

Report of the Leader

Acquisition of the Former Magistrates Court, Derwent St., Derby

SUMMARY

- 1.1 The purpose of this Report is to provide an update on the former Magistrates' Court project and to seek approval to amendments to the original proposal, its funding arrangements and the use of part of the building by the Local Studies Library (LSL).
- 1.2 Cabinet agreed on 21 February 2012 that the Council would acquire the former Magistrates' Court from the owners Wilson Bowden Developments (WBD), subject to them refurbishing the property to create a new managed business centre ready for occupation. The Council would then operate the building as a serviced business centre.
- 1.3 The Local Studies Library is currently located in Middleton House. As these premises are scheduled to be sold in late 2013/14 to support the funding of the Council House refurbishment, the library needs to be relocated to alternative premises. An Options Appraisal has been undertaken establishing that the preferred relocation site is the former Magistrates' Court.
- 1.4 The costs of relocating the Local Studies Library will be supported by a contribution from the Accommodation Strategy Budget as set out in Appendix 3 under Capital Funding.
- 1.5 The Council in conjunction with Wilson Bowden Developments has successfully applied to the Local Enterprise Partnership (LEP), D2N2, loan from their Growing Places Fund (GPF) towards the increased cost of refurbishment. This is currently the subject of due diligence and the full terms and conditions are awaited and the details of which are set out in Appendix 3 under Capital Funding.

RECOMMENDATION

- 2.1 To approve buying the former Magistrates' Court from Wilson Bowden Developments (WBD) for the sum specified at Appendix 3 of the report subject to WBD refurbishing the building to create a managed business centre.
- 2.2 To approve the relocation of the Local Studies Library from Middleton House to the former Magistrates' Court.

- 2.3 To approve a capital contribution towards the cost of the relocation of the Local Studies Library from the Accommodation Strategy Budget within the existing approved Capital Plan as set out in Appendix 3 under Capital Funding.
- 2.4 To approve an ongoing annual revenue budget pressure to meet the increased net revenue costs of basing the Local Studies Library at the Magistrates' Court and the GPF loan repayment as set out in Appendix 4.
- 2.5 To approve the re-allocating of the expenditure within the Regeneration Fund as set out in paragraphs 4.13 & 4.15.
- 2.6 To delegate authority to the Chief Executive, in consultation with the Leader and the Strategic Director of Resources, to amend the terms of the acquisition and the Growing Places Fund loan and to enter into formal agreement with the Local Enterprise Partnership should this be the most advantageous financing option.
- 2.7 To recommend to Full Council the additional borrowing of £515,000 from either the LEP or the Council's traditional source of finance.

REASONS FOR RECOMMENDATION

- 3.1 It is necessary to update the existing approved acquisition of the former Magistrates' Court in order to reflect the financial implications arising from the proposed relocation of the Local Studies Library. The acquisition will still provide a significant level of managed workspace, promoting emerging enterprises, as well as providing a home for the Local Studies Library. The managed workspace will:
- comprise around 1,410 m² (15k sq ft) of city centre office space;
 - support the creation of around 165 jobs based in the city centre over 3years;
 - bring back into use a strategically significant, Grade II listed building which has been empty for 10years;
 - following re-payment of loan finance will create an income producing revenue stream and asset for the Council.
- 3.2 It is necessary to relocate the Local Studies Library in order to allow the St Mary's Gate/ Middleton House complex to be sold in line with the approved Accommodation Strategy. The sale of this complex will realise a receipt in excess of £1.5m. A detailed Options Appraisal has been undertaken to assess the best alternative location for the Local Studies Library. (See Appendix 2.) The Magistrates' Court is considered to be the best location given its convenient city centre position, the character of the building, and that, overall, it provides the most cost-effective solution for a city centre location.
- 3.3 The agreed financing structure approved at Cabinet on 21st February 2012 referred only to "capital" whereas it should have referred to "capital and revenue".
- 3.4 The final details of both the proposed acquisition and the Growing Places Fund loan are yet to be agreed. It is necessary to provide an effective delegation in order to ensure that terms are finalised effectively and in the best interests of the Council.



SUPPORTING INFORMATION

Background

- 4.1 The former Magistrates' Court, a Grade II listed building, has long been identified as a regeneration priority given its location, its listed building status and that the building has lain vacated for around 10 years.
- 4.2 The project was originally approved by Cabinet on 21 February 2012. This included the funding arrangements for the refurbishment of the former Magistrates' Court on Full Street, together with the fit out of the property for use by the Council as a managed business centre.
- 4.3 A review of managed workspace across Derby was commissioned by the Council. This report indicated that an analysis of the supply and demand for managed office space in Derby strongly indicated that there is a significant under provision and thus there is a gap in the market for good quality incubator and managed office schemes.

Proposals

- 4.4 The former Derby Magistrates' Court is regarded as complementing the Council's existing and planned provision of managed workspaces/offices due to its central location overlooking the River Derwent and potential demand from parties seeking a high profile property refurbished to a good standard.
- 4.5 The refurbished property will be divided into two uses with the former courts area, ground floor storage area and a small section of the offices totalling approximately 687sqm (7,395 sq.ft.) being occupied by the Local Studies Library with the remainder of the building being utilised as managed office accommodation.
- 4.6 The office accommodation will have a gross area of approximately 1410sqm (15,177 sq.ft.) which would be subdivided to provide suites of 7.5sqm (80 sq.ft.) to 167sqm (1,800 sq.ft.).
- 4.7 The proposed works, which under the current programme are envisaged to commence in March 2013, provides for the property to be fitted out and available for immediate occupation after completion which is estimated to be by the end of 2013. The proposed layout plans are attached at Appendix 5.
- 4.8 It is proposed that the property would be managed by the Council as part of the "Connect" portfolio of managed workspaces across the City Centre.

- 4.9 The Local Studies Library is located in the St Mary's Gate / Middleton House complex, occupying around 750 square metres of the ground floor and basement. As these premises are scheduled to be sold in late 2013/14 to support the funding of the Council House refurbishment, the library needs to be relocated to alternative premises. During recent years numerous options have been identified by the Library Service but ultimately rejected as impractical, unaffordable or unsuitable for effective service delivery.
- 4.10 An Options Appraisal carried out in summer 2012 in conjunction with colleagues from the Library Service reviewed locations previously considered and explored two newly identified premises. The preferred solution was to relocate the service to the former Magistrates' Court. A summary of the Options Appraisal is contained in Appendix 2.
- 4.11 A concern raised by Libraries was the potential flood risk of using the ground floor of the building for storage of part of the collection. However, this risk will be substantially reduced and mitigated through the proposed conversion works and the storage regime being put into place by the Local Studies Library.

Benefits

- 4.12 The benefits of this scheme include:
- Creating jobs in the city centre by operating a serviced business centre which will also complement the other workspace centres run and managed by the Council.
 - Bringing back a prominent listed building into beneficial use.
 - Creating an income producing asset for the future benefit of the Council.
 - Working in partnership with a national development company to kick start the first phase of the No 1 Cathedral Green mixed use development being the adjoining former Police HQ.
 - Providing a new city centre location for the Council's Local Studies Library adjacent to the Council House enabling improved service provision and allowing continued public access to parts of an attractive Grade 2 listed building.

Funding - Capital

- 4.13 The original funding package agreed at Cabinet on 21st February 2012 referred to capital expenditure which was reference to the costs of the project for both capital and revenue. A summary of the project capital costs and sources of capital funding is shown in Appendix 3.
- 4.14 The Growing Places Fund loan is the subject of due diligence. If, after review by the LEP, the funding package is not forth coming, or terms are not acceptable to the Council, a capital funding request has been made to for the same monies as the GPF loan and this is at the early stages of consideration.

Funding - Revenue

- 4.15 The revenue income includes a contribution from the Regeneration Fund to cover start up costs (as in paragraph 4.13) and a net income from the commercial space. (ie rents and charges less costs.)
- 4.16 In addition, whilst the Local Studies Library has a budget to cover their existing accommodation costs this does not currently reflect the true costs of their occupation of Middleton House and would not cover the costs of the Magistrates Court. Therefore, the additional annual revenue costs required to support the Local Studies Library occupation of the Magistrates' Court based on 2012/13 figures are as shown in Appendix 4.
- 4.17 It is also necessary to repay the GPF loan as shown in Appendix 4.
- 4.18 Taking into account the revenue income set out in paragraph 4.15 above and the costs set out in paragraphs 4.16 & 4.17 above, there is an unfunded net revenue pressure. Appendix 4 sets out these costs in detail.
- 4.19 In addition the Library Services is to receive an agreed fixed one off funding from the Accommodation Strategy to cover the costs of physically moving the Local Studies Library to the Magistrates' Court.

OTHER OPTIONS CONSIDERED

- 5.1 Do nothing – The Property will continue to be empty and alternative, more expensive options for the new location of the Local Studies Library would need to consider if the Service is to be continued when the Council vacates the St Mary's Gate/ Middleton House complex. A summary of the alternative accommodation Options Appraisal for the Local Studies Library is given in Appendix 2.
- 5.2 Reduced specification – The Centre may prove more difficult to let at the proposed rental levels. A reduction of the rental levels will impact on the revenue support required for this project.
- 5.3 Provide loan or equity funding to support Wilson Bowden Developments developing the Magistrates' Court themselves. This was initially explored, however, the developer would not proceed on this basis because of the difficulties in raising matching loan finance for a speculative development. In the event the proposed inclusion of the Local Studies Library into the building makes this approach less attractive to the Council.

This is a joint report by:

The Head of Regeneration Services
The Head of Estates
The Head of Museums and Libraries

This report has been approved by the following officers:

Legal officer Financial officer Human Resources officer Service Director(s) Other(s)	Stuart Leslie Martyn Marples N/A Richard Williams Claire Davenport Steve Meynell Greg Jennings David Potton
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For more information contact: Background papers: List of appendices:	Mark Leach 01332 642063 e-mail mark.leach@derby.gov.uk Cabinet Paper: Derby City Council Regeneration Fund 21 st Feb 12 Appendix 1 – Implications Appendix 2 – Local Studies Library Options Appraisal Summary Appendix 3 – Confidential Appendix 4 – Confidential Appendix 5 - Layout plans
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IMPLICATIONS

Financial and Value for Money**1.1 Acquisition**

Subject to Cabinet approval and final approval of the GPF loan there are sufficient capital resources to meet the costs of the project. However, there will be a net revenue pressure as set out in Appendix 4.

1.2 Operation

The projected rental and service charge levels for the Magistrates' Court have been based on the rental and service charges charged at similar Council owned and managed business centres to the proposed Magistrates' Court scheme.

1.3 It is envisaged that once the building has been operational for around three years an options appraisal will be carried out to assess whether it is in the Council's financial and strategic interests to retain the ownership and management of the building or whether the building should be sold. Protecting the ongoing operation of the Local Studies Library will be an important aspect of this appraisal.

1.4 Value

This section is commercially sensitive and is contained in the confidential Cabinet report.

Legal

2.1 Specialist external legal advisers have been appointed to support the project moving forward. A report was prepared by the legal consultants to ensure compliance procedures are correct and maintained throughout the process. The legal consultants are retained to consider and deal with applications that reach the final stages.

Personnel

3.1 A dedicated reception team of up to three part time staff, allowing for cover and cleaning staff will be required as part of the building management structure and income generation through the provision of bureau services.

Equalities Impact

4.1 The recommendations do not give rise to equality issues and would provide positive regeneration projects with which to strengthen the Council's approach to valuing diversity and to creating opportunities for all our citizens.

Health and Safety

- 5.1 There are no Health and Safety issues arising directly from this report.

Environmental Sustainability

- 6.1 The project put forward for approval will include carbon footprint reduction, sustainable travel and the use of the British Research Establishment Environmental Assessment Method (BREEAM) sustainable development standards.
- 6.2 The project will put back into economic use a redundant listed building.

Asset Management

- 7.1 This project supports the Council Strategic objectives for its Property portfolio in that:-
- The acquisition facilitates the relocation of the Local Studies Library which ultimately supports the generation of a significant capital receipt when the St Mary's Gate complex is sold.
 - The ongoing maintenance of the building will be supported by revenue generated.
 - The project supports the Council's Regeneration Strategy bringing an historic and prominent building back into use whilst also assisting with an ongoing programme of housing and developing businesses and creating jobs in the city centre.
- 7.2 A routine property maintenance programme has been drawn up in association with the Head of the Council's property maintenance team and a "maintenance sinking fund" has been identified which is included within the ongoing revenue costs as shown in Appendix 4.

Risk Management

- 8.1 The application for this project via the Regeneration Fund has gone through a detailed assessment by external consultants including:
- Preliminary project assessment
 - Outline assessment
 - Full assessment
- and, applications were assessed against:
- Deliverability
 - Value for money
 - Alignment to Strategic Opportunities
 - Sustainability/Design Standards
 - Track Record of Applicant
- This is combined with internal legal advice.

- 8.2 An independent Report on Managed Workspace Study in Derby was commissioned which assisted in the rationale to invest in facilitating the delivery of additional managed work space accommodation in Derby city centre. Additional reports and commissioned work has been carried out in respect of an office market assessment report, city centre car parking, links to further funds and funding opportunities, city centre public realm design, transport links with the city centre, city centre regeneration, marketing, appropriate location of centres of business related to the objectives of The Regeneration Fund.
- 8.3 A routine property maintenance programme has been drawn up in association with the Council's property maintenance team.
- 8.4 The proposed scheme (including costings) has been and will continue to be assessed in detail by external consultants who will appoint an employers representative on the Council's behalf to oversee that the works are carried out to the Councils satisfaction.
- 8.5 The report on Managed Workspace in Derby indicates that there is ongoing demand for this type of accommodation in the City. The Council are leading on a programme of development to meet this demand through the construction of the Cathedral Quarter Enterprise Centre, the Connect Project and the Magistrates Courts. It is anticipated that there will be the projected take up of this space, however, as with all property investments, rental return will always be a risk.
- 8.6 Expenditure costings provided are estimates and the true costs will not be known until the building is operational. The figures provided have been based upon the operations of similar centres in the City and external advice has been sought on aspects of the expenditure so there is reasonable confidence in the figures provided. Until the building is operational and the true costs are known this remains a reasoned projection estimate only.
- 8.7 The terms of the GPF loan have not yet been agreed. The interest rate has been predicted but it could ultimately be higher or indeed lower. A further risk on this area is that the loan is not granted. A contingency bid into the Capital Programme has been submitted to mitigate this risk.

Corporate objectives and priorities for change

- 9.1 The project contributes to the following Council's priorities:-
- A thriving sustainable economy – more new businesses, more people with jobs, more hi-tech businesses, less carbon emissions from industry and transport & a better built and natural environment.
 - Being safe and feeling safe – less fear of crime and anti social behaviour.

LOCAL STUDIES LIBRARY OPTIONS APPRAISAL: SUMMARY

The Local Studies Library stores maintain and provide public access to information relating to Derby and the surrounding area. The library provides an enquiry service for researchers seeking information about the city and local region and also family history.

The library is located in the St Mary's Gate complex (Middleton House), occupying around 750 square metres of the ground floor and basement. The complex will be vacated by the Council around the end of 2013 as part of the corporate office accommodation strategy. The Council therefore needs to find alternative premises from which to deliver the Local Studies Library service from 2014.

An options appraisal was undertaken based on the following criteria:-

- Safe storage
- Provision of between 650 -700 sq m of accommodation
- City centre location and DDA compliant
- Affordable
- Fits with Accommodation Strategy and Property Strategy

The options appraisal reviewed various locations that had previously been considered but not pursued; following investigations these were all rejected. Two additional options were identified as follows:

- a) The former Mango Tang Restaurant premises 9 -11 Bold Lane
- b) The former Magistrates' Court.

These options were analysed against the selection criteria (see table below) and the Magistrates' Court was the preferred option.

Option	Safe storage	Space Requirements	Central location and DDA	Affordable	Fits with Accommodation Strategy and Property Strategy
Mango Tang – Former Restaurant – 9-11 Bold Lane	Floor Loading levels to be established. but no risk of flood	715 sq m	The building is centrally located but requires work to make DDA compliant	Scheme costs £1.5-2m. plus annual running costs	We would be acquiring another listed building
Former Magistrates' Court	Risk of flooding to be mitigated through provision of internal works and storage policy	680 sq M	Ideally located and the building would be DDA compliant when handed over to the Council	£500-£600K plus annual running costs	Whilst we would be acquiring another listed building, this use would help support the provision of a managed workspace scheme



