

		Executive 10 th June 2009	Agenda Item No.
Title		Court Street Creative Arches	
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Service Area		Economic Development & Regeneration	
Wards of the District directly affected		Brunswick	
Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006		No	
Date and meeting when issue was last considered and relevant minute number		22 nd May 2008 Minute No. 3	
Background Papers			

Contrary to the policy framework:	No
Contrary to the budgetary framework:	No
Key Decision?	Yes
Included within the Forward Plan? (If yes include reference number)	No

Officer/Councillor Approval		
With regard to officer approval all reports <u>must</u> be approved by the report author's relevant director, Finance, Legal Services and the relevant Portfolio Holder(s).		
Officer Approval	Date	Name
Deputy Chief Executive	22/05/2009	Bill Hunt
Chief Executive	22/05/2009	Chris Elliott
CMT	22/05/2009	Andrew Jones
Section 151 Officer	21/05/2009	Mike Snow
Legal	22/05/2009	Peter Oliver
Finance	22/05/2009	Jenny Clayton
Portfolio Holder(s)		John Hammon
Consultation Undertaken		
Please insert details of any consultation undertaken with regard to this report.		
Final Decision?		Yes
Suggested next steps (if not final decision please set out below)		

1. SUMMARY

- 1.1 This report sets out the current position in relation to the Court Street Creative Arches project following decisions made by the Chief Executive, under the Scheme of Delegation (section G(17)). That decision approved the forecast over commitment by this Council of £13,536, to meet the potential overspend on the Court Street Creative Arches capital project.

2. RECOMMENDATION

- 2.1 That the Executive notes that the decision made by the Chief Executive, under the Scheme of Delegation (section G(17)), to approve the forecast over commitment by this Council of £13,500.
- 2.2 That the Executive gives approval for the following expenditure totalling £46,800 relating to the Court Street Creative Arches.
- i) The budget for the scheme is increased by £26,000, this being £13,500 in respect of the Council's additional commitment to the scheme and £12,500 contribution from AWM.
 - ii) An additional £10,000 to be put into a specific contingency budget for 2009-10. This would only be utilised to fund the Council's share of any further overspend and that Delegated Authority is given to the Deputy Chief Executive in conjunction with the Head of Finance to approve virement from this budget into the scheme (para 5.4)
 - iii) An additional £10,800 be added to this project's budget in respect of the earlier feasibility work (para 5.3), financed by way of the 2008-09 General Fund surplus. This is to fund the £10,769 costs incurred during 2005-06.
- 2.3 The Executive agrees that the additional expenditure on Court Street Creative Arches totalling £46,800 is financed £34,300 from the surplus on the General Fund for 2008/09 and £12,500 from additional AWM contribution.

3. REASONS FOR THE RECOMMENDATION

- 3.1 The Constitution provides for urgent decisions to be made by the Chief Executive, after appropriate consultation with the Group Leaders, under section G(17) of the Scheme of Delegation "subject to the matter being reported to the Executive at its next meeting". This report therefore sets out the context and basis of the decisions made under delegated powers and seeks approval for revised funding arrangements for the project.
- 3.2 Work on the scheme commenced in August 2008 and is due for completion by 30th June 2009. The latest estimate on the scheme suggests that there is a projected out turn cost of £929,784 which represents a cost increase to the project of 2.9% (over the cost approved by the Council's Executive in December 2007 of £903,754).
- 3.3 Due to the unusual nature of the scheme it was decided to do the scheme in two phases. Phase 1 - a pilot arch which involved connecting together two separate arches in order to prove the construction methods and techniques and confirm the costs of the work. Phase 2 - to complete all remaining arches.

- 3.4 Based on experience with the pilot scheme, costs were reviewed in November 2008 following a detailed review of construction costs by the Council's Quantity Surveyor (QS). At that time it was considered to be necessary to use the whole of the £30,000 project contingency to partially mitigate the project cost increases. The projected overspend was monitored as it was expected that this would be mitigated by forecast savings achieved as the project progressed.
- 3.5 A further review of costs was carried out in March 2009. This review highlighted some cost savings on the pedestrian walkway as part of the scheme and the professional fees of the (QS). Unfortunately these savings have been cancelled out by the need improve the specification of the arches to include a basic electrical fit-out and additional toilet infrastructure. These additional components to the original project specification are a direct response to potential tenant enquiries.
- 3.6 Customer feedback suggests that, without a slightly enhanced internal specification, the Creative Arches would be significantly less attractive to end users from the creative industry sector. This would risk the ongoing commercial attractiveness of the arches and make the delivery of agreed outputs more challenging to achieve. It should be noted that the Council must deliver the outputs agreed with Advantage West Midlands (AWM) as part of the funding agreement for the project, not to do so could result in financial penalties to the Council.
- 3.7 It is cost effective to increase the specification of the arches at this point in the project, whilst works are ongoing and labour resources are on site. Apart from the risk of marketing units that fall below customer expectations (as highlighted in 3.5 above), there would be additional cost to the Council. It is considered that the cost of fitting out the units retrospectively would be a significant additional cost, could reduce the commercial rental income realised and delay occupancy.
- 3.8 The capital budget for the Court Street Creative Arches has come under additional and unexpected pressure from the requirements of the electric and water utility companies. The project and works had been designed to take advantage of the existing utility network and connections. However, the utility companies have insisted that new supplies for electricity and water be installed. This has increased the project costs by some £26,000. Indeed, it should be noted that scheme is not yet complete and, as set out above, has been delayed by the works to connect utilities. The risk that this could result in extra costs through project delays to the main contract remains. Therefore it is recommended that the £10,000 be set aside as a contingency at this point.

4. ALTERNATIVE OPTION CONSIDERED

- 4.1 The Council could deliver the project within the agreed budget. This would risk reducing the ongoing commercial attractiveness of the units (making the letting of the units even more challenging in the current economic downturn), the Council's ability to meet the development outputs agreed with AWM and risk further and higher costs to the Council by retrofitting the units to reflect end users needs.
- 4.2 The Council could finance the overspend from borrowing, however, this would carry the future risk of being unable to repay that debt from income from the scheme.

5. BUDGETARY FRAMEWORK

- 5.1 Monies spent to date against the project have been drawn down from AWM. This was on the basis of monthly claims for expenditure claimed to date. By February 2009, claims had been submitted up to the full level of AWM's share £433,802 (48%). Any further claims would infer to AWM, that this Council is prepared to match-fund, which would exceed both the total scheme budget and the £469,952 contribution from this Council.
- 5.2 This Council's share of the additional £26,030 will not be required until 2009-10. The closure of the 2008-09 Accounts is a separate report on this agenda. There is a surplus on the General Fund and it is therefore recommended that £13,500 of this surplus be used to finance this Council's contribution to the overspend and that the Capital Programme be updated accordingly.
- 5.3 In December 2005, the Executive approved a budget of £284,000 for the Council to refurbish the Arches. This was to refurbish only 8 of the Arches and did not involve the use of AWM monies. This was subsequently increased at Executive meetings in July and December of 2007, with a successful bid to AWM for match funding. However, some initial feasibility works had been undertaken in 2005-06, which cannot be included in the current AWM project. This expenditure amounts to £10,800 and it is recommended that this also be funded by the surplus on the General Fund for 2008-09.
- 5.4 As there is still uncertainty surrounding the total scheme cost, a recommendation also be made that a further £10,000 of this surplus be put into specific contingency budget for this project. This would only be utilized to fund the Council's 52% share of any further overspend with the remaining 48% being reclaimed from AWM. This would in effect create a further £19,230 of funding source, should the total scheme cost exceed to £949,000. Delegated authority being given to the Deputy Chief Executive, in conjunction with the Head of Finance, to approve the use of this contingency budget.

6. **POLICY FRAMEWORK**

- 6.1 The Court Street Creative Arches capital project delivers the Council's corporate strategy 2008 – 2011:

Vision

"Warwick District: a great place to live, work and visit."

Leadership

Provide clear community leadership and effective management of resources whilst delivering responsive public services in an open and transparent manner

Development

Create thriving town centres, keep pleasant villages and make the district an attractive place to live and work

Customers

Improve the efficiency of service delivery to the Council's customers

7. **BACKGROUND**

- 7.1 The Court Street Creative Arches are part of the major investment programme into the economic development and regeneration of the Old Town area of Leamington.

The Court Street Creative Arches are a unique development involving the renovation of the existing railway arches in the area. The arches have been designed to provide accommodation for businesses trading in the creative arts and media sectors.

- 7.2 The renovated arches will provide spacious, multi-use workspace for businesses in the creative arts and media sectors. This considered to be a sector to support and encourage to develop in Warwick District. Each arch has received a high quality re-fit, including lining and glass frontage. Single and double arches are now available to prospective tenants at competitive rates. The Creative Arches have been developed to extend the offer from the Spencer Yard regeneration area and are focussed on the development of the creative industries sector including advertising, architecture, art and antiques, computer and video games, crafts, design, designer fashion, film and video, music, performing arts, publishing, software, television and radio.
- 7.3 The practical completion of the Court Street Creative Arches capital project is expected to be 30th June, 2009. Interest in the arches from prospective tenants has been strong. Three arches have already been reserved by prospective tenants: unit 4 by Mary Noone (trade as a dance studio), unit 5 by 'Fish in a Bottle' a web design firm and unit 9 by Fretton's. There are ongoing negotiations with a number of other potential tenants and confidence that, even in the changed economic climate, AWM outputs will be met if not exceeded.
- 7.4 This development supports the leadership role that the Council has adopted in terms of supporting the creative industries, regeneration of this area of the old town, support employment opportunities and 'narrowing the gap'. It is also part of the wider economic development and regeneration strategy in the District.
- 7.5 With regard to the use of delegated powers in this instance, it was proposed that the Chief Executive exercises the Delegated Authority under G (17) of the Council's Constitution: "*Authority to deal with urgent items that occur between meetings.*"
- 7.6 Delegated powers were used as there was an urgent need to ensure the Council claimed the additional grant from AWM (to match the overspend request) as part of the final 2008/09 claim process. The claim had to be submitted to AWM by Tuesday 7 April (2009) at the latest and there was a significant risk that if the deadline was not met the proposed £12,494 AWM contribution towards would be missed. This, in turn, would mean that, due to the overspend, there would be a further financial cost to the Council.