



Derby City Council

COUNCIL CABINET
10 February 2016

ITEM 24

Report of the Cabinet Member for Communities
and City Centre Regeneration

Osmaston Vision – Marble Hall

SUMMARY

- 1.1 This report seeks to update Members on the progress of the refurbishment and conversion of the Marble Hall, Nightingale Road, and seeks a number of approvals relating to the progression and future operation of this project. The project has refurbished a listed building at the heart of the deprived Osmaston community, creating managed workspace for new and growing businesses, day nursery provision, a catering training facility and a cafe.
- 1.2 Following an unsuccessful open tender process to procure a private facilities management provision, the report seeks approval to use Derby City Council's in-house business centre management team, Connect Derby to run the Marble Hall until it becomes viable for re-tender.
- 1.3 The ERDF will be notified as part of our final claim submission that we intend to run the building using in-house resources until the building becomes commercially viable. It is currently estimated that the building may become a commercially viable concern for an external Facilities Management company sometime after the 5th year of operation.
- 1.4 The initial mobilisation and operating costs for the building against early rental income suggests that some revenue support will be required for the first three years. £175,000 including a 10% contingency, to be divided as required over the three years, has been approved by the Regeneration Fund Board for this purpose.
- 1.5 Following an approach by the YMCA to deliver catering training via the kitchen at Marble Hall, a lease has been negotiated resulting in a profit share arrangement on the café in lieu of rental payments for the training kitchen and café space.
- 1.6 In August 2015 a bid was submitted to the Heritage Lottery Fund, by Derby Homes for £24,523.60 which has been successful. The grant will deliver a memorial stone, interpretation panels and local learning on the history of Marble Hall.

RECOMMENDATIONS

- 2.1 To note the progression and successful completion of the Marble Hall refurbishment Project
- 2.2 To approve the use of in house resources (Connect Derby (Business Centre Management and support staff) alongside Estates and Legal) to manage the building for up to 5 years, following confirmation of approval from the ERDF
- 2.3 To approve the provision of revenue support of up to £175,000, over three years, from the Regeneration Fund, as approved by the Regeneration Fund Board in January 2015.
- 2.4 To approve the lease between DCC and the YMCA whereby the YMCA will operate a café and a catering training facility within the building. [Para 4.18-4.25 refers] and delegate authority to the Head of Service (Regeneration Projects) to agree the lease terms.
- 2.5 To note the success of a bid for £24,523.60 to the Heritage Lottery Fund by Derby Homes, supported by DCC Regeneration Projects.

REASONS FOR RECOMMENDATION

3.1 Marble Hall refurbishment progress

To note the successful completion of the refurbishment project

3.2 In-house Management

Given that there were no compliant tender returns in order to identify a private Facilities Management provider, this is a change to the information given in the last Marble Hall Cabinet Report dated 12th February 2014, therefore Cabinet approval is required.

3.3 Revenue Support

Revenue support is required during the first three years of the project to cover early operational costs. This recommendation requires Cabinet approval in order to transfer the funds from the Regeneration Fund to the Connect revenue budget.

3.4 YMCA arrangement

As this is a non-standard let, it is appropriate for members to comment on and approve the arrangement.

3.5 Heritage Lottery Fund Grant Award

For members to note the success of the bid submitted by Derby Homes on behalf of

DCC for grant funding of £24,523.60. This grant will be paid directly to Derby Homes, therefore no financial implications for Derby City Council.



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Report of the Acting Strategic Director for Communities and Place

SUPPORTING INFORMATION

Previous Approvals

- 4.1 On 19th July 2011 Cabinet gave delegated approval for the Council to enter into a Collaboration Agreement with Rolls-Royce in connection with the transfer of vacant Rolls-Royce sites (including Marble Hall) in Osmaston to the Council.
- 4.2 On 14th August 2013 members approved in principle the use of £0.5m Developer Contributions identified through the Osmaston Regeneration Partnership (Joint Venture Vehicle) to support the Marble Hall Project, unsupported Corporate borrowing was required, to be repaid by developer contributions of £7,000 per completed property.
- 4.3 On 14th February 2014 Cabinet made the decisions to:
 - Approve the transfer of the ownership of the property known as the Marble Hall, formerly known as the Commercial Block, Nightingale Rd, Derby along with amenity land from Rolls-Royce to Derby City Council for a nominal sum (£1)
 - Accept a financial contribution from Rolls-Royce towards the refurbishment of the building, and to delegate to the Chief Executive, following consultation with the leader of the Council, to finalise details relating to the level of this contribution and preparation of the associated documentation
 - Enter into a build contract with a contractor to be selected via Open Tender to carry out the refurbishment and conversion works,
 - Finalise details relating to the governance and management arrangements for the completed building,
 - Enter into a Facilities Management contract with a provider to be selected via an EU State Aid compliant procurement process to carry out the day to day management and operation of the building.
 - Recommend Council to approve the borrowing of £1.5m towards the refurbishment costs of the building from the D2N2 Growing Places fund, to be repaid by rental income generated – Subsequently approved by Full Council on 14th March 2014

- Recommend Council to approve the corporate unsupported borrowing of £0.5m to allow the Marble Hall project to commence in advance of receipt of Developer Contributions via the Osmaston Regeneration Partnership in future years and to amend the 2013/14 and 2014/16 capital programme – Subsequently approved by Full Council on 14th March 2014

On 15 July 2015 Cabinet made the follow decision:

- Recommended Council to approve an additional £800k of unsupported borrowing to meet additional variation costs.

Marble Hall Refurbishment

- 4.4 The ownership of the Marble Hall Site has been transferred from Rolls-Royce to Derby City Council.
- 4.5 Rolls-Royce have paid the £521,920 dowry to DCC (Received January 2015). The insurance claim for the bronze balustrade has been agreed at £243,000 and will be paid by the end of the financial year.
- 4.6 In terms of the build contract, in August 2014, we received six bids via an OJEU compliant open tender. The highest bidder priced the works at £4,999,254 and the lowest at £3,351,568.
- 4.7 Following tender clarifications and the inclusion of £273,000 to reflect the maximum amount available for the Rolls-Royce insurance claim for the stolen bronze balustrade, a contract to carry out the refurbishment and conversion works has been awarded to Robert Woodhead Ltd based on a contract value of £3,854,262.35
- 4.8 The D2N2 Contract for the £1.5m loan was agreed and signed by both parties on 28th August 2014. The funds have been drawn down and were received by DCC on 17th November 2015
- 4.9 During the works on site, several unforeseen variations have arisen, including lead based paint to the roof steelwork and six underground chambers which had to be backfilled and made safe to form part of the car park. These issues along with a number of other design variations, have resulted in a cost increase to the project of circa £800,000
- 4.10 Despite these delays the project has been completed within the approved revised budget.

Facilities management Proposals

- 4.11 In accord with the Public Contract Regulations 2015 and ERDF funding requirements, on 28 August 2015 DCC issued an OJEU Compliant Invitation to Tender for the

Facilities and Building Management of the Marble Hall Business Hub in Osmaston.

- 4.12 A requirement of the ERDF funding is that the council engages in a competitive tender process for the Facilities Management contract for the building. We have used our best endeavours to engage this service but clearly without success. We consider that the result of the process would not differ should we re-tender. In order to avoid the building being left empty we have no choice but to appoint our in-house Connect Derby Business Centre Management team to operate and manage the building; this appointment includes on-going maintenance, negotiation of lease terms and rental negotiations for five years or until the Project becomes commercially viable and can be re-tendered out to the market. DCC Estates and Legal teams will support the negotiation of lease terms and preparation of lease documentation as required.
- 4.13 The ERDF have been notified of our proposed course of action. We await confirmation that this is acceptable.
- 4.14 The Connect Derby team are now planning their workload to include the Facilities and Building Management of Marble Hall to include engagement with prospective tenants for the managed workspace.
- 4.15 Proposed uses for Marble Hall remain as those previously described in our report dated 14th February 2014 i.e. managed workspace for new or small businesses, a nursery and café with the exception of the doctors' surgery. At the time of writing this report, the building is approximately 40% pre-let. These lets include the Nursery, Training Café and Office space for the Osmaston Community Association of Residents (OSCAR).
- 4.16 Due to current funding restrictions placed on GP practices for re-locations by the NHS, discussions with the Haven Medical Centre have been put on hold. In the interim we will market this demise as a mixture of small and medium sized offices.
- 4.17 The initial mobilisation of the operation of the building and early year rental voids indicates that some revenue support will be required. A business plan has been compiled by the Connect Centre Manager which makes assumptions on occupancy levels based on the take up at Sadler Bridge Studios and Riverside Chambers (see Table 1 below) Regeneration Projects and Connect Derby compiled the business case which has been approved by the Head of Finance for organisation and Governance.
- 4.18 Based on the shortfall in Revenue noted in the attached Business Plan, an application was made to the Regeneration Fund Board in November 2014 for £175,000 of Revenue support to be used as required over the first three years of the project. This request was approved by the Regeneration Fund Board on 16 January 2015.

Table 1

	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Managed Workspace Occupation rate	30%	50%	60%	75%	85%	85%	85%	88%
Rental Subtotal	£152,743	£126,741	£128,492	£124,662	£139,166	£139,166	£139,166	£143,517
Other Income & Service Charge Sub-total	£19,256	£27,959	£36,208	£42,735	£47,087	£47,087	£47,087	£48,392
Total Income	£172,000	£154,700	£164,700	£167,397	£186,253	£186,253	£186,253	£191,909
Total Expenditure	£172,000	£154,700	£164,700	£166,200	£170,700	£169,250	£172,700	£172,700
Variance*	£0	£0	£0	£1,197	£15,553	£17,003	£13,553	£19,209

YMCA Arrangement

- 4.18 As the Community hub of the most deprived ward in Derby, the building is unlikely to benefit from the levels of footfall seen in the City or larger District Centres. Soft market testing by our Property Agent: Rigby & Co has shown that there is very little interest from the market to run a commercial café at this early stage of the project. (See appendix 2)
- 4.19 DCC has been approached by the YMCA to enter into a partnership to deliver catering training, alongside more administrative based training at Marble Hall, utilising the kitchen space.
- 4.20 As a charity looking to provide training to disadvantaged local people, the YMCA has sought a partnership arrangement with DCC to provide an affordable space from which to deliver training opportunities.
- 4.21 The early occupancy by the YMCA would create a buzz within the 'hub' and ensure that there was a café facility for the building's tenants and visitors from the outset. As soft market testing of the kitchen demise has demonstrated that achieving a commercial rent will be unviable, it is proposed that this area is offered to the YMCA at a peppercorn but with the requirement that 32 disadvantaged young people are trained per annum at the facility.
- 4.22 Furthermore, the YMCA has agreed to pay the full service charge to the Kitchen demise and will contribute 50% of the capital costs of the kitchen (£50,000) in lieu of rent for an initial five year lease. The £50,000 is due to be paid to DCC by the end of financial year 2015/16
- 4.23 As the café demise will be linked to the kitchen area for food and drink preparation purposes, the YMCA has put forward the commercial proposition of a profit share on a 50:50 split basis. This will be captured by the terms of the lease. All service charges and costs will be taken into consideration and the accounts will be verified by an independent accountant resulting in a profit figure per annum. Any profit will be split 50% to DCC and 50% to the YMCA.
- 4.24 Although viewed as non-standard, the arrangement is viewed as acceptable based on the benefits that will be achieved as a result. Rigby & Co have confirmed that the

lease terms are the best available for Derby City Council in the current market.

- 4.25 As noted earlier in this report, as the Café would be unviable as a standalone business, particularly in the early years of the building's operation, this arrangement would allow the café to be operational for early tenants and the public from the opening of the building

4.26 HLF Grant Funding

We were notified on the 23 September 2015 that the Derby Homes bid for £24,523.60 was successful. This grant funding will provide six interpretation panels which have been designed in conjunction with community members, each giving specific detail on an area of local history e.g. Marble Hall, Rolls-Royce, Claude Johnson and the Hugh Easton Window. This funding will be paid to Derby Homes directly and therefore there are no financial implications to Derby City Council.

- 4.27 A memorial stone to the 42 people who lost their lives during the World War 2 bombing will be created and sited in the garden at the back of Marble Hall. This is something that has been much requested by the residents of Osmaston for many years.

- 4.28 Finally the funding will provide education on the history of Rolls-Royce in Osmaston to a group of disadvantaged young people from the area. Throughout their learning they will also be working on a piece of art, poetry or performance to showcase at an event to mark the 1st Anniversary of the reopening of Marble Hall (circa March 2016)

OTHER OPTIONS CONSIDERED

In relation to the delivery of Facilities and Building Management Services at Marble Hall: the Council has already explored the option to outsource the delivery of these services by the issue of an Open Tender; this process failed to produce a compliant bid. We believe that the tender process was robust and see no advantage in re-tendering.

To use the existing, successful Connect Derby team who already operate five business centers within the City Centre, 4 of which have benefitted from ERDF funding

This report has been approved by the following officers:

Legal officer

Emily Feenan

Financial officer Human Resources officer Estates/Property officer Service Director(s) Other(s)	Amanda Fletcher N/A John Sadler Greg Jennings
For more information contact: Background papers: List of appendices:	Susan Hunter 01332 641606 susan.hunter@derby.gov.uk N/A Appendix 1 – Implications Appendix 2 – Supporting letter from appointed Property Agent, Rigby & Co

Appendix 1

IMPLICATIONS

Financial and Value for Money

- 1.1 A cash flow analysis showing the revenue implications of the report has been approved by finance.

The Regeneration Fund reserve will be required to fund a proportion of the operational costs in the first three years, up to a total of £175k. The current business case estimates that the actual draw down will be less, as shown below:

	2016/17	2017/18	2018/19
Regen Fund Revenue	£93k	£38k	£26k

- 1.2 The value of the lease proposed for the YMCA is £18k per annum. The £50k payment in lieu of rent for the first 5 years represents a shortfall of £40k in rental income compared with the potential from the open market. This has been taken account of as part of the approved business case

Legal

- 2.1 Upon transfer of the building into Derby City Council's ownership, it now forms part of our Property Portfolio, bringing with it the usual legal implications of property ownership as with other Council owned properties. Freeth Cartwright have been appointed to represent the Council on the transfer of all the Rolls-Royce sites
- 2.2 Our internal Legal team are dealing with the Heads of Terms for the anchor tenants (Café and Nursery). Legal services will draft all legal documentation relating to the letting of the units, as negotiated by the Connect Derby team.

Personnel

- 3.1 By the use of our Connect Derby team, one employee will have their hours increased from part time to full time and two new part time receptionist posts will be created.

Equalities Impact

- 4.1 This project will enhance social inclusion through the provision of Community services, employment and training opportunities.

Health and Safety

- 5.1 The Council has carried out a procurement exercise and appointed a suitably qualified and experienced CDMC to oversee the Health and Safety of this project.

The Connect Derby team's operations manager will continue to monitor any on-going risks and report to our internal Health and Safety team.

Environmental Sustainability

- 6.1 The building will be refurbished to higher levels of thermal efficiency and with more efficient heating systems than those which existed previously.

The building has dedicated cycle parking and showers to encourage tenants and visitors to cycle to work.

Property and Asset Management

- 7.1 Provision has been made in the Marble Hall Business Case for future building maintenance costs. Therefore, the acquisition and future operation of this building will not adversely impact the achievement of savings on the Building maintenance budget, agreed as part of the Property Rationalisation programme.

Risk Management

- 8.1 As previously advised, Risk Management is an on-going process throughout the project.
- 8.2 The key operational risk for the project is not securing the right level and mix of tenants, early on in the project, which is required for the financial viability of the building
- 8.3 To mitigate this risk, we have already secured a Nursery Operator (through an open invitation via Source Derbyshire) The Connect Derby team will use their existing database of clients to begin early marketing of the spaces.
- 8.4 We have also engaged a Property advisor (Rigby & Co) and PR Consultant (BHPR) to market the work spaces and raise the profile of the building.
- 8.5 If we fail to let the building in line with the approved business case, there is a risk of financial implication to the Council.

Corporate objectives and priorities for change

- 9.1 This project meets Corporate objectives by creating employment opportunities, improving the public realm and develops a model of partnership and delegated power with the Community in the design and long term operation of the building.