is potentially an excellent level of latent demand for good quality small office space (between 20 sq m and 100 sq m) in the district.
- 3.7 However, it is considered that the amount of available floor space in the St Peter's Hill Cinema development is too small to create an efficient facility for a BIC to operate at anything near optimal. Whilst Option 3 presents the most realistic model for this location, it constrains the wider redevelopment of St Peters Hill in terms of complimentary uses for the creation of a cultural and leisure quarter for Grantham. The scheme is therefore considered marginal and alternative proposals should be investigated for the available space above the ground floor A3 units in the proposed development.
- 3.8 In order to compliment the enhanced Cinema offer and existing Guildhall Arts Centre a soft marketing exercise has been carried out to ascertain the likely level of interest from

A3 (Restaurant) operators in locating new offers to Grantham in the space adjacent to the cinema.

- 3.9 The level of confirmed interest in the scheme has been strong. Taking only those operators that confirmed definite interest in having space in the scheme, there is currently more demand than available space on the ground floor. We have therefore looked to include approximately 4000 sq ft of A3 space on the first floor.
- 3.10 Typically first floor space for A3 use is less attractive to operators; however the concept of a food court with multi cuisine and live cooking areas sits well with a quality fast food offer for those seeking a quicker dining experience before or after a film. A reconfiguration of the space at first floor level will suit this use. Placing the entrance immediately adjacent to the Cinema entrance ensures footfall passes the entrance to the first floor A3 outlet.
- 3.11 The balance of the first floor, approx 5800 sq ft net, is allocated to office use. The space could be let as one unit or split into smaller units to meet some of the demand identified in the work carried out by Consultants, but without any business support or services.

4.0 Procurement route

- 4.1 The procurement route being progressed for the construction of the new Community Hall, Cinema, A3 units and public realm is via the East Midlands Property Alliance (EMPA) framework.
- 4.2 This framework has been used recently by the Council to deliver new housing and is an expedient and efficient way of procuring the works whilst having transparency and certainty of the cost model and programme early in the project.
- 4.3 The EMPA Framework also ensures a target spend through the local supply chain and typically 50% of site labour lives within 20 miles of the site and 80% within 40 miles.
- 4.4 The contractor has provided feasibility information in support of the project.
- 4.5 Following completion of the Feasibility Stage, the Council may, at its sole discretion, issue a Project Order to the Contractor to proceed to the Pre-Construction Stage. This will obviously be dependent upon the cost model and programme meeting expectations of financial viability and deliverability when fully tested.

5.0 Budget Allocation.

- 5.1 The cost plan from the EMPA framework contractor has indicated an overall project cost for the elements to be provided by the Council of circa £4,740,331. At this point the overall cost needs to be caveated in respect of the elements of fit out to be undertaken by the cinema operator. Whilst the framework contractor has met with the cinema operator there is still some work to do on the interface between the Cinema shell and fit out works.
- 5.2 The component parts of the scheme are costed as follows;

- Cinema £2,694,005.00
- Hall £254,800.00
- Public Realm £155,000.00

In addition the following cost elements have been identified and included in the overall

project cost.

Preliminaries

Professional Fees

Design and construction contingency & risk @ 6%

Overheads and profit

Materials and labour inflation costs @ 8%. This reflects the current trend in the market.

6.0 Conclusion

At this point the overall viability of the scheme is enhanced by removal of the cost associated with an additional floor to accommodate the BIC together with the increased income potential for A3 space on the first floor. There is some further opportunity to improve the overall financial return on the scheme. The levels of rent potential occupiers have identified they are prepared to pay for the A3 space is higher than previously modelled.

The recommendations are set out to support the amendments made to the scheme and progress on to the pre construction phase of the procurement route once design details for the planning application have been finalised.

7.0 OTHER OPTIONS CONSIDERED

The other options considered for procurement are;

- Design and build with contractors design via OJEU compliant procurement process.
- Traditional design package commissioned by SKDC and bill of quantities for contractors to competitively price via OJEU compliant procurement process.

The above options would add between 3 to 6 months to the overall timeline before construction commenced on site and have therefore been discounted at this stage.

8.0. RESOURCE IMPLICATIONS

External project management support has been appointed to move the project forward in line with the overall project programme.

9. RISK AND MITIGATION

Risk has been considered as part of this report and any specific high risks are included in the table below:

| Category Risk | Action / Controls |
|---|-------------------|
| A risk register has been developed as part of the project governance | |
| The framework contractor has provided a construction phase risk register. | |

10. ISSUES ARISING FROM IMPACT ANALYSIS

None applicable

11. CRIME AND DISORDER IMPLICATIONS

An initial response has been received from the Police Crime Prevention section which is generally favourable to the scheme and suggests some improvements to be considered as part of the design iteration.

12. COMMENTS OF FINANCIAL SERVICES

The General Fund capital programme includes an allocation for 'Town Centre Projects – St Peters Hill Development' for £6.1M for the period 2014/15 – 2016/17. This report proposes a reduction to this allocation which will result in a corresponding reduction in the financing arrangements underpinning the original allocation.

13. COMMENTS OF LEGAL AND DEMOCRATIC SERVICES

The delivery of the proposed building works can be achieved through a framework agreement in accordance with the Council's Contract and Procurement Procedure Rules.

The recommendation to Council is required because the decision proposed is not wholly in accordance with the budget approved at full Council on the 3rd March 2014.

14. COMMENTS OF OTHER RELEVANT SERVICES

None Applicable

15. APPENDICES:

None Applicable