

To: Cabinet
Date: 20 January 2021
Report of: Executive Director (Development)
Title of Report: Refurbishment and conversion of 1-3 George Street into managed workspace

Summary and Recommendations	
Purpose of report:	To seek approval to fund and enter into contract for the building refurbishment of 1-3 George Street, to provide affordable managed workspace in the heart of the city centre.
Key decision:	Yes
Cabinet Member:	Councillor Alex Hollingsworth, Planning and Housing Delivery, Councillor Ed Turner, Finance and Asset Management
Corporate Priority:	Vibrant and Sustainable Economy A Clean and Green Oxford
Policy Framework:	Council Strategy 2020-2024
Recommendations: That Cabinet resolves to:	
1.	Delegate authority to the Executive Director Development, in consultation with the Council's Section 151 Officer and the Head of Law and Governance to agree and enter into a building contract for the refurbishment works and associated professional services, following the conclusion of a current procurement exercise;
2.	Delegate authority to the Executive Director Development, in consultation with the Council's Section 151 Officer and the Head of Law and Governance to and to enter into agreement with an operator to manage the building and provide business support services, following the conclusion of a current procurement exercise;
3.	Recommend to Council to approve a capital budget of £1.921m to deliver the project with the enhanced sustainability option and including the use of up to £800K of funds awarded to the Council from OxLEP's Local Growth Fund. This will be split £454K in 20/21, £1.361m in 21/22 and £106K in 22/23. This is an increase to the proposed capital allocation in 21/22 consultation budget and the rationale for this increased investment is set out in the confidential Appendix 1 – Not for Publication

Appendices

Appendix 1	Commercial Case - Confidential
Appendix 2	Risk Register
Appendix 3	Equalities Impact Assessment

Introduction and background

1. 1-3 George Street comprises a vacant mixed use building in a prime city-centre location. The building's condition has deteriorated internally and in its current condition does not meet minimum regulatory energy performance and other standards. It now requires significant works to refurbish the building to provide a rental income to the council.
2. The delivery of workspace in the city-centre is one of the main areas of intervention identified in the City Council's Corporate Strategy and Business Plan, and emerging Oxford City Council Economic Development Strategy. The evidence base from the City Council's Draft Economic Development Strategy has further demonstrated a need to provide workspace that local people and businesses can access. It recognises that more, improved and innovative space needs to be made available if the city wants to be both competitive and meet its inclusive economy corporate objectives.
3. The county-wide Local Industrial Strategy positions Oxfordshire as one of the top-three global innovation ecosystems, providing an ambitious, long-term vision for economic growth between now and 2040, backed by business. Key to that is a successful city centre in Oxford that supports creative, social enterprise and technology sectors and provides an environment for people and businesses to thrive.
4. For these reasons, the 15th July 2020 Cabinet gave approval for the Council to enter into grant funding arrangements and contractual terms with OxLEP for £1.93m of Local Growth Funding (LGF) to part-fund the delivery of new and/or refurbished workspaces at 1-3 George Street and Standingford House, Cave Street, subject to detailed feasibility and design work which would be subject to a future Cabinet Report.
5. There is an imperative to move forward with the development given the condition of the property, which is not currently lettable and furthermore, to take the opportunity of using time-limited OxLEP funding to deliver accessible workspace, as part of the city's economic recovery agenda. The improvements will also achieve sustainable re-use of an existing building, significant improvements in energy efficiency and a reduction in carbon emissions of up to 48%.
6. The COVID-19 crisis has understandably created significant uncertainty in the wider commercial property market. The feasibility and appraisal work has therefore explored how best to position the project within that context for example, by optimising flexibility of use, and positioning the options to meet the needs of the evolving flexible workspace market.

The Project

7. The detailed feasibility and design work to RIBA Stage 3 for 1-3 George Street has now been completed and this report details the subsequent proposals including the options appraisal, development appraisal and business case. The Stage 3 Report is include in the background papers.
8. The project proposal is for the refurbishment of 1-3 George Street property, in Oxford City Centre, which is owned by the Council. It will provide approximately 471.9sqm (5,079 sq.ft) of lettable accommodation.
9. In providing a funding contribution to the scheme, OxLEP were keen to work with the City Council to explore the potential for a creative workspace hub and a range of different workspace typologies, including co-working, studio, workshops etc. The grant funding from OxLEP is to be used to support the inclusive economy agenda, by allowing the scheme to come forward in a way that provides both affordable and accessible space.
10. The OxLEP funding agreement, aligns with project objectives, identifying key requirements including; promoting economic growth in Oxford, providing much needed premises for new and small businesses to operate from within the City centre, working with partners to support start-ups and to provide space for small businesses in key sectors important to Oxford's economy including: the creative sectors, social enterprises and wider knowledge based businesses. The funding must be spent in this financial year and next due to the Government's funding rules. The LEP's funding agreement obligates the Council to begin construction of the George St development from January 2021.
11. The proposal, supported by the project business case, is also to select an experienced workspace operator to let and operate the development to maximise economic and social outcomes.
12. The Council appointed a consultancy team to carry out feasibility and design work. The consultant team included project management, cost consultancy and an architect led design team. The consultant brief was to review options to refurbish/ redevelop the building including, compliance with minimum Building Regulation standards and improvements to energy performance to at a minimum meet Minimum Energy Efficiency Standards (MEES). Additional options to extend the building and enhance the specification and further improve energy efficiency to meet the need for inclusive and accessible office space that would be attractive to business start-ups in the creative industries, digital, social enterprise, and other sectors currently under-represented in the city centre were considered.
13. The brief also required the options to be assessed against the Council's core requirements of; building compliance with regulations and to enable the building to be let, providing inclusive, accessible and attractive workspace, technical considerations including safety and sustainability, and financial considerations to ensure the workspace is affordable.

Options Appraisal

14. The RIBA Stage One appraisal explored six options against the core requirements; do nothing, minimum refurbishment, enhanced refurbishment, and enhanced refurbishment with options to extend the building to the rear, extend at roof level or extend at both rear and at roof level.

15. The minimum level refurbishment would include the provision of a new internal lift from ground to first floor only, new services including fire alarms and IT and new windows. During the feasibility and design process initial feedback was received from potential operators supporting an increased level of refurbishment and to increase the attractiveness of the building to the market. This feedback was incorporated into the enhanced proposals. The resultant enhanced refurbishment options propose a new external lift servicing all floors, internal layout improvements to support flexible working, enhanced services, and fabric improvements to improve energy efficiency, a rear external terrace and internal lightwell.
16. The minimum level refurbishment would offer limited improvements to Inclusive Access to meet Building Regulations including a lift from ground to first floor only and the addition of an accessible WC. The proposed full refurbishment option includes additional inclusive access measures throughout to ensure the building is fully accessible.
17. The Options Appraisal include the requirement to meet and exceed MEES standards and Building Regulations as a minimum (the compliant option) and included costed options to achieve further enhancements including a target of BREEAM Excellent and Zero Carbon options.
18. Commercial agents were appointed by the Council to undertake a valuation of the site. The initial valuation assessed primary uses including residential, hotel and office use and assuming retail use to be retained at ground floor level. Office space generated the highest site value having taken into account planning risk and programme implications of alternative uses.
19. The valuation further assessed a range of office options for the building. The valuation showed that the site value of Option 2 - Minimum Refurbishment, and Option 3 – Full Refurbishment generated the highest value of the options assessed and that Option 3 *“offered a longer term solution to providing lettable office space and thus a more attractive income stream profile and robust capital value”*.
20. The options that included extending the building, either to the rear and/or the roof, generated significantly less value taking into account planning risk and the additional development costs, set against likely income.
21. As such, the business case undertaken to support the capital investment recommends the enhanced refurbishment, with no building extension option.

Sustainability

22. A series of environmental improvement and sustainability options, including zero carbon, BREEAM and other enhancements over and above the planning policy requirements have been considered.
23. At a minimum the brief required consequential improvements to the existing fabric, internal environment and building services to comply with MEES regulations for offices. This Building Regulations compliant option included a series of consequential improvements, including improvements to the building fabric air-tightness, double glazed windows, high efficiency heat recovery ventilation unit(s), and high efficiency VRV/VRF air conditioning with heat recovery. This would not achieve BREEAM Very Good but would secure compliance with regulations.

24. A further option to consider BREEAM Excellent was evaluated. The review confirms that BREEAM Excellent cannot be achieved because of the limitations of the existing building; the location of the building in a conservation area limit alterations to the fenestration to improve daylight and natural ventilation, and there is limited scope to reduce energy by passive measures. In addition there are difficulties in achieving waste credits linked to re-use of materials because of the type of material being stripped out. However, the review did indicate that BREEAM Very Good was achievable.
25. The proposal is therefore to work within the recommended budget envelope to secure a BREEAM Very Good, including further improvements to the compliant model and building fabric, both air-tightness and insulation, enhancement to triple glazed windows, as well as the use of PV at roof level. The current scope also includes particular attention to water consumption; low water consumption appliances will be specified and water flow restrictors. The target is therefore to achieve BREEAM Very Good and while the BREEAM assessor has calculated this is achievable it will be subject to further assessment and cannot be guaranteed. This option will also be subject to further planning approvals e.g. for rooftop PV as the site is within a conservation area and consent cannot be guaranteed.
26. SALIX funding will also be available to support the improvements and subject to the technical design included as part of the contract.
27. Zero Carbon has been considered however, it is inherently difficult to achieve zero carbon on a refurbishment project without offsetting due to the restrictions of the existing fabric, structure, orientation and planning restrictions for example. The consultant approach has been to assess using BREEAM as above.
28. However, zero carbon *in use* is proposed with no fossil fuel environmental services to be used within the building and with the proposal to use a green energy supplier. In addition all installed services are to meet or exceed good practice in the design of the building.

Accessibility & inclusivity

29. The proposal has been designed to be fully accessible throughout. The circulation and access includes level thresholds, wheelchair accessible lift to all floors, wheelchair refuges at each level and more generous circulation routes. A wheelchair accessible WC is included with all other WC's being designed to an ambulant disabled specification.
30. Internal finishes will provide visual contrast and improved legibility including a clear easy to use signage strategy for those with visual impairments and to support those not familiar with the building.

Planning

31. A full planning application was submitted on the 12th October 2020, including the proposed use of the building as office space, with ancillary food and beverage area to the ground floor (Use Class E), formation of a new external roof terrace at first floor level and formation of a lightwell and external lift shaft to the rear. The application is to be determined at Committee 19th January 2021.

Two pre-Application meetings were held as part of the design development. This confirmed that the principle of proposed use strategy is likely to be acceptable.

Following recent changes to the use class order, all floors will be designated Class E, but with an ancillary food and beverage offer to the ground floor to maintain an active frontage to support George Street.

Operator

32. The space is proposed to be run by an external operator. This approach, is known as “managed workspace”. The operators will be able to deliver both affordable and commercial workspace as part of a blended offer, with a third of space being delivered at 80% of market rate. REDO were appointed in early 2020 to undertake a workspace market assessment, which was later supplemented with soft-market testing led by officers. The assessment showed that the operator market possesses clear capabilities that would maximise chances of success in any workspace offer including market knowledge, innovative business models and knowledge of early stage business needs together with a clear support network.
33. Early input from an operator was identified as necessary to determine interest in the proposals and address the uncertainties in the commercial property market created by COVID-19.
34. Soft market testing of the workspace operator market was undertaken through a Prior Information Notice which sought expressions of interest in tendering for the work and assisted the consultant team in developing options for consideration. The response to the PIN confirmed that there was sufficient interest from operators with experience of the accessible office market to pursue the tender.
35. The Invitation to Tender (ITT) sought to select a preferred operator to provide financial value to the Council via maximising financial return on assets, and generate a revenue stream, while ensuring delivery of the schemes’ broader inclusivity and accessibility objectives.
36. The operators were also required to detail their vision for the workspace, and which responds to the City Council’s Corporate Plan Inclusive Economy objectives.
37. The ITT offered operators the opportunity to bid for 1-3 George Street only, or 1-3 George St and Cave Street together, or Cave Street only. Six tenders were received of which four met the minimum requirements.
38. The procurement exercise for the operator has not yet concluded, with a formal appointment expected in January, subject to Cabinet and Council approving the recommendations in this report.

Outline Business Case

39. An Outline Business case for 1-3 George Street has been produced in line with HM Treasury’s Five Case Model. This is required to demonstrate that the proposed public sector investment is supported by a robust strategic case for action, offers impact and value for money, is feasible across procurement strategy, delivery, risk allocation, and state aid, and is financially affordable in terms of costs, income and available grant funds. Finally, it was used to test that the project be delivered successfully in regards to the management case.
 - a. A range of strategic objectives to inform evaluation of the case were devised, based on the case for action, but balanced with the council’s

strategy to ensure ongoing income is derived from its assets. These criteria include;

- b. To provide financial value to the Council, maximising long-term financial and social return on assets, and seeking opportunities to generate revenue streams, while delivering the schemes' broader objectives. A commercial reference case was included for comparison
- c. To agree a clear and compelling vision for George St, which responds to the City Council's Corporate Plan Inclusive Economy objectives, providing an option with a focus on business start-up, survival and growth, potentially in the creative industries, digital, and social enterprises.
- d. Develop an option with an appropriate and flexible mix of workspace typologies, including affordable workspace, and occupancy / membership options to encourage new and existing businesses to enter the space.
- e. Ensuring a technically deliverable and compliant scheme
- f. Optimising sustainability benefits

The Strategic Case.

40. Oxford City Council's Corporate Plan and four year Business Plan has identified the need for a greater quantity and quality of flexible and affordable entrepreneurial workspace. This is supported by the draft Economic Development Strategy as a priority action to support a more productive, sustainable and inclusive economy. More workspace needs to be made available if the city wants to be both competitive and meet its inclusive economy corporate objectives.

The Economic Case

41. An options appraisal has been undertaken, identifying short-listed options for comparison including commercial tenancy and operator led development, alongside the 'do nothing' reference case.

42. Both the commercial tenancy options and operator led development options are viable however, the Operator led option provides the best economic case, providing greater impact in quantitative and qualitative terms (wider benefits). This will result in;

- The creation of 85 jobs (47 in commercial case)
- Support 28 construction job years (comparable in commercial case)
- £36.7m Gross Value Added over ten years (£20.4m in Commercial case)

43. Moreover, a range of enhanced wider economic benefits and objectives will be directly addressed in the operator led option including; development of an improved pipeline of growing businesses, improved employability outcomes through training, improved workspace affordability, sustainable re-use of an existing building, city centre regeneration benefits, knowledge spill-over effects and the attraction of talent. Income inequality will be addressed through the encouragement of the OLW by the operator.

44. An operator led model that also achieves BREEAM Very Good is recommended as this will further meet the Council's Corporate Plan objectives and respond to declaration of Climate Emergency.

The Commercial Case

45. The council appointed an external consultant, REDO, to undertake a workspace market assessment in early 2020 and this was later supplemented and supported with soft-market testing with potential operators. The findings demonstrated continuing high levels of demand for flexible office space post pandemic.
46. The operator opportunity has been tendered to find suitably experienced operators to manage the completed development. The tender has confirmed there is operator interest in George Street as a stand-alone development and separately as a partner project with Standingford House, Cave Street.
47. The bids show that the minimum level of return required for the viability of the project can be achieved and as detailed in the Confidential Appendix 1
48. The Valuation Report carried out by the Council's consultants has demonstrated the viability of the proposed development using the current value of the building plus spend, less completed value. This confirms that the proposed refurbishment option delivers the best development value for the site.
49. The commercial option would produce a viable refurbishment of the building but fails to deliver the wider economic benefits and objectives. The appraisal shows that an operator led refurbishment option to BREEAM Very Good standard when supported by the OxLEP grant funding would deliver a viable development but also addresses the wider Council Corporate Plan objectives including sustainability and supporting the inclusive economy.

The Financial Case

50. The proposal to deliver the accessible and inclusive office space is supported by the OxLEP grant funding.
51. The Council has appointed cost consultants to prepare a detailed cost plan as part of the RIBA Stage 4 proposals. This includes construction costs, development costs and OCC management costs.
52. While there is relative certainty because the scheme is at RIBA Stage 4 with tender packages complete, potential supply issues around the end of EU Transition and the impact of COVID-19 cannot be ignored. For this, reason a 15% budget contingency is included.
53. The operator tender returns have confirmed that the project is viable, in terms of the likely income needed to cover the upfront capital investment.

The Management Case

54. The Council's project team and internal procedures are supported by external project managers and cost consultants appointed to ensure the project can be delivered. The Management Case is further supported by oversight from OxLEP with regular reporting by the Council's project team to OxLEP Programme Managers.

Programme

55. Under the terms of the OxLEP Local Growth Funding agreement all works to 1-3 George Street were to be completed by end March 2021. The design development works and the need for operator input has prolonged the feasibility, appraisal and contractor feedback phase of the project. In addition initial contractor assessment has indicated a longer build programme. OxLEP are to

approve the revised timetable at their programme review on the 10th February 2021 following the Cabinet/Council decision on proceeding with the project.

56. Key dates set out in the funding agreement pre-conditions on programme and delivery are:

- a. Council approval to Match Funding – revised date 1st February 2021
- b. Match Funding secured (with Council approval) – revised date 29th January 2021
- c. Building Completion – revised date 15th August 2021

57. To achieve a start on site immediately after Council approval (if granted) a building contract will need to be in place ready for signing. The Council has instructed the consultant team to develop the proposals to RIBA Stage 4 Technical Design and Tender. The consultants have engaged with ODSL during the detailed design development. ODSL are to tender the works and this will be evaluated to ensure compliance and demonstrates value for money. ODSL has already demonstrated that they have the capacity and capability to undertake the work. Should their tender be acceptable then the appointment of ODSL, subject to Council approval, will enable the earliest possible start on site to meet the OxLEP programme.

Financial implications

58. The total projected capital cost for the works is £1.921m including contingency

59. The Council will need to invest capital funds in the George Street development alongside funding from OxLEP grant to be spread across both sites.

60. £1.6m has been identified in the current Council Consultation budget's capital programme inclusive of £750K grant allowance and £145K of feasibility funding already allocated. £1.06m to deliver the contract is identified in the financial year 2021/22 with the remainder to be spent in the 2022/23 financial year to cover contract retention.

61. A further £1.07m of capital programme budget will therefore be required to deliver the current proposed £1.921m budget of which 800K is from the £1.93million of Local Growth Fund funding via OxLEP for the George Street project. The remainder of the grant being retained for Standingford House, Cave Street.

62. The feasibility costs and capital spend in the current financial year will both be recouped from the OxLEP grant. The Council will therefore spend a further of £346K of the OxLEP grant on the George Street refurbishment. The drawdown of the OxLEP LGF funding will be met from the financial year 2021/22.

63. The additional General Fund capital requirement for this project is £1.07m, with the projected return to the Council via rent set out in Confidential Appendix 1

Legal issues

64. The Council has commissioned Browne Jacobson LLP to provide an independent state aid assessment which is required as a pre-condition of the funding agreement with OxLEP.

65. Browne Jacobson LLP has advised:

- a. The Council is acting as an undertaking for these purposes and the State Aid tests are passed.
- b. The Council will be able to benefit from Article 56 of General Block Exemption Regulation (GBER) to enable the funding gap to be filled. The Council financial calculation confirms that the grant funding from OxLEP will not be greater than the difference between the eligible costs incurred by the Council in developing the hubs and the operating profit made by the Council from it over the relevant lifetime of the hubs and calculated in accordance with the appropriate accountancy led depreciation period.
- c. The aid provided under GBER must have an incentive effect (i.e. there has been a written application before the project has started and the Council must be able to show a material increase in scope, amount spent or speed of completion of the project as a result of the funding). A development appraisal has been carried out using the current value of the building plus spend, less completed value, to demonstrate this.
- d. An OJEU compliant tender process (whether directly procured by the Council or let under a compliant framework) will be required for delivery of the project. This is being undertaken with independent oversight by an externally appointed QS.

Level of risk

66. Refer to the attached Risk Register Appendix 2

67. The Council has appointed a consultant team to manage the project including a project manager/employers agent and QS to oversee costs and delivery through a JCT Design and Build Contract. A contingency is included within the current cost forecasts.

68. The programme set out in the OxLEP Local Growth Fund Agreement with Oxford City Council has been revised following the feasibility and design work. The Council is now required to enter into a construction contract by 1st February 2021. A start on site date of 15th February is proposed and a completion date of 15th August has been agreed with OxLEP subject to formal approval by OxLEP Programme Group to follow Cabinet and Council approval of this proposal.

69. The Works contract with ODSL will need to demonstrate value for money. The Council team includes an independent cost consultant to assess the tender in line with procurement and constitution procedures.

70. If the business case is rejected, we will not be able to utilise the grant. The Council would be liable for the £145K feasibility budget already committed ahead of this point.

71. A Report on Title confirms that the proposals are acceptable subject to existing rights and easements.

Equalities impact

72. Refer to the Equalities Impact Assessment Appendix 3

Conclusion

73. The OxLEP Local Growth Funding will enable the Council to refurbish 1-3 George Street which is currently unlettable and unable to generate income. In addition the grant will support delivery of a Corporate Plan priority action, to provide affordable workspace, supporting the inclusive economy agenda, and removing barriers for certain entrepreneurs in less well funded sectors. The OxLEP Local Growth Funding subsidy, will enable a key part of the City Council's economic recovery programme to be delivered and where there is no viable wholly commercial option.

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Background Papers:	
1	Stage 3 Design Report – ADP Architects

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