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Market Hall Transformation

Purpose

- 1.1 To update members on the progress of the Derby Market Hall transformation project delivery and seek approval to support a capital contribution towards the works to supplement the £9.430m Future High Street Funding (FHSF) secured for the scheme.
- 1.2 To seek approval to update the Capital Programme for the Market Hall Transformation project to include the total estimated project cost to deliver the transformation in order to comply with the Council's Financial Procedure Rules.
- 1.3 To note the operating model, revenue MTFP implications, and progression of the works on this basis.
- 1.4 To enable continuation of the project and realisation of the Council's ambition to create a new vibrant, high quality, flexible market, appealing to a diverse customer base, at the heart of the city centre.

Recommendations

- 2.1 To review and approve the latest proposals and associated capital and revenue budget implications to deliver the Market Hall Transformation project. subject to approval of the budget and funding requirements set out in recommendation 2.3 below.
- 2.2 To agree the progression of detailed design of an enhanced Osnabruck Square public realm scheme to RIBA stage 4, subject to budget approval (recommendation 2.3 below), and note that the delivery of an enhanced scheme would require further capital funding, approval for which would be the subject of a future report.
- 2.3 To approve the funding of £10.089m additional capital requirement outlined in paragraphs 7.1 to 7.3 for Market Hall Transformation phase 2 and Osnabruck Square public realm design by way of transfer from the corporate Future Investment capital budget funded by Prudential Borrowing and included in the proposed MTFP for 2022/23 -2024/25, subject to approval of the MTFP and Prudential Indicators by Full Council on 28 February 2022.

- 2.4 Subject to recommendation 2.2 above and Programme Management Office Gateway 3 requirements, to approve the addition to the capital programme of £19.279m for Market Hall transformation phase 2 and £0.240m Osnabruck Square public realm design as detailed at paragraphs 71. To 7.4.
- 2.5 To note that in advance of Programme Management Office Gateway 3 approval for the phase 2 scheme, some design works will commence as detailed in paragraph 4.7.
- 2.6 To accept the operating model and associated cashflow forecast detailed within the report in paragraph 7.6 and agree the inclusion of £0.541m of revenue mobilisation costs and early years operation subsidy in the proposed 2022/23-2024/25 MTFP to be recommended to Full Council for approval on 28 February 2022.
- 2.7 To agree that a feasibility study is carried out on redevelopment options for the Lock up Yard and Fish Market area, noting that these will be the subject of a future feasibility funding request when costs are confirmed and a subsequent Cabinet report on redevelopment options and financial implications will follow.
- 2.8 To delegate to the Strategic Director for Communities and Place following consultation with the Director of Finance, Director of Legal, Procurement and Democratic Services and the Cabinet Member for Regeneration, Planning and Transportation authority to take all necessary actions to finalise and enter into all necessary contractual arrangements to complete the Market Hall transformation works and Osnabruck Square public realm design to RIBA 3, subject to all necessary budget and Programme Management Office Gateway approvals being in place.

Reasons

- 3.1 To secure sufficient funding to deliver the latest internal transformation works proposals, informed by updated RIBA2 design costings, and add the budget to the capital programme together with the £9.430m Future High Street Funding (FHSF).
- 3.2 To deliver on the commitment to transform Derby Market Hall into a flexible retail, food and drink, and leisure space capable of meeting the needs of Derby's residents and visitors and supporting the development of the wider city centre offer in line with the City Centre Masterplan 2030, and also contribute towards the city's recovery following the Covid-19 pandemic. Following the FHSF bid further work has been carried out to produce a detailed brief, leading to contractor led design work and costings. This has also taken into account the current market conditions and inflationary increases in the construction industry.
- 3.3 To bring back into use a strategically located Grade II listed building following a programme of extensive roof repairs requiring the decant of all previous tenants, and to provide a 30-year life through the upgrading of all mechanical, electrical and plumbing provisions.
- 3.4 To ensure that the Council can spend the FHSF allocation ring fenced for delivery of the Market Hall transformation.
- 3.5 To initiate steps to develop a suitable proposal for redevelopment of the Lock up Yard and Fish Market area.

- 3.6 To progress Osnabruck Square public realm design to gain greater cost certainty.

Supporting information

Background Information

- 4.1 In May 2020, Cabinet approved the vision and brief for the Market Hall Transformation project and received an update on progress with the project to date. The Government's Future High Street Fund (FHSF) programme was identified as an opportunity to deliver a more ambitious transformation. The Council has worked with market experts who identified where investment in the transformation of the Market Hall could create a successful retail and leisure destination that attracts a greater range and number of customers. The vision and brief approved by Cabinet in May reflected this more ambitious transformation objective.

Transforming the Market Hall into a vibrant and viable city centre asset will be pivotal not just for the success of this project and long-term sustainability of the building but also for the wider regeneration and development of the city centre as a whole. The work being carried out to transform this building acts as a statement of intent for the city itself and will herald a new approach to how we manage our assets and promote new and exciting commercial and cultural activity to Derby residents and the wider visitor population. The new Market Hall is forecast to generate circa £3.64m in GVA (gross value added) for the city on its own merit but will also enhance the city's offer and support and bolster the many and varied commercial and cultural developments taking place within the city boundary. Developing the Market Hall in line with the proposals outlined in the report and business case is a rare opportunity that should be exploited to its full advantage.

- 4.2 In November 2020 Cabinet approved a virement of £4.5m from the Future Investment Capital Budget to the Market Hall Transformation Budget to allow completion of phase 1 roof repair works, and progression of phase 2 design (including costs associated with internal fees) up to RIBA stage 4. Cabinet noted that a further report would be brought following confirmation of the Future High Street Fund award and costed phase 2 detailed proposals.

Progress

- 4.3 Phase 1- Roof Structure
Works are progressing on programme and within budget. All of the planned roof repairs, glazing replacement and external brick and masonry repairs incorporated in phase 1 works are on target to be completed in June 2022.

4.4 Phase 2- Internal Transformation

The existing capital budget for Phase 2 design (£1.641m) together with the £9.430m FHSF provides funding of £11.071m for Phase 2. RIBA stage 2 has now been completed with designs and costings (as appropriate for this stage of design). A further instruction to progress RIBA stage 3 and 4 design is required to complete spatial and technical design and ensure the FHSF can be spent by the 31 March 2024 deadline. Work carried out to date has, however, identified a total phase 2 estimated cost that is £9.849m higher than the funding available. Whilst the project has an approved budget to progress design up to RIBA stage 4, early approval is being sought for the identified budget shortfall in consideration of the Council's wider budget pressures, and to manage any abortive cost risk associated with progressing design before securing funding to carry out the works. Advance approval of the outstanding budget will also allow the project to progress in line with the current programme, introduce early phase 2 works alongside the current phase 1 programme, and reduce the chance of delay at the point of contract award.

Next Steps

- 4.5 Approval of additional budgets as recommended in this report will enable the project to deliver the full internal transformation scheme as per the Cabinet approved brief and objectives, and detailed design for Osnabruck Square. Specifically, the following activities will be progressed:
- Completion of RIBA stage 3 and 4 design for the internal transformation works to produce the final agreed contract value
 - Early phase 2 works will be instructed. These will take place during the first 6 months of 2022 prior to phase 2 full initiation. These works carry an abortive cost risk if the full phase 2 construction delivery agreement is not entered into.
 - Detailed design of Osnabruck Square public realm enhancements will be instructed up to RIBA 4
- 4.6 In addition, this report seeks agreement to a feasibility study on redevelopment options for the Lock up Yard and Fish Market area, recognising that it will then be necessary to seek funding approval once a cost estimate is confirmed. Before any scheme for that area is progressed, a report will be brought to Cabinet with a recommendation for end use and redevelopment of the Fish Market and Lock Up Yard following the feasibility study and associated financial implications to seek budget and funding approval.
- 4.7 It should also be noted that in order to minimise costs and condense the delivery programme a package of early works will be instructed prior to entering into the phase 2 delivery agreement. This work is a mix of design work to be funded from the existing approved phase 2 design fees budget and other enabling works to be incorporated into phase 1 and funded from the phase 1 contract risk contingency.
- 4.8 Approval is sought in this report to give delegated approval to the Strategic Director for Communities and Place following consultation with the Director of Finance, Director of Legal, Procurement and Democratic Services and the Cabinet Member for Regeneration, Planning and Transportation to take all necessary actions to finalise and enter into all necessary contractual agreements to deliver the Market Hall transformation works and Osnabruck Square public realm design to RIBA 3, subject to having in place all necessary budget and PMO Gateway approvals.

- 4.9 A report will be brought to Cabinet prior to entering into any construction delivery agreement for an enhanced Osnabruck Square public realm scheme to update on proposals, seek approval to the budget and funding to deliver the works, and any associated revenue maintenance cost implications. Market Hall phase 2 costings detailed in paragraph 7.1 include £0.310m for a light touch scheme which can be moved into an enhanced scheme budget if required, and before returning to Cabinet all opportunities for securing alternative funding for these works will be explored
- 4.10 Approval in the MTFP of the revenue implications of the operating model will allow appointment of a Market Manager 12-18 months prior to opening who will provide expert advice and guidance through the construction and fit out period, shape the offer, and secure tenants. It will also provide for other mobilisation activity pre-opening.

Risk	Mitigation
Volatility of the construction market – both supply of materials and labour	<ul style="list-style-type: none"> Cost plan includes inflation at 9%, however given the volatility of the market an additional risk allowance has been allocated to cover further increases. We do not expect to spend this allowance if inflation remains as currently predicted
Contract value calculated at early stage of design	<ul style="list-style-type: none"> Significant risk and contingency amounts allocated to cover any likely increases during the remaining design period. Final contract value will be established Summer 2022 however this may not be the final account due to required additional work which could not reasonably have been foreseen, hence the need for adequate contingency provision.
Asbestos present in the building	<ul style="list-style-type: none"> Advice sought from DCC asbestos expert, the contractor, and DCC PP & TS colleagues. Agreed allowance incorporated into the contract risk register, estimated based on the age of building and knowledge of past survey findings and works carried out during the 1980's refurbishment. However, it is impossible to fully establish end costs for this risk until further survey work has been carried out and all affected areas exposed.
Listed building status and its impact on proposed or actual works	<ul style="list-style-type: none"> Close liaison with the Conservation Officer to gain pre-application advice at an early stage. However, there is no guarantee that all proposed works upon completion of design, will gain listed building consent
Age of the building and past works – opening up works carried out during survey and construction periods may identify further work required	<ul style="list-style-type: none"> Surveys undertaken at as early a stage as possible A contingency level has been set to support the estimation of potential risk liabilities which are not able to be determined at this stage. The level has been based upon the balance of known information

	and work already completed in Phase 1, risks identified to date for Phase 2, noting the early stage of design development, together with the grade II listed nature and age of the building.
Maintenance and sinking fund assumptions	<ul style="list-style-type: none"> Until works have been completed it is not possible to accurately calculate ongoing maintenance costs for the building once operational. An estimate has been included in the operating model which will be reviewed upon receipt of all warranty, operating and maintenance information from the contractor.
Not delivering the scheme – result in abortive costs and no regeneration benefits	<ul style="list-style-type: none"> This cabinet report and ask for the outstanding phase 2 budget requirement constitutes the only mitigation available at this stage It should be noted that the report recommends early works be instructed prior to completion of RIBA stage 4 design, and in advance of entering into the stage 2 delivery agreement for construction works. This recommendation carries an abortive cost risk if the delivery agreement is not completed. The recommendation is based on most efficient use of resources while phase 1 works are ongoing, and the contractor is on site and seeks to minimise any potential for a delay between phase 1 and phase 2 works and meeting the FHSF spend deadline.
Funding is not secured for enhanced public realm proposals	<ul style="list-style-type: none"> If the full-scale enhancements cost more than the budget sought here an alternative light touch scheme has also been costed which would reduce the regeneration benefits but enable the area to be used in line with the Market Hall operations
Resourcing the project – lack of officer and other project member availability to deliver the project	<ul style="list-style-type: none"> If necessary external project management resource may be sought to deliver the project The investment appraisal and operating budget request for the new Market Hall offer allows for a Market Manager to be appointed up to 18 months prior to opening, who will be tasked with driving forward operational aspects of the scheme and securing future tenants
Retail market conditions – business closure and high street voids in wake of Covid-19 and earlier economic changes	<ul style="list-style-type: none"> The Market Hall will be promoted as an entrepreneurial hub; tenants will be provided with/signposted to business support services Competitive rental structures will be implemented to facilitate start up activity and promote growth

Occupancy levels and trader mix – difficulty in attracting an adequate number of suitable tenants resulting in revenue pressure	<ul style="list-style-type: none"> • Effective communications and marketing to be carried out to generate excitement and identify potential tenants • The Market Manager will be pivotal in developing a successful offer, promoting events, and generating interest in the transformed market hall • It should be noted that the Market Hall is a large building with a high number of trading spaces. It may take some time to develop the offer and achieve optimal occupancy levels. Flexibility has been prioritised to allow a variety of uses and help mitigate this risk. This has been factored into the proposed operating model.
Future High Street Fund allocation not spent by the deadline of March 2024.	<ul style="list-style-type: none"> • Early works will be instructed to minimise the potential for delays between phase 1 and 2 and condense the delivery programme. Contractor is aware of, and programming activity in line with the FHSF deadline
Residual maintenance costs required if Phase 2 does not proceed	<ul style="list-style-type: none"> • The cost of any residual maintenance, and residual costs to close down the project will need to be considered within the Property Capital Programme and would be subject to Cabinet approval

Public/stakeholder engagement

- 5.1 The Major Property Projects Board oversees this project and have been engaged throughout the development of the project.
- 5.2 A communications plan is in place for the project as a whole.
- 5.3 Future consultations will be held with current DCC tenants (having relocated to the Eagle Market), University of Derby (Banks Mill), the Economic Taskforce, Marketing Derby, Quad and Mainframe, and other as yet unspecified partners and stakeholders.

Other options

6.1 **Do not deliver phase 2** - Cease all transformation works and reopen the Market Hall with its current layout and facilities.

To do nothing and cease the project is not believed to be an option if the Council is to meet its objectives around city centre regeneration. The essential roof repair works have resulted in all tenants having to move out of the Market Hall. This has been at a significant cost to both the Council and the traders. To reopen without redeveloping the interior space would mean at best a return to pre-closure revenue net operating budget pressures, and at worst an untenanted space. The Phase 1 roof repairs will have been carried out at a cost of £14.2m, and rather than resulting in an improvement to the operation of the building, would in fact have had a detrimental effect. Compounding this issue would be the ongoing revenue pressures in regard to maintaining the asset in its existing condition. Surveys carried out to date have identified significant mechanical, electrical, and plumbing work that needs to be carried out in order to bring the facilities up to a suitable standard.

Not carrying out the transformation works would represent a significant missed opportunity and result in increased revenue pressure incurred through owning and operating the building. In addition, the Council would be at risk of reputational damage regarding failure to deliver a major project following receipt of a significant FHSF allocation. See risks outlined in supporting information.

6.2 **Descope phase 2** – A value engineering exercise was carried out prior to instructing RIBA stage 2 design which identified a number of savings that could be made without compromising the end products revenue and transformational potential, while ensuring it would still deliver the required FHSF outputs. Any cost savings that were identified from earlier value engineering have been built into the figures in this report.

Financial and value for money issues

Capital

- 7.1 The Council has received a FHSF award of £9.430m towards the Market Hall Transformation project. The capital programme already includes £1.641m for Phase 2 to progress design to RIBA 4. Following RIBA2 design, the latest cost estimates to deliver the phase 2 transformation works are summarised in the table below:

Cost	£m
Phase 2 design and construction costs total	16.647
DCC client costs and contingency	3.808
Other phase 2 costs already incurred	0.465
Total Estimated Costs for Phase 2	20.920
Less funding from existing approved Phase 2 capital budget	(1.641)
Less funding from FHSF	(9.430)
Remaining funding gap	9.849

The above costs include the following contingencies that will be managed through the project change control and governance processes:

- Contract risk register £1.9m
 - Client Contingency £3.1m.
- 7.2 A further separate capital budget is required to carry out detailed and technical design for the enhanced public realm scheme on Osnabruck Square at an estimated cost of £0.240m
- 7.3 It is proposed to fund the additional £9.849m required for the Market Hall Transformation phase 2 and the £0.240m for enhanced Osnabruck Square public realm scheme design by way of transfers totalling £10.089m from the corporate Future Investment capital budget in the proposed MTFP for 2022/23 -2024/25 which is funded by Prudential Borrowing, subject to approval of the MTFP and Prudential Indicators by Full Council on 28 February 2022.
- 7.4 Subject to recommendation 2.3 and 2.4 above, the capital programme will be updated to include the addition of £19.279m for the Market Hall phase 2 (funded by £9.430m FHSF and £9.849m prudential borrowing) and £0.240m for the enhanced public realm works to the capital programme (funded by prudential borrowing). Approval will be obtained from the Strategic Director of Corporate Resources under his delegated powers to the profiling of the subsequent addition to the capital programme in line with the contractual arrangements for construction works.

- 7.5 The transformed Market Hall will deliver wider economic benefits for the city centre, establishing a new city centre destination and supporting wider developments across leisure, culture and retail in the city. Initial work to assess the value for money and wider economic benefit has been completed as part of the FHSF bid. It is estimated that the transformed Market Hall will generate £3.64m GVA per annum.
- 7.5 Cabinet in January 2022 approved a capital budget for FHSF Connecting Works, which includes a proposal for an allocation for connecting works at the Guildhall entrance to the Market Hall. Therefore, no provision for these works have been included in this report.

Revenue

- 7.6 The anticipated net annual operating budget of the Market Hall, and cumulative cash flow is detailed in the table below:

	2022/23	2023/24	2024/25	2025/26	2026/27
Operating Model	Year –1 £m	Year 0 £m	Year 1 £m	Year 2 £m	Year 3 £m
Net Annual Operating Budget	£0.088	£0.196	£0.219	£0.038	£(0.076)
Cumulative Cash Flow	£0.088	£0.284	£0.503	£0.541	£0.465

Figures have been calculated based on prudent occupancy level and achievable rent projections. They allow for a three-year ramping up of operations and reach a steady state by Year 3, whereby income from traders is sufficient to cover costs while allowing for a suitable maintenance and repair regime and a small sinking fund allowance.

This includes some challenging income targets and is dependent on the Council's ability to generate sufficient income.

A core objective of the new Market Hall operations approach will be to maximise revenue potential of the venue whilst ensuring that the asset is maintained in order to protect the investment and reduce future costs.

A total of £0.541m of revenue funding is required in the early years to meet mobilisation costs and the cost of activities whilst occupancy reaches steady state levels.

- 7.7 It should be noted that the Market Hall is a large building, would have been the main retail hub for the city and was designed to suit trading requirements of the Victorian era. Given the constraints of the building, not least its size and listed building status, flexibility has been prioritised when developing the business plan and interior configuration. This will allow the building to adapt to changing retail, leisure and culture priorities, and ensure it remains a viable, usable space over future years. Work will continue to ensure that estimated figures will become more certain and will be reflected in operational considerations e.g. opening hours, staffing modelling. All considerations will continue to feed into the key pillars of the vision for the Market Hall and to deliver a key destination for the city.

- 7.8 The capital and revenue budget implications and prudential borrowing requirement arising from this report have been incorporated into the MTFP and Prudential Indicators 2022/23-2024/25 on this agenda for recommending to Full Council for approval on 28 February 2022 for approval.

Legal implications

- 8.1 Legal Service's input will be sought to review the terms and conditions of funding agreements and contracts.
- 8.2 The existing NEC4 (new engineering and construction) contract with X23 clause through the Scape Procurement National Framework will be used to deliver the remaining Market Hall works. Legal Service's will be required to review the terms and conditions of any delivery agreements entered into under this contract.
- 8.3 Lease arrangements for future tenants will be managed through the existing Estates, Connect Derby, and Legal Services provision.

Climate implications

- 9.1 Opportunities to incorporate low carbon measures into the design of the building are being explored through the pre-construction design period including installation of photovoltaic cells, omission of natural gas supply, use of infra-red heating to specific areas, individual metering where possible, and carbon conscious waste disposal most specifically around food waste. Wates have been commissioned as part of the design process to complete feasibility work on a number of sustainable measures.

Other significant implications

10.1 Equalities Impact

An equalities impact assessment has been carried out in line with design progression to date. A further EIA will be completed during RIBA 3 and 4, prior to instructing the physical works.

Additionally, a bid has been progressed to fund the Changing Places facility that will be installed at ground floor level. Regardless of bid outcome the facilities will be installed as part of the transformation works with costs having been factored into those outlined in paragraph 7.1.

10.2 Property and Asset Management

The Market Hall will remain in DCC ownership during, and post phase 1 and 2 transformation works. Responsibility for ongoing maintenance will remain with the Council's Property Services department and relevant work will be carried out to protect any warranties in place. Until construction work has been completed it is not possible to fully establish the extent and therefore cost of maintenance work required post completion and is recognised as a risk referenced under paragraph 4.10.

This report has been approved by the following people:

Role	Name	Date of sign-off
Legal	Emily Feenan (Director of Legal, Procurement and Democratic Services)	28.01.2022
	Olu Idowu (Head of Legal Services)	28.01.2022
Finance	Amanda Fletcher (Head of Finance – Transformation and Major Projects)	28.01.2022
Service Director(s)		
Report sponsor	Simon Riley (Strategic Director of Corporate Resources)	28.01.2022
Other(s)	Robbie Kerr (Derby Live Manager)	28.01.2022

Background papers:		
List of appendices:	Appendix 1 - Derby Market Hall Business plan	
	Appendix 2 - Derby Market Hall Transformation – Internal Visual from South	
	Appendix 3 - Derby Market Hall Transformation – Internal Visual from North	
	Appendix 4 - Derby Market Hall Transformation – South Elevation Visual	
	Appendix 5 - Market Hall Transformation Phase 2 Capital Costs and Exclusions – Confidential – this appears as Item 20 on the agenda.	