



CONNECT – Refurbishing Premises to Support Small and Medium Enterprises and Promote Regeneration

SUMMARY

- 1.1 This report follows a request from the Commission and is prior to the matter being considered by Cabinet. The Connect project will link Derby City Council's (DCC) managed workspaces, people, expertise and knowledge to enhance communication and collaboration between tenant businesses in Derby city centre.

The project consists of:

- Kings Chambers (KC)
- Shot Tower (ST)
- Friar Gate Studios (FGS)
- Cathedral Quarter Enterprise Centre (CQEC)

These facilities will provide opportunities for local people living in Derby City's disadvantaged areas by enabling them to establish their own employment or provide existing Small and Medium Enterprises (SME's) with a wider skill set to employ; thereby developing a sustainable and robust business community. A plan showing the location of these buildings is shown at Appendix 4.

- 1.2 This project will initially see the upgrade and refurbish of KC but due to high refurbishment costs and a funding gap ST will be included in a planned second phase of works. In addition to the 1672m² (18000ft²) at FGS and proposed 1400m² (15000ft²) at the CQEC the improvement and refurbishment works at KC and ST will provide a further 963m² (10350ft²) gross high quality, accessible, managed workspaces in the city centre.
- 1.3 Both buildings KC and ST require substantial refurbishment works to upgrade the facilities to create modern high quality accommodation which is fully Disability Discrimination Act (DDA) compliant. To support the refurbishment and to provide additional revenue support for the DO post the project has applied for:
- European Regional Development Funds (ERDF); to be matched by
 - DCC Regeneration Fund

The current refurbishment estimates for the buildings are:

- Kings Chambers £914,500
- Shot Tower £495,500
- IT upgrade £100,000

A full funding application has been prepared and submitted for the ERDF funds and an Expression of Interest submitted for the DCC Regeneration Fund.

- 1.4 DCC own and manage FGS and will also manage the new CQEC which is coming online in

2013. Both these buildings will have been built to high specifications and it is crucial that all of DCC's buildings within the Connect project provide a similar quality and service offering.

- 1.5 In addition to this a Development Officer (DO) post will be created that will provide the tenant businesses with the much needed business support required in the early stages of starting a business and sustaining it. The DO will actively engage with the businesses and look at how they can connect and get the businesses collaborating on projects, sharing ideas and networking across the project.

The upgrade of the buildings and the introduction of the DO will help achieve:

- Increase the numbers of self-employment and new start businesses within the city
- Ensuring the business survival rate increases, as all centres will provide an affordable, accessible and professional workspace.
- Encourage innovation via collaborating with other businesses
- Support cross sector networking
- Once they are ready they can be referred to one of the business centres within the Connect scheme to relocate to when they need an office. This ensures we track the growth of the company and retain them and their skill set within Derby therefore contributing towards the local economy and promoting Derby's profile as a city that supports and nurtures enterprise growth. The project supports the Derby Economic Strategy and Derby Plan.

- 1.6 Beaufort Street Business Centre was initially included as part of this project. However, as this is predominantly occupied by DCC services with only limited business presence the building was withdrawn from the project and is currently being considered as part of the Derby Workstyle transformation project.

RECOMMENDATION

- 2.1 To support the proposals as detailed in the report.

REASONS FOR RECOMMENDATION

- 3.1 As stated in 1.3 the upgrade of both buildings and the introduction of the DO will help achieve:
- Refurbished high quality office space within the city centre specifically targeting disadvantaged communities
 - Increase the numbers of self-employment and new start businesses within the city
 - Ensuring the business survival rate increases, as all centres will provide an affordable, accessible and professional workspace.
 - Encourage innovation via collaborating with other businesses
 - Support cross sector networking
 - Once tenants are ready to expand they can be referred to one of the other business centres within the Connect scheme which supports larger businesses. This ensures we track the growth of the company and retain them and their skill set within Derby therefore contributing towards the local economy and promoting Derby's profile as a city that supports and nurtures enterprise growth.
 - This idea meets the Derby Economic Strategy and Derby Plan.
 - Please refer to Appendix 2 for more detailed reasons for recommendation

SUPPORTING INFORMATION

- 4.1 See Appendix 2 for supporting information

OTHER OPTIONS CONSIDERED

- 5.1 Do nothing – Shot Tower has been vacant and closed for several years. It is still part of our maintenance programme and is being monitored for structural issues and problems with asbestos contamination. It would remain a vacant building opposite the newly refurbished council house.

Kings Chambers has been operating as a business centre for some time how due to the poor quality of the building it has been hard to retain tenants on a long term basis resulting in voids or generating income to its fullest potential.

Neither building is DDA compliant.

- 5.2 Sell the premises – Shot Tower is in an extremely poor condition and it would be unlikely to sell in its current condition and with the ongoing downturn of the current market. Comprehensive regeneration of the building would probably require some form of grant support. Speculative acquisition and refurbishment is therefore unlikely due to the significant amount required to bring it up to standard and return would be extremely long term.
- 5.3 Partner with a private investor – Due to the high levels of investment required and potential low return on investment it would be unlikely that an investor would show interest and financial support in Shot Tower.
- 5.4 Beaufort Business Centre was initially considered as part of the Connect project. However, this is now being considered as Wave 2 accommodation for DCC staff. Not all DCC services will be able to operate from the Council House due to the sensitive nature of their work such as Youth Offending Service and aspects of children’s Locality Team’s. The Transformation Team are working with Estates to establish BBC as a DCC locality base for staff and appropriate partners to work from.

This report has been approved by the following officers:

Legal officer	Not Applicable
Financial officer	Not Applicable
Human Resources officer	Not Applicable
Service Director(s)	Richard Williams
Other(s)	Adam Wilkinson

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Background papers:	None
List of appendices:	Appendix 1 – Implications Appendix 2 – Supporting Information Appendix 3 – Risk Management Appendix 4 – Location of Connect Properties

IMPLICATIONS

Financial and Value for Money

- 1.1 The upgrade of both buildings will result in improved service managed office facilities in Derby city centre. This quality of offices will help generate office enquiries and retaining existing tenants for longer which will sustain and increase the rental income for DCC.
- 1.2 ST generates no income for DCC and it's maintenance and other costs such as utilities, Business Rates are an ongoing budget pressure. Upgrading the building will generate income and resolve maintenance issues. ST is currently vacant and a pressure on the maintenance budget.
- 1.3 KC is currently not fully utilised due to poor configuration and occupation by a community group pending re-housing. At present it is 60% rent generating; the upgrade will make it 100% rent generating. The refurbishment will also resolve the outstanding maintenance issues and relieve pressure on the maintenance budget.
- 1.4 The project will be supported by ERDF and the Council's Regeneration Fund and so there will be no increased pressure on the Council's capital programme.

Legal

- 2.1 Both buildings belong to Derby City Council. DCC will act as landlord for both buildings with the overall management sitting with the Estates Division. Legal input will be required on the funding application to ERDF and for ongoing leases.

Personnel

- 3.1 The Development Officer post will be part funded by the ERDF grant and will be self sustaining by becoming a service chargeable element in the tenant's rental package. The recruitment and selection of the DO will be undertaken by Estates and line managed by the FGS Centre Manager.

Equalities Impact

- 4.1 Currently both buildings are not DDA compliant whilst FGS is and CQEC will be. The upgrade of both buildings will ensure they meet DDA compliance.
- 4.2 This project is ideally based within the city centre and with excellent communication links is easily accessible to all communities in the City. The project is open to and will support all businesses irrelevant of race, sex or disability or age and has specific targets for supporting business from disadvantaged communities.
- 4.3 Connect will nurture new and small but expanding businesses, thus helping the knowledge-based economy in Derby to further grow

Health and Safety

- 5.1 Currently due to the age of the buildings and condition of the building ST has health and safety issues. ST's first floor is inaccessible due to contamination from damaged asbestos in the building and is also being monitored due to structural issues. The improvement works to both buildings will address and resolve any outstanding health and safety issues.

Environmental Sustainability

- 6.1 For all locations the pedestrian, cycle and public transport facilities leading up to and supporting sites in the city centre are very good. The proposed project will link into the existing pedestrian infrastructure and provide cycle parking facilities at all sites in order to encourage journeys of this nature. A Green Travel plan will aim to encourage journeys by more sustainable modes of transport than single occupant car journeys.
- 6.2 The refurbishment phase of the project will inevitably require the use of new materials. In order to minimise the environmental impact of the project, manufacturers, suppliers and materials used will be locally sourced wherever possible.
- 6.3 Once refurbished and in use the project will see inevitably increased resource consumption and waste generation compared to, for example, a vacant site. The resource consumption and waste generation will be minimised by ensuring the buildings require minimal energy to heat and cool, and through controlled activity, such as the preparation of Waste Management and Green Travel Plans for the end user.
- 6.4 Both buildings will be specified to achieve a BREEAM 'very good' this also applies to FGS, whilst the CQEC will achieve BREEAM 'excellent'. Where possible, the refurbishments of ST and KC will endeavour to achieve BREEAM 'very good'.

Asset Management

- 7.1 All of the buildings will belong to DCC and will be managed by the Estates Division who are leading on the project. The project will deliver two refurbished and sustainable buildings with an overall reduced liability for maintenance, CRC along with increased rental return.
- 7.2 The CQEC will be an additional to the Council's building stock. It is anticipated that the revenue generated from the building will enable it to be self sustaining and as a modern purpose built facility maintenance costs in the first few years – including snagging – should be relatively low. As a BREEAM 'excellent' building energy costs and CRC implications will also be relatively low.

Risk Management

- 8.1 See Appendix 3 for details of risks and how they will be managed

Corporate objectives and priorities for change

- 9.1 This project will help contribute towards achieving
- To help create a healthy, vibrant economy by providing quality managed workspace for SME'S, self employed, graduates and skilled workers made redundant from bigger employer such as bombardier, egg etc. It will ensure their success and longevity by providing them with the business infrastructure and support they need to sustain the prosperity of businesses and citizens.

- To regenerate Derby's neighbourhoods, by upgrading two poorly maintained buildings and ensuring that they are fit for purpose for the business community
- Manage and use the Council's asset base as a positive element in Regeneration

Appendix 2

The pipeline for Connect 4 in retaining skills in Derby and ensuring enterprises are not lost to other regions is as follows

New Starts/ Pre Starts / Self Employed / Graduates:

- Start at ST Virtual Business Hub
- Support from DO and Centre Manager on a day to day basis to help identify connections
- and opportunities
- They grow and move to Kings Chambers which is ideal for new or smaller enterprises
- They get further support from DO and peer businesses and make use of the networking and
- collaboration opportunities within the Connect 4 scheme
- They move to FGS or CQEC

Small/Micro Business:

- Start at Kings Chambers
- Support from DO and Centre Manager
- Make use of the networking and collaboration opportunities within the Connect 4 scheme
- They move to FGS or CQEC

Medium to Large Enterprises:

- Start at FGS or CQEC
- Support from Centre Manager, Admin Team and DO
- Make use of the networking and collaboration opportunities within the Connect 4 scheme
- Assist the SME's / Micro businesses to become part of the supply chain by using their services or providing best practice advice
- Have the opportunity to house some of their team members at ST or KC, to work along new enterprises.

The overall centre management and business support structure will ensure all four buildings are connected and each building has something unique to offer anyone considering self-employment or starting a new business or an existing business based at home, other offices in Derby or outside the City and other regions

Absence of an enterprise culture, low levels of innovation and poor business survival rates:

- The central location of both buildings that will be upgraded is easily accessible by all target disadvantaged communities in the city, and is highly accessible by public transport, cycle and pedestrians.

- By offering highly flexible workspace including, communal areas with hot-desks, informal workspace for virtual tenancies and hourly rental, through to more conventional office units.
- By offering high quality new office space within the city centre
- Providing a building that is highly sustainable, with BREEAM 'Very Good' rating where possible
- Best practice from established centres like Friar Gate Studios will be used to enhance the services at the other centres within the Connect 4 scheme individually and as a group
- The Business Centres within the Connect 4 project will help strengthen Derby's private sector and nurture the establishment and growth of small and micro enterprises by creating a culture where enterprise thrives by supporting 4 business centres to work in connection sharing people, skills, knowledge and resources
- Two of the projects within the connect 4 scheme will target potential high growth businesses with appropriate support measures by ensuring the environment they are working within support their growth through the IT infrastructure, providing the relevant networking and collaboration opportunities with other high growth companies.
- The project will encourage people from disadvantaged communities, of all ages and background to consider self-employment as a means of generating income for themselves. Therefore contributing towards local economy and creating jobs within the city. The Connect 4 project will offer a range of business support facilities and resources to help the new start businesses to a positive start.
- The infrastructure provided by Connect 4 will help increase low level enterprise and innovation by getting the businesses based with the Connect 4 centres to communicate and collaborate with each other.
- The connect 4 project's ethos will be built on connection, people, places, knowledge and expertise. The connection will help provide a stimulating and enterprise culture where enterprises thrives by allowing small, medium, new enterprises to collaborate, seek peer to peer support and share skills, resources and expertise to deliver innovative ideas, products and services
- There is an uncertainty in the current national economic climate, job creation and retention are the primary aim – the Connect 4 project will be providing the foundation for people who have the skills and knowledge and those who have been made redundant to become self-employed and start a new enterprise. The support infrastructure provided by the connect 4 scheme will lead to new enterprising collaborating and growing and hence providing jobs.
- A survey undertaken at FGS in early 2011 showed that businesses that had moved to this premises had grown and provided jobs to 96 people, of which 32% of them were recruited after their employer moved to FGS (demonstrating that FGS is not only a hub of creativity and innovation but also a catalyst for growth and prosperity). With the correct infrastructure, it is envisaged those enterprises within the Connect 4 project will also grow and create jobs for Derby's local economy.

- One of the visions for Derby in 2016 is to see that it's economy is driven by a strong private sector which will result in a reduction in public sector employment – The Connect 4 project will focus on providing the correct environment, resources, facilities and knowledge to ensure that the enterprises based within the centres thrive, strengthen and succeed therefore creating a robust private sector presence.

Over reliance on a few large employers and local markets

- The Connect 4 project will encourage diversification and localisation of supply chain of large businesses and support small businesses to enter the supply chain. This will be achieved where one business centre within the scheme will be for new starts and small micro businesses, the connection to the other centres where more high growth companies are based will be encourage by the single management and DO along with the networking opportunities being made available to encourage collaboration between the small and high growth companies. This reduces the reliance on big players such as Bombardier, Rolls Royce etc for employment.
- Evidence shows that Derby has been relatively poor at creating new enterprise and promoting entrepreneurialism – the Connect 4 project will see new enterprise emerging and by supporting them in the correct manner where they can grow, thrive and sustain themselves the Connect 4 project will be able to boast about their entrepreneurialism through correct marketing channels, locally, nationally and internationally.
- All 4 centres will encourage cross-sector networking by having a single management structure co-ordinating all four supporting collaboration. This is further reinforced as each centre will have something different to offer therefore connecting their resources and facilities will ensure businesses get the best of all 4 centres thereby allowing cross sector networking happen almost automatically.
- The 4 businesses centres working in collaboration will enforce that Derby is committed to having a robust private sector led economy therefore making it an attractive inward investment opportunity that complements and diversifies the Derby 'offer'
- **Poor range (quality and size) of office stock in city centre**
- The Connect 4 project will stimulate 2 high quality development schemes through appropriate incentives and promotional activities. KC and ST are located within city centre by linking this into the Connect 4 scheme new start / micro businesses based here will be able to benefit from the resources, facilities and contacts within the other centres via the management and DO support structure in place. Promoting the 'bigger buy in' and the incentives that come with that will make every individual business centre within Connect 4 more desirable and a financially viable proposition to all businesses looking to base themselves within Derby.
- Currently due to the lack of quality office space and enterprise support Derby has to work on becoming a worthwhile investment proposition nationally and internationally. The Connect 4 project will see Derby emerging in enterprise support and strengthening its private sector presence and creating the opportunity for Business to Business as oppose to Business to Consumer work.

- The hard and soft infrastructure provided by the Connect 4 project in terms of management and DO and relevant facilities will see the growth of the companies within the Connect 4 project and if marketed correctly raise Derby's profile for enterprise and innovation and make it a strong candidate for other businesses to relocate to

Vacant and derelict sites and under-used buildings and civic spaces prevail within the city centre and district centres

- ST & KC are based in the city centre which is considered one of the deprived areas in Derby. Both buildings are part of Connect 4 and will be upgraded thereby ensuring improvement to civic spaces within a district area.

Help Derby realise opportunities in terms of emerging technologies and 'green jobs'

- Derby needs to help reduce carbon emissions by 2020 as part of the national target – As part of the refurbishment works green environmental features will be installed at both business centres i.e. photovoltaic panels, rainwater recycling, energy efficient lighting, using renewable energy etc.
- Both upgraded buildings where possible will aim to achieve a 'very good' BREEAM rating

Appendix 3

Risk

1. ERDF PA 2 grant assistance is not forthcoming or only forthcoming in part.
2. ERDF PA 2 grant assistance is not forthcoming in full
3. Build cost escalating
4. Build programme overrun

Risk Management

1. Complete funding application ensuring it meets the funding requirements and helps achieve relevant outputs. Ensure Match funding is forthcoming
2. Ensure funding application provides a good argument for the full funds and relevant outputs
3. Cost advice provided by DCC Maintenance to inform budgets in advance of more detailed costs being prepared during design process
4. Programme will be closely monitored throughout the refurbishment period and close working between project manager and contractor to deal with issues quickly. Penalty clauses will be used if the refurbishment phase overruns

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| <p>5. On going liability for running/ maintenance costs once building operational including vacant accommodation</p> | <p>5. Ensure all fixtures and fittings are of sufficient quality to reduce on-going maintenance requirements and costs. Adequate marketing is undertaken to secure tenants in the early stages</p> |
| <p>6. Low demand for accommodation</p> | <p>6. Ensure finished building suitable for end users and fully fitted out prior to opening including broadband etc. Use external agents in proactive marketing to prospective tenants. Launch event once first tenants have moved in</p> |
| <p>7. Failure to achieve required spend for ERDF to meet requirements of the grant</p> | <p>7. Ensure project stakeholders are fully aware of the spend profile and their actions that will be necessary to deliver this</p> |
| <p>8. Failure to achieve required outputs to meet ERDF requirements</p> | <p>8. Monitoring of outputs to identify potential issues and quality marketing campaign to increase awareness. Quality fit-out and easy tenancy agreements to encourage occupiers.</p> |
| <p>9. Funding for retention payments withheld by ERDF</p> | <p>9. Hitting outputs will trigger fund release DCC will need to pay contractor initially, then await claim following output completion.</p> |
| <p>10. Procurement of Refurbishment works not completed in time or to budget</p> | <p>10. Procurement will be carried out as soon as Cabinet approval received through Consultants' Framework and is based on recommendations in the recent feasibility studies</p> |

The risks identified depend on the funding amount secured and economic conditions. If full funding is secured then the main risk is reduced. With economic conditions the project is in the same boat as everyone else and any issues arising from these conditions can be addressed at the time.

Location of Connect Properties.

