



ADUR & WORTHING COUNCILS

Joint Strategic Committee
30 March 2021
Agenda Item 12

Key Decision: Yes

Ward(s) Affected: Central Ward

Delivering Colonnade House Expansion

Report by the Director for the Economy

Executive Summary

1. Purpose

- 1.1. To update elected members of the progress of Colonnade House and confirm the progress of a planning application to establish a Creative & Digital Hub in the heart of Worthing town centre.
- 1.2. To set out and approve the business case to enable the project to be realised, confirming Worthing Borough Council's strong commitment to supporting and growing the Creative Industries in the town, whilst also providing much needed new housing.
- 1.3. To seek approval to release capital and revenue budgets to enable the project to proceed through to project delivery.

2. Recommendations

It is recommended that the Joint Strategic Committee:

- 2.1 Approve the business case for Colonnade House set out in this report, to establish an expanded Creative & Digital Hub in Worthing town centre.

2.2 Recommend to Council to approve the creation of the capital budget of £4.050m referred to at Section 7.

2.3 Note that the revenue consequences of the scheme referred to at section 7 will have to be funded from the revenue and accommodated within the Medium Term Financial Plan.

2.4 Delegate authority to the Director for the Economy to enter in all contracts in relation to the scheme subject to the final costs being within the budget released.

3. Background

3.1 The expansion of Colonnade House is a key cross-cutting commitment in Platforms for Our Places 2020-22 that aims to develop the creative and digital sectors and skills base. In addition, the scheme (referenced in 1.6.6 and 1.8.9 of Platforms for Our Places) is also identified to support the delivery of ultrafast broadband and the wider ambitions around the digital economy (1.4.3).

3.2 This scheme also supports the Council's 'And Then' ambitions to develop our capabilities to support our micro start ups and micro entrepreneurs in response to the Coronavirus pandemic. Furthermore, with the inclusion of housing this also showcases our ability to create much needed new accommodation.

3.3 Since the inception of Colonnade House as a cultural hub in 2016, the operation has been established as a key creative component of the town centre. In partnership with the Adur & Worthing Trust, Colonnade House has maintained high occupancy levels with the gallery spaces near 100% capacity. Whilst the pandemic has restricted trading, the operation has seen 85% of the tenants retained and the gallery spaces still in demand, in readiness for the easing of restrictions.

3.4 Members will recall previous Joint Strategic Committee reports that highlighted the acquisition of Number 5 High Street as a key step in completing the site assembly to allow the design of a more comprehensive proposition to come forward. Following the acquisition, ECE Architects were appointed to work up an options appraisal, undertake public consultation and prepare final plans associated with the site.

3.5 In November 2020, Members agreed to the submission of a planning application to allow for the expansion of the creative industries but also, critically, the development of new residential units. The planning application was submitted in January 2021 with a determination due in April 2021. This seeks to establish 267sqm of additional commercial floorspace over 4 storeys which will accommodate the following outputs:

- 5 x new studios
- 2 x upgraded studios
- 1 x new cafe
- 2 x creative work spaces
- Meeting rooms, production space and exhibition facilities

In addition the creative aspect the development will provide 344sqm of residential units:

- 2 x Studio Flats
- 2 x 2-3 bed flats
- 2 x 2-4 bed flats

3.6 Finally, the existing Colonnade House has been successful and has established itself as having the ability to grow the creative industries, albeit through its current space limitations. Facilitating the growth of this project will expand an already tried, tested and successful model. The benefits associated with job creation, adding diversity to the high streets provide a strong return on the public sector investment required to deliver this project.

3.7 Sections 4 - 7 provide the business case to enable the expansion of Colonnade House and regenerate a prominent town centre location.

4. Investing in Creative Industries

4.1 The creative industries have become a key driver of the UK, Coast to Capital, Greater Brighton and Worthing economies and they are recognised nationally as central to delivering a sustainable and successful post-Brexit and post-Pandemic economy because of their high growth characteristics, high export orientation and their resilience to automation.

4.2 Businesses in the sector not only deliver added value in their own right; they also supply other sectors with creative inputs which, in turn, increases productivity and innovation of others. Creative Industries make a significant contribution in terms of placemaking and re-vitalising and diversifying town centres (see 5.1).

4.3 The Creative Industries currently have a disproportionate number of micro-businesses compared with other sectors. This gives the sector a distinctiveness in terms of commercial floorspace and other business support requirements. Despite this, micro businesses in the sector are considered 20% more productive in terms of GVA per worker and they are more important in terms of net job creation than similarly sized businesses in other sectors of the economy.

5. Economic Outputs

Diversifying and reinventing the town centre

5.1 Like the majority of high streets, Worthing town centre is going through a societal change and needs to diversify and provide attractions to draw residents and visitors. The proposed Creative & Digital Hub will help with this agenda by reimagining an area of the town centre that is well located yet requiring attention. The expanded offer builds on the traits of the existing building, however encapsulates the need to create greater activation at ground floor level and increasing the availability of creative space. The design carefully considers the location, especially when considering the 'changing high street' and the need for a mix of uses. The redevelopment of this site showcases the intention by the Council to fully contribute to upgrading the High Street and bringing redundant buildings 'back to life' to support the overall economy.

Delivering digital capabilities

5.2 Whilst the physical building is important, the use 'through the building' is an important aspect to note. With the connection of ultrafast broadband and the inclusion of Citizens Wifi, the intention is for the expanded Colonnade House to become a central point for digital innovation and experimentation. The existing building already houses a number of digital-led businesses, however the expanded offer brings the capability of further digital production. To further extend 'beyond the building' connections will be harnessed with a number of key creative networks and learning providers, including local universities.

Increasing job, business and skills creation

5.3 The extension of Colonnade House will provide job creation and, maybe less known, the ability to deliver reskilling and retraining for Creative Industries through CPD programmes. Based on the additional floorspace a further 39 jobs will be created as a direct result of the project, when all spaces are being occupied. The majority of these jobs will be created through the upgraded and new studio spaces, whilst the ground floor cafe is predicted to generate 4 new full time equivalent jobs. The existing Colonnade House has supported over 100 creative industry professionals, therefore the expansion also has the ability to support indirect job opportunities.

5.4 The existing operation is already a direct home to 13 tenants / businesses on the upper floors of Colonnade House. As per 5.3 the resulting jobs will, in turn, be established through new business creation. Whilst there may be an element of displacement from other areas, notably Brighton, a number of precedents have already been set in terms of business start ups. The most successful of those businesses involved the collaboration between two past tenants, with the new businesses ‘moving on’ to a larger premise.

Local procurement

5.5 The Council is now able to use local procurement to support local businesses with a view to growing the local economy. Spending more money on our own economy will benefit local businesses and local jobs. This will in turn increase spend in the area and the local economy will grow.

5.6 The Council has already set out the direction of this project by the procurement of a local company, ECE Architecture, to design the expanded scheme. A series of consultants, led by ECE, have been recruited from the surrounding areas to enable the business case to be presented.

5.7 Local procurement should be considered on a case-by-case basis as the concept is reasonably new.. There is an argument that a smaller market will produce a less competitive process but this is to be contrasted with the fact that the locality has an abundance of building suppliers capable of carrying out the envisaged work referred to in this report. Additionally, there is data that confirms improving performance of local businesses will also improve competitiveness in the local procurement process.

Delivering pathways

5.8 This project supports and brings to ‘life’ the Councils ambition in “Delivering pathways to Affordable Homes: Developing high quality affordable housing in Adur and Worthing in a post pandemic world”. This agenda, which builds on the Councils Housing Strategy 2020-2023, identifies the need for not just simply building houses, but the delivery of homes enabling our communities to thrive, further our work on sustainability and deliver new skills and local jobs. The residential units contained in the expansion proposal supports this agenda and, due to the proximity, has real potential to create a thriving social hub.

5.9 The Council is constrained by our geography with opportunities being limited for Council-led interventions. In the case of this project, this constraint

has been turned into an opportunity due to the flexible and adaptive delivery approach which allows the Council to make the most of the space available. The integration of residential units into the wider footprint of the Digital & Creative Hub enables a mixed use development in the heart of the town centre.

Supporting the cultural and visitor ecosystem

5.10 A number of reviews, including the Bazalgette Review, identifies a strong link between the creative industries, strong local culture and the development of a vibrant visitor economy experience. Whilst the Creative & Digital Hub may become an 'attractor' in it's own right, especially relating to the gallery spaces and exhibitions, the social value created by the buildings tenants will also add to the town centre experience. An example includes a number of existing tenants supporting local events through audio and visual production. Based on industry benchmarks, the gallery spaces alone are currently generating over 2,500 visits per annum.

6. Operating Model

6.1 The operating model has appraised against a number of scenarios to determine the best direction for the redevelopment. The options identified have been assessed against the financial models (see Section 7) and the overall direction for the Creative & Digital Hub. Sections 6.2 - 6.5 outline the approach to the Creative & Digital Hub; for the avoidance of doubt this includes the new studio spaces, upgraded studio spaces, creative workspaces and cafe. Sections 6.7 - 6.10 highlight the residential options. Currently, the existing Colonnade House operation is a partnership between Adur & Worthing Trust and the Council.

Creative & Digital Hub element

6.2 Option 1: Council Led - this would see the Council being the developer and operator. The Council would still retain the asset and whilst the Council could operate the building there would be the risk that the operation isn't seen as a community-led asset and independent from the Council, as it is now.

6.3 Option 2: Trust / Charity Led - this would see the Council retaining the asset as the freeholder and a Trust / Charity operating the buildings without any further subsidy from the Councils. Within this scenario a Trust / Charity would be required to pay for the operating costs including staffing and rent.

Based on the financial models below this would be unsustainable for a Trust / Charity.

6.4 Option 3: Partnership Approach - this would see the continuation of a framework between the Council and a Trust / Charity. As the financial appraisal below indicates, the Council would continue to invest in the staff costs and pay a small subsidy, whilst a Trust / Charity would operate the building through being the leaseholder. This approach balances the financial risk for both parties.

6.5 The proposed route is Option 3. Not only does this provide a balanced financial approach, it also provides the greatest economic benefit. A Trust / Charity has the ability to unlock a greater number of partnerships and, in most instances, access to further external funding sources. This model is already established under the current arrangement and Colonnade House has flourished through this partnership approach.

6.6 The Council will procure a Trust / Charity to work in partnership with through an open competitive process to ensure best value. In this instance this would include economic value. The existing relationship will continue with the Adur & Worthing Trust until such time when the tendering process is required to seek a new working relationship with a Trust / Charity. To be clear, this arrangement would be for the Creative & Digital Hub element only, not the residential units.

Residential element

6.7 Option A: Develop and sell - this would see the Council developing the units and then selling immediately at market value. Whilst this approach would provide the project with an immediate cash injection it wouldn't provide a sustainable cash flow position over the longer term.

6.8 Option B: Develop for affordable homes / homes for social rent - this would see the residential units used for affordable housing delivered as per the strategic objectives outlined the Council's Housing Strategy and "Pathways to Affordable Homes" document. Whilst this would provide affordable living, the financial positioning, as outlined in Section 7, doesn't allow for an overall financially viable scheme.

6.9 Option C: Develop for Emergency and Temporary Accommodation - this would enable the Council to discharge it's statutory duties whilst reducing the burden of cost from temporary accommodation. This would also enable

the Council to offer not only housing, but opportunities to connect to our skills and employment support for our most vulnerable residents.

6.10 The proposed route is Option C. This approach serves a number of purposes but this is particularly acute when considering the requirement for accommodation to meet the needs of homeless households who need to be placed in expensive emergency accommodation which is charged at a nightly rate. This demonstrates the Council's commitment to providing well designed homes to support families in need, and not into unsuitable accommodation. A lettings policy will be designed for the units to compliment the overall ethos of the scheme, insofar as potential interactions with the Creative & Digital Hub element as the residential units are self-contained through a separate entrance.

6.11 In summary, the business case is a blended approach of Option 3, a partnership approach, coupled with Option C, developing the residential units for emergency and temporary accommodation. The financial model in Section 7 highlights the finances against all the options that have been considered.

7. Financial Implications and Outcome

7.1 The capital programme includes a budget for Colonnade House of £140,000, this has been used to fund the preliminary costs of the project thus far. The project is now moving on to the next stage for development and the estimated capital cost for the scheme expansion is £4.050m. This cost has been established as part of the design process through ECE Architecture and their team of consultants.

7.2 Three potential scenario options have been considered and appraised for the project. Each option includes the creation of commercial work space units with the variant considerations for the residential element being develop and sell, provision of temporary accommodation and provision of affordable homes. Each option has been appraised under both a Trust managed and Council managed model. A summary of the outcomes are shown in the following table:

Table 1

	Trust Managed			Council Managed		
	Sell	EA/TA	Affordable	Sell	EA/TA	Affordable
	£m			£m		
Capital Cost of Scheme	4.051	4.050	4.047	4.051	4.050	4.047
Capital Funding*	-0.089	-0.089	-0.257	-0.089	-0.089	-0.257
Net Revenue Impact over the first 10 operational years*	1.636	0.078	0.684	1.867	0.267	0.738

* Includes the use of economy revenue reserves (£48,189 Revenue, £89,048 capital)

7.3 The most financially viable option provides commercial workspace opportunities managed by a Trust and the provision of 6 residential units for use as temporary/emergency accommodation. This scheme proposal has a capital cost of £4.050m and an average revenue cost of £7,800 per annum over the first 10 years of operation. The capital and revenue costs are broken down further in the following sections:

7.4 Capital

Table 2 - Capital costs

	2021/22	2022/23	Total
	£	£	£
Estimated Construction costs	1,027,923	2,015,845	3,043,768
Allowance for Optimism Bias	253,647	507,293	760,940
Right to Light	50,000	0	50,000
Overage	33,333	66,667	100,000
Capitalised interest	15,950	79,580	92,440
Total capital costs	1,380,852	2,669,386	4,050,238

7.5 The total capital cost includes a number of key elements, firstly in relation to progressing the scheme to a 'ready site'. Contained within the

£4.050m are allocations for asbestos removal prior to demolition and then the demolition itself. Capital reserves of £89,048 have been earmarked to be used to meet some of the capital expenditure with the remaining £3.961m met from borrowing. Opportunities for external funding are being explored, any such funding would reduce the overall need to borrow if attained.

7.6 The total cost also includes the development of the expanded Colonnade House on the original footprint of Number 5 - 7 High Street and 52 Ann Street. This includes the knitting together of the existing building and the new building into one comprehensive operation. The fit out costs of the new building are also included.

7.7 Revenue

Table 3 - Revenue costs

	Construction Period		First 10 years of Operation
	2021/22	2022/23	2023/24 to 2032/33
	£	£	£
Debt charges	0	0	605,251
Staff costs	91,987	93,622	1,066,554
Lease termination costs	18,000	0	0
Income from Trust	-20,000	-20,000	-684,124
Net income/saving on EA/TA provision	0	0	-861,632
Total net costs	89,787	73,622	124,049
Revenue reserve funding	0	0	-48,189
Net Total after funding	89,787	73,622	77,860
Average annual cost to Council			7,786

7.8 As highlighted in table 3 at section 7.7 the proposed options require a net subsidy of £7.8k per annum after the use of revenue reserves. This is an average amount over the initial 10 years of post development operation. During the construction period there will be ongoing revenue costs associated

with the existing operation, any additional pressure will need to be met from existing budgets.

7.9 The scheme model is based on a number of assumptions;

- 85% occupancy rate for the workspace units
- 25% allowance for optimum bias on the capital costs
- 2.5% interest rate over a 40 year loan period
- 2% inflation rate per annum for income and costs
- No external funding (although opportunities will continue to be explored).

7.10 The appraisal of the proposed scheme incorporates the overall impact on revenue for the Council and as such will cut across different service departments. The £7,786 average annual subsidy cost includes an allowance for the associated savings to the Council from the increase in available units of temporary accommodation from the scheme. Any increase in council supply reduces the need to source often expensive external supply, and this saving will be seen within Housing Services. The ongoing running cost of the new residential units plus the associated Local Housing Allowance income will also form part of the Housing Services budgets once they are in use. The budget for the commercial element of Colonnade House sits within Place and Economy.

8. Engagement and Communication

8.1 The redevelopment of Colonnade House is identified in a number of strategic documents, including Platforms for Our Places. Members will recall a number of Joint Strategic Committee Reports where this project has been referenced, whether directly or indirectly.

8.2 The project has also been a standing item on the Colonnade House Management Group for the last 18 months. The Group, made up of the Adur & Worthing Trust (leaseholder) and Worthing Borough Council (freeholder) representatives, have discussed the approach and the requirement to build on the successes of the current operation.

8.3 In late 2018, led by the Colonnade House Management Group, surveys were undertaken with those businesses and freelancers who have occupancy in the current building, as well as who used the facility. A series of prompt questions were housed in the main gallery for a number of weeks that allowed for ideas and thoughts to be generated on the 'future needs of an expanded Colonnade House'. This pre-consultation was open to the general public and

attracted over 100 views and inputs. This pre-consultation further influenced the specification of the proposed development and provided detailed insights into the requirements of an expanded operation.

8.4 During 2019, the Council engaged the existing tenants (those in Number 5 and 7 High Street and 52 Ann Street) as part of the pre-consultation process. Officers held individual discussions with the existing tenants of the buildings to outline the vision for the scheme. Whilst the pandemic has interrupted these communications the existing businesses have been kept informed of the progress of the project. During the process two out of the five businesses have relocated.

8.5 In late 2019, further pre-consultation was undertaken with key stakeholders which included the Adur & Worthing Trust (existing leaseholders) and the Worthing Society. This consultation provided positive input into the design of the proposed building. Both were made aware of the poor state of repair and the Council's aspiration to redevelop.

8.6 Following the pre-consultation exercise, the plans were the focus of a formal stakeholder consultation in January 2020 and a public exhibition held on 14 January. Members of the public also had the ability to complete an online consultation questionnaire. The consultation exercise gathered over 100 responses.

8.7 After taking inputs from the previous consultation exercises between 2018 - 2020, the Council worked with ECE Architecture to design and deliver a planning application in January 2021 that responded to the feedback (e.g. the introduction of a cafe on the ground floor), whilst providing the design layouts to enable a business case to come forward. The planning application detailed those new spaces and uses in the expanded Creative & Digital Hub which has contributed to providing the financial model detailed in Section 7. The planning application submission was heavily promoted by the Council and Colonnade House to generate as much interest in the project as possible. This included through social media with a reach of nearly 8,000 people.

8.8 An Officer team was set up to guide the work of ECE and project manage the delivery of the project. This cross departmental team continues to oversee the project and includes expertise from Place & Economy, Finance and Legal services, all driven by an assigned Project Manager from Major Projects & Investment.

8.9 The consultation has included a number of timescales, including the previous JSC report in November 2020. The latest timetable that has been highlighted to key stakeholders is as follows:

Key Milestones	Delivery Timeframe
Business Case	March 2021
Planning Application Outcome	April 2021
RIBA 4 Sign Off	Summer 2021
Procurement/Tendering	Summer/Autumn 2021
Contract Award	Autumn 2021
Mobilisation and start on site	Winter 2021/2022
Completion	Spring 2023

9. Legal Implications

9.1 Under Section 111 of the Local Government Act 1972, the Council has the power to do anything that is calculated to facilitate, or which is conducive or incidental to, the discharge of any of their functions.

9.2 s1 of the Localism Act 2011 empowers the Council to do anything an individual can do apart from that which is specifically prohibited by pre-existing legislation

9.3 Section 3(1) of the Local Government Act 1999 (LGA 1999) contains a general duty on a best value authority to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

9.4 s1 Local Government (Contracts) Act 1997 confers power on the Council to enter into a contract for the provision of making available assets or services for the purposes of, or in connection with, the discharge of the function by the Council.

9.5 When entering into a public contract, the authority is required to comply with the Councils' Contract Standing Orders found at Part 4 of the Councils' constitution. Where the Contract is an above threshold contract for goods and/or services as defined by the Public Contract Regulations 2015 any procurement exercise to

contract for those goods and services must be conducted in accordance with those Regulations which is retained law by virtue of s29 of the European Union (Future Relationship) Act 2020.

9.6 Section 9 of The Housing Act 1985 confers power on the Local Authority to provide, repair and maintain houses for rent.

9.7 Paragraphs 5.5 - 5.7 in this report refers to Local Procurement:-

The Cabinet Office PPN 11/20, enables the Council to reserve a below threshold procurement process to a specific supplier location, specifying that suppliers located only in the specified geographical area can bid. Supplier location should be described by reference to where the supplier is based or established and has substantive business operations, not by location of corporate ownership.

In addition to specifying location, the procurement may be reserved for Small and Medium sized Enterprises (SMEs) / Voluntary, Community and Social Enterprises (VCSEs) - this means being able to run a competition and specify that only SMEs and VCSEs can bid.

PPN 11/20 confirms that when carrying out a local procurement, the Council should ensure value for money; assess the sector / market; identify and manage associated risks, including fraud and corruption; ensure a budget is available and approved at an appropriate level; use suitable model contracts; develop simple and proportionate KPI and data reporting mechanisms; undertake supplier due diligence checks; ensure final approval is obtained at an appropriate level(s); keep suitable records of commercial decisions; publish transparency notices on Contracts Finder as appropriate in a timely manner and must continue to comply with the legal requirements in Chapter 8 of the Regulations applicable to below threshold procurements.

Background Papers

- [Colonnade House Digital Hub - JSC Paper 10.04.18](#)
- [Public Consultation Design Boards - January 2020](#)
- [Supporting the Creative and Digital Sector \(Colonnade House Expansion\) - JSC Paper 03.11.20](#)
- [Colonnade House Planning Application - AWDM/0141/21](#)

Officer Contact Details:-

Name: Andy Willems

Role: Head of Place & Economy

Telephone: 01273 263179

Email: andy.willems@adur-worthing.gov.uk

Sustainability & Risk Assessment

1. Economic

- The development of a Creative Industries Hub accords with the Adur and Worthing Economic Plan 2013 - 2023 where the Economic Priorities are named as Support Business, Develop Growth, Enhance Business Environment, Advance Local Skills, Encourage Sustainability and Promote Health and Wellbeing. The Economic Plan also states “It is vital that Adur and Worthing provides foundations for business to operate effectively” and promotes the following aims:
 - Support Business
 - Develop Growth
 - Enhance Business Environment
 - Advance Local Skills
 - Encourage Sustainability
 - Promote Health and Wellbeing

2. Social

2.1 Social Value

- Conditional disposal and redevelopment of the site with mixed use will enhance the town and help to support the economic prosperity of the Borough.

2.2 Equality Issues

- Designing spaces that are inclusive and safe, especially in response to the night-time economy is vital. This development will reinvigorate an under-utilised part of the town centre.

2.3 Community Safety Issues

- The pro-social activation of the high street is essential for community safety.

2.4 Human Rights Issues

- To enable the project to be realised there will be a number of lease terminations required. Whilst the works are underway there will also be disruption to the existing tenants in Colonnade House.

3. Environmental

- Redevelopment of the site will improve the character and appearance of this part of High Street and the eastern access to the town centre by redeveloping the existing dilapidated buildings with a high quality design.

4. Governance

- An internal officer board consisting of representatives from key departments, essential to successful delivery, has met and reviewed the programme at key stages of the project.