

EXECUTIVE BOARD – 19 NOVEMBER 2013

Subject:	Downtown (Sneinton Market) and Creative Quarter Feeder European Regional Development Fund (ERDF) projects		
Corporate Director(s)/ Director(s):	David Bishop, Corporate Director for Development Chris Henning, Director of Economic Development		
Portfolio Holder(s):	Councillor Graham Chapman, Deputy Leader/Portfolio Holder for Resources and Neighbourhood Regeneration		
Report author and contact details:	Jem Woolley, European Officer, Economic Development Jem.woolley@nottinghamcity.gov.uk 0115 8764491		
Key Decision	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No	
Reasons: Expenditure <input checked="" type="checkbox"/> Income <input type="checkbox"/> Savings <input type="checkbox"/> of £1,000,000 or more taking account of the overall impact of the decision			Revenue <input checked="" type="checkbox"/> Capital <input checked="" type="checkbox"/>
Significant in terms of its effects on communities living or working in an area consisting of two or more wards in the City			<input type="checkbox"/> Yes No <input type="checkbox"/>
Subject to call-in <input checked="" type="checkbox"/> Yes No <input type="checkbox"/>	Total value of the decision: £5.550 million		
Relevant Council Plan Strategic Priority:	Wards affected:		
World Class Nottingham <input type="checkbox"/>	St Anns		
Work in Nottingham <input checked="" type="checkbox"/>			
Safer Nottingham <input type="checkbox"/>			
Neighbourhood Nottingham <input type="checkbox"/>	Date of consultation with Portfolio Holder(s):		
Family Nottingham <input type="checkbox"/>	5 November 2013		
Healthy Nottingham <input type="checkbox"/>			
Leading Nottingham <input type="checkbox"/>			
Summary of issues (including benefits to citizens/service users):			
<p>The Downtown project will establish a vibrant creative business community in Sneinton Market, in Nottingham's Creative Quarter, through the development of workspace facilities for creative entrepreneurs in the arts and crafts sector. It will support the creation and growth of creative industries – a significant sector for the City economy and one that can create quality local jobs for residents of disadvantaged communities. An ERDF application for £2.440m has been successful and will co-finance the project with the support of additional funding of £2.231m from the City Council, including the acquisition of the leasehold.</p> <p>The Creative Quarter Feeder project will provide business support for the creative industries to provide a pipeline of new start-ups for the area. An ERDF application for £0.500m has been successful and will co-finance the project with the support of additional revenue funding of £0.156m from the City Council.</p> <p>These projects are part of a longer term regeneration of the East of the City Centre, including key projects and investment that the City has already delivered or are in progress (such as Sneinton Square; the transformation of the leisure centre and the transformation of Stonebridge, with work on-site building significant numbers of new affordable homes).</p> <p>This report requests a decision on the provision of match funding by the City Council and requests the necessary approvals to sign contracts with the Department for Communities and Local Government, (DCLG), who manage the ERDF funding, to allow expenditure on the project to go ahead; and to approve the procurement routes for the building contractor and the operator of the completed schemes. Management of the buildings will need to be outsourced to an external operator to meet European Union State Aid requirements. More details on this are provided under Financial Implications (Section 4 below).</p>			

Summary of project finance

Project	ERDF £m	Other Finance £m	City Council £m	Total £m
Downtown	2.440	-	2.231	4.671
Creative Quarter Feeder	0.500	0.140	0.156	0.796
Project support - capital			0.083	0.083
Totals	2.940	0.140	2.470	5.550

Recommendation(s):

1. To approve the Downtown scheme at a total estimated capital cost of £4.671m, subject to receipt of formal ERDF grant approval.
2. To approve City Council capital funding for the Downtown scheme of £2.231m; and for provision to be made in the capital programme.
3. To agree to sign contracts with DCLG to go ahead with the project by 31 December 2013 with the approval of the Deputy Leader/Portfolio Holder for Resources and Neighbourhood Regeneration.
4. To approve further critical decisions to be taken on:
 - 4.1 to approve the procurement route for delivering the capital build;
 - 4.2 to commit an internal project team and budget of £0.083m to deliver the project;
 - 4.3 to procure an operator to manage the developed business units on Sneinton Market.
5. To approve the delegation of further decisions to the Deputy Leader/Portfolio Holder for Resources and Neighbourhood Regeneration on advice from the Project Board.

1 **BACKGROUND (INCLUDING OUTCOMES OF CONSULTATION)**

- 1.1 DCLG, through the ERDF East Midlands Competitiveness Programme, issued a call for projects to be funded through the ERDF Challenge Fund, the final bidding round in the current programme, in February 2013. Nottingham City Council produced an application to support the redevelopment of Sneinton Market into workshop and studio units for creative sector SMEs. This project was called 'Downtown' and requested £2.440m from DCLG. The total capital cost of the project is £4.671m and will require £2.231m additional match funding from the City Council as ERDF will only provide part-funding for projects.
- 1.2 A separate, but thematically linked, application was submitted to support a package of specialist business support for creative entrepreneurs from Nottingham's most disadvantaged communities, helping these to start-up and grow, and connecting them to the City's Creative Quarter Initiative. This project, called Creative Quarter Feeder, requested £0.500m from DCLG. The total cost of the project is £0.796m and will require £0.156m additional match funding from the City Council. £0.140m will come from the other project partners.
- 1.3 Downtown will directly deliver the stated aims of the ERDF Competitiveness Programme, Priority Axis 2, creating jobs for local people and delivering community led economic regeneration. Specifically it aims to promote economic growth in Nottingham by increasing the level of enterprise and creating new jobs within the arts and crafts sector in the city's Creative Quarter. It will deliver significant outputs:

- 0.36 hectares of brownfield land reclaimed
 - Creation of 3,356 square metres of upgraded floorspace
 - Support for 33 businesses to grow
 - Creation of 66 new employment opportunities
 - Provision of 1 new low carbon facility
- 1.4 The Creative Quarter Feeder project will deliver support for creative entrepreneurs from Nottingham's most disadvantaged communities, particularly in NG7. To this end it will be delivered in partnership with Nottinghamshire Business Venture (NBV) and New Art Exchange (NAE). It is designed to provide a pipeline of potential occupants for the Sneinton Market units and other Creative Quarter property. It will deliver significant outputs including:
- 85 Businesses assisted to improve performance
 - 70 People assisted to start a business
 - 26 Jobs created
 - 21 Businesses improving performance
 - 20 Businesses created
- 1.5 These are formal targets included as part of the application for ERDF funding. However, the projects, as a key part of the Creative Quarter strategy will also generate much wider regeneration benefits to the area in the east of the City Centre. These will include:
- extending the spectrum of quality premises available for creative arts and crafts SMEs
 - closing an identified property gap
 - supporting the start up and growth of arts and crafts businesses
 - expanding Nottingham's Creative Quarter offer
 - establishing a new vibrant creative business community
 - generating additional creative sector employment, particularly for young people
 - contributing to increasing economic activity
 - increasing the stock of creative businesses in the City
 - improving graduate retention in the City
 - contributing to boosting the visitor economy of the City.
- 1.6 Downtown will particularly nurture growing and start-up indigenous creative SMEs in arts and crafts. The project will specifically enhance the resources available to local college and university graduates, supporting and promoting enterprise in the city's growing arts and crafts sector.
- 1.7 It was agreed to do initial work on the Downtown project to enable it to go ahead swiftly once ERDF approval was given. Focus Consultants and The Local Education Partnership (LEP) / Inspired Spaces were engaged to do this work and a maximum budget of £0.550m was approved for the development of Downtown (together with the linked Creative Catalyst project on Dakeyne Street - delegated decision ref no. 0804). It is estimated that a further £83k (not covered by ERDF) will be required to provide the necessary project management / external professional support to manage delivery of this project.
- 1.8 The projects will be delivered by Nottingham City Council and the Council will continue to own the assets. The Council has to procure an operator to manage the site through an ERDF compliant tender process. This is a necessary requirement of EU State Aid rules. The appointed operator will be responsible for the management and operation of the project over the period of the contract which

is initially expected to be for 5 years with an option to extend. An external operator must be used for 15 years under ERDF rules.

- 1.9 An internal project board led by the Director of Economic Development has been steering this work to date and will be reconstituted to oversee delivery.

2 REASONS FOR RECOMMENDATIONS

- 2.1 The City Council needs to provide an additional £2.231m capital match funding and £0.156m revenue funding for the projects to go ahead as ERDF will only provide a percentage of project costs (a maximum of 62.72%). It is recommended that the capital element is financed from capital receipts. The approval of match funding needs to be evidenced before the contract with DCLG can be signed.
- 2.2 The City Council will need to contract with DCLG to deliver the project in an agreed time frame and financial envelope. A contract needs to be signed by 31st December 2013.
- 2.3 The Sneinton Market site needs to be in the control of the City Council before DCLG will contract with us to provide ERDF funding. Therefore the acquisition of the site leasehold needs to be complete before the final deadline for signing ERDF contracts. An agreement has been reached on ownership and lawyers are finalising the documentation.
- 2.4 A partner will need to be procured to deliver the project through a route acceptable to CLG for ERDF purposes. Our proposal is to procure via the East Midlands SCAPE framework which will enable us to contract rapidly with a construction partner (Wilmott Dixon) to enable the project to start as soon as we have contracted with DCLG. This will enable us to meet:
- Tight delivery timetables - the project needs to be completed by 30th June 2015, although we can apply for an extension in Spring 2014 to 31st December 2015
 - Strict ERDF requirements on procurement standards and processes. This route has been deemed acceptable by DCLG.
- 2.5 To manage the project, Major Programmes will be commissioned to deliver and complete this scheme. The project management costs will total £0.083m from now until project completion. External technical advice including contract management of the contractor, and other support will be required to support delivery of the scheme. These costs total £0.092m and will mainly be within the scope of the ERDF project, although some costs may relate to other elements of Sneinton Market.
- 2.6 There will be subsequent decisions that will need to be made on the management of the project which should be within the remit of the Portfolio Holder for Resources and Neighbourhood Regeneration.

3 OTHER OPTIONS CONSIDERED IN MAKING RECOMMENDATIONS

- 3.1 Not to provide match funding for the projects. As there are no other immediate sources of funding available this would result in the project applications being withdrawn.

- 3.2 To reduce the costs on the projects. However, the scheme has been significantly reduced in scope since the initial plans and we are now at the lowest minimum cost consistent with viability.
- 3.3 The option of using the LEP / Inspired Spaces to deliver the Downtown project through its existing arrangement with the City Council, as it had been carrying out some of the preparatory works. This was rejected after discussions with DCLG as they are not convinced this would be an acceptable procurement route for ERDF purposes. An OJEU procurement was also rejected as not being feasible within project timescales.

4 FINANCIAL IMPLICATIONS (INCLUDING VALUE FOR MONEY/VAT)

4.1 Capital Expenditure

The estimated capital cost of the Downtown scheme is £4.671m and the capital programme needs to be updated to include this cost with an indicative profile as set out in **table 1**. The capital cost includes an estimate for the acquisition of the leasehold interest in Sneinton Market.

TABLE 1– IMPACT ON CAPITAL PROGRAMME

	2014/15 £m	2015/16 £m	2016/17 £m	Total £m
Downtown	1.866	2.338	0.467	4.671
Project management costs	0.025	0.049	0.009	0.083
Total	1.891	2.387	0.476	4.754

Expenditure has already been approved (and is not included above) to undertake initial work on the capital projects to enable them to go ahead swiftly after ERDF approval. Focus Consultants and The Local Education Partnership (LEP) / Inspired Spaces were engaged to do this work and a maximum budget of £0.550m was approved for the development of the projects (delegated decision ref no. 0804). A further £0.083m will be incurred to undertake project management of these projects.

4.2 Capital financing

An ERDF grant application has been made for £2.440m for Downtown with the balance of costs of £2.231m requiring match funding by the City Council. The position is summarised in **Table 2:-**

TABLE 2– CAPITAL FINANCING OF DOWNTOWN	
	Downtown £m
Capital implications	4.671
ERDF Grant	2.440
City Council contribution	2.231
Total financing	4.671

A business case has been prepared by independent expert advisers to support the ERDF bid which shows the **project does not produce a financial return for the City Council** such that prudential borrowing is not appropriate to finance this scheme. Discounted cash flow (DCF) cost over a 30 year period range from best case of £2.000m to worst case £3.500m depending on the range of assumptions provided by independent expert advisers.

The City Council contribution will be financed from a combination of additional capital receipts not yet identified within available capital financing and existing earmarked reserves that have been set-aside for the redevelopment of Nottingham.

4.3 Revenue implications

There are also on-going revenue implications which at this stage in a regeneration project of this nature are best expressed as a range of estimates, which again have been sought from independent expert advisors.

TABLE 3– ESTIMATED REVENUE IMPLICATIONS OF DOWTOWN	
High (surplus)	£0.006m p.a.
Low (deficit)	-£0.082m p.a.

The differences in the estimates are driven by different assumptions of expenditure and income. Through robust and professional management of costs over the lifetime of the project it is anticipated that we will be able to achieve a break-even position. Any surplus generated from the development would be clawed-back under ERDF rules and subtracted from the ERDF grant.

In addition there is currently a rental income of £45k from Sneinton Market lease which will cease when the lease is bought-in. This income would not be sustainable without significant capital expenditure and would, in any case, have to have been managed within the property portfolio.

4.4 Creative Quarter Feeder

The Creative Quarter Feeder project is a revenue scheme costing £0.796m to be financed as set out in **Table 4:-**

TABLE 4 - ESTIMATED COSTS OF CREATIVE QUARTER FEEDER	
	£m
Total scheme cost	0.796
ERDF Grant	0.500
Partners' contribution	0.140
Total external financing	0.640
City Council revenue contribution	0.156
Total financing	0.796

The City Council is required to contribute a one-off revenue contribution of £0.156m which represents in-kind support through City Council staff and other associated expenditure and can be contained within existing resources.

5 RISK MANAGEMENT ISSUES (INCLUDING LEGAL IMPLICATIONS AND CRIME AND DISORDER ACT IMPLICATIONS)

There are a number of key risks which need to be managed closely which are included below, plus lower level risks which are included in a project risk register.

5.1 ERDF risks:

- Key ERDF deadlines not achieved - contractual commitment end December 2013 and final expenditure June 2015.
- Challenges on Procurement

- Income generation issues - may reduce eligible ERDF
- Unable to attract third party operator at reasonable terms
- State aid argument deemed non-compliant leading to reduced or zero ERDF funding offered.
- Question of eligibility of spend before project approval
- Retail facilities schemes are ineligible for ERDF funding. Therefore we must be clear that the units will not include any retail activities due to the potential for clawback of funding through audits.
- Inability to move existing tenants out of premises due to rights under the landlord and tenant act.
- Increasing costs given the current unknowns on site including extent of asbestos contamination.

5.2 The refurbishment of the site will be carried out with a view to making the area safer and more secure. Improved lighting, better security and higher occupational levels will reduce the risk of crime in and around the development. The project will also add to the general improvement of the area which has taken place over the last few years, with improved public space and leisure facilities, more public use and fewer opportunities for crime.

5.3 The regeneration will lead to some disruption for existing tenants, but this will be minimised through good project management, consistent with ERDF requirements and future sustainability. A stakeholder manager has been identified within the project team.

5.4 The City Council's Equality and Diversity Policy will be implemented through the projects by:

- Considering the likely impact of the project on different groups, particularly those who might be disadvantaged, whether due to location or other issues such as race.
- Encouraging maximum awareness of the project, in particular the new business facilities and support available, amongst those facing disadvantage and discrimination. This will be achieved by providing information in plain English and using methods other than written documents to present information.
- Monitoring delivery to ensure actions are compliant with the City Council's aspirations for equality and diversity.

The design of the site will exceed DDA regulations to ensure maximum accessibility, taking into consideration sensory, intellectual and cultural access as well as physical disabilities.

Nottingham City Council and partners recognise that people from underrepresented groups are less likely to access help and support - including business support. Engagement strategies will therefore be developed to ensure all groups are aware of and able to access the facilities and services offered by the project including businesses owned by ethnic minorities, businesses owned and managed by females, older people, younger people and people with disabilities.

5.5 Legal Observations - There are various legal issues that arise out of these proposals the majority of which can be addressed if and when the scheme progresses. The initial general legal points for consideration are in relation to the need to acquire the Sneinton Market site within the necessary timescale and the Council satisfying itself in relation to its ability to comply with any required outputs

and outcomes under the grant funding arrangements. Ongoing legal support to the project will be provided by the in-house legal team as and when required.

6 SOCIAL VALUE CONSIDERATIONS

- 6.1 The proposed refurbishment of the Sneinton Market site and subsequent reuse as an incubation site for creative industries companies will support the economic regeneration of the area. Sneinton Market is on the edge of the Creative Quarter and is an important link between the Quarter and the disadvantaged areas of St Anns and Sneinton. It will provide job opportunities for local people, both in the construction phase and in the subsequent reuse of the buildings.

7 REGARD TO THE NHS CONSTITUTION

- 7.1 Not applicable

8 EQUALITY IMPACT ASSESSMENT (EIA)

Has the equality impact been assessed?

- (a) not needed (report does not contain proposals for new or changing policies, services or functions, financial decisions or decisions about implementation of policies development outside the Council)

- (b) No – but equal opportunities implications are included in all ERDF applications.

- (c) Yes – Equality Impact Assessment attached

9 LIST OF BACKGROUND PAPERS OTHER THAN PUBLISHED WORKS OR THOSE DISCLOSING CONFIDENTIAL OR EXEMPT INFORMATION

- 9.1 None.

10 PUBLISHED DOCUMENTS REFERRED TO IN COMPILING THIS REPORT

Delegated Decision: Allocation of £550,000 European Regional Development Fund (ERDF) Challenge Fund monies... 29/5/2013. Ref. no. 0804

<http://open.nottinghamcity.gov.uk/comm/download2.asp?dctype=inline&filename=845/D0804.pdf>

11 OTHER COLLEAGUES WHO HAVE PROVIDED INPUT

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