

To: Cabinet - 11 November 2021
Council – 29 November 2021

Report of: Executive Director (Development)

Title of Report: Redevelopment of Standingford House Enterprise Centre and site at Cave Street to provide managed workspace

Summary and Recommendations	
Purpose of report:	To seek approval to fund and enter into a construction contract for the redevelopment of Standingford House and site at Cave Street, to provide affordable managed workspace.
Key decision:	Yes
Cabinet Member:	Councillor Susan Brown, Leader and Cabinet Member for Inclusive Growth, Economic Recovery and Partnerships Councillor Ed Turner, Cabinet Member for Finance and Asset Management
Corporate Priority:	Foster an Inclusive Economy A Clean and Green Oxford
Policy Framework:	Corporate Strategy 2020-24
Recommendations: That Cabinet resolves to:	
<ol style="list-style-type: none"> 1. Approve the demolition and redevelopment of Standingford House Cave Street with a commercial development providing the best option for the Council in terms of financial viability, policy objectives, increased workspace and rental area and improved sustainability; 2. Delegate authority to the Executive Director Development, in consultation with the Head of Financial Services; the Head of Law and Governance; the Leader and Cabinet Member for Inclusive Growth, Economic Recovery and Partnerships; and the Cabinet Member for Finance and Asset Management, to agree and enter into a building contract and associated professional services for the redevelopment following the conclusion of a procurement exercise; 3. Delegate authority to the Executive Director Development, in consultation with the Head of Financial Services; the Head of Law and Governance; the Leader and Cabinet Member for Inclusive Growth, Economic Recovery and Partnerships; and the Cabinet Member for Finance and Asset Management, to enter into agreement with an operator to manage the building and provide business support services, following a lawfully compliant procurement process; 4. Instruct the Executive Director Development, in consultation with the Council's Section 151 Officer and the Head of Law and Governance to serve notice on 	

extant tenancies; and

- 5 **Recommend to Council** to approve a capital budget of £9.70m to deliver the project and including the use of £1.13m of funds awarded to the Council from OxLEP's Local Growth Fund. 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	EXEMPT - Commercial Case
Appendix 2	Risk Register
Appendix 3	Equalities Impact Assessment

Introduction and background

1. Standingford House Enterprise Centre and the associated site at Cave Street sit within the Council's freehold ownership. It currently provides 9,569sq.ft gross internal floor area (GIFA) (net lettable area 6,778sqft) of commercial office space including 18 office/ studio spaces. The building does not comply with the required national legislation for Minimum Energy Efficiency Standards (MEES) for commercial properties. In addition the building is in poor condition generally and in need of repair and urgent maintenance. Two units are currently vacant. The site is therefore faced with an imminent and ongoing diminishing rental income and rising vacant property and maintenance costs over the medium term financial plan period. As such, the Council has to act to address these issues.
2. The delivery of workspace in and around 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's Economic Strategy. The evidence base from Oxford's Economic Strategy – Consultation Draft' has further demonstrated a need to provide workspace that local people and businesses can access. It recognises the need to support higher quality workspace across the city and highlights the role that new spaces can play in supporting the evolution of local neighbourhoods and town centres, through office and co-working space. 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 support for creative, social enterprise and technology sectors and provides an environment for people and businesses to thrive.
3. 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. The George Street refurbishment was subsequently approved by Cabinet on the 20th January 2021 to deliver 5,079sq.ft of lettable office space and utilising £800K of the LGF. £1.13m of the LGF is therefore available to support the provision of new workspace at Standingford House, Cave Street.
4. In providing a funding contribution to the scheme, OxLEP were keen for the City Council to explore proposals 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 flexible, affordable and accessible space that supports new entrepreneurs and growing businesses.

5. The OxLEP funding agreement, aligns with the 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 was to be spent in this financial year due to the Government's funding rules.
6. The LEP's funding agreement obligates the Council to enter into contract to deliver the development spend by the end of the financial year 2021/22. The OxLEP Programme Board has confirmed an extension to the contract to the end of the Q1 financial year 2022/23.
7. The COVID-19 crisis has understandably created significant uncertainty in the wider commercial property market however, despite the changes in working practices there is evidence of a real shortage of modern flexible workspace in Oxford and particularly within the central area. The feasibility and options 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 workspace market.
8. A tender process has been undertaken to select an experienced workspace operator to let and operate both the George Street and Cave Street, Standingford House sites. A preferred operator has been selected for both sites, subject to contract. The lease agreement for the George St refurbishment office space is currently being finalised. The preferred operator is currently engaged in the design process for Standingford House, Cave Street and is informing proposals for the redevelopment of the site.
9. The proposal recognises the need to engage with existing tenants during the redevelopment. All development options, including a minimum level of refurbishment to achieve compliance with current MEES regulatory standards, would require the existing Enterprise House to be vacated. An engagement strategy has been developed and initial discussion with tenants have taken place including details of how the Council may be able to assist with their relocation.

The Project

10. The Council appointed a consultancy team to carry out feasibility and design work. The consultant team includes project management, cost consultancy and an architect led design team. The options appraisal including feasibility and design work to RIBA Stage 2 has now been completed. The consultant team is also instructed to develop proposals to RIBA Stage 3 including preparation of the planning application. This report details the proposals including the options appraisal, development appraisal and business case. The Stage 2 Report is included in the background papers.
11. The consultant brief was to review options to refurbish and/or redevelop the site including:

- a. Minimum refurbishment to achieve compliance with essential Building Regulation standards and improvements to energy performance in order to meet Minimum Energy Efficiency Standards (MEES).
 - b. Commercial development,
 - c. Mixed use commercial and residential development.
12. The brief required all options to ensure a minimum commercial development of the site compliant with the OxLEP funding agreement area requirements of 9,700sq.ft GIFA and to ensure proposals were in accordance with the LPA planning classification of the site as a Protected Key Employment Site.
 13. The options were assessed against the Council's core requirements of; providing inclusive, accessible and attractive workspace, technical considerations including safety and sustainability, and financial considerations to ensure the workspace is affordable whereby a third of the space will be available at 80% of market rate
 14. The brief includes the need to engage with the stakeholder tenants to support existing employment and community uses where possible and within the constraints of the business plan.

Carbon and Environmental Considerations

15. The brief required the consultants to achieve BREEAM Excellent as a minimum standard and to be supported by a costed zero-carbon option. The base case assumes retention of the existing building with the requirement to meet Building Regulations and MEES standards and would not meet the Council's sustainability targets. Redevelopment instead of retention and extension offers greater opportunity to achieve significantly higher sustainability standards.
16. The sustainability review included costed improvements above the minimum brief requirement of BREEAM Excellent including: BREEAM Outstanding, BREEAM Outstanding with Passivhaus, and Zero-Carbon.
17. BREEAM Outstanding is recommended as deliverable and viable and meets the Council Strategy to place improving energy efficiency as a priority. The additional cost of achieving this standard over and above the minimum BREEAM excellent standard is estimated at c.£211K and is included within the Capital Budget requirements.
18. Options to further improve sustainability have been costed and assessed as jeopardising viability and as set out in the Commercial Case in the confidential exempt Appendix 1 – not for publication
19. The redevelopment will be eligible for Salix funding however this contribution cannot be calculated at this stage pending further detail design work and is not included within the Commercial Case.

Stakeholder Engagement

25. There are 18 workspace units and 1 meeting space within the existing building with two units currently vacant. A copy of the existing tenancy schedule is included within the confidential exempt background papers - not for publication. Two of the units will be vacated by the end of October 2021. Current leases bar one will have expired prior to the proposed commencement of re-development. The majority of existing leases require 2 months' notice as a break with one lease requiring a 3 month notice period.

26. Tenants have already been consulted on the intention to redevelop and the requirement of the Council to achieve vacant possession. Further engagement is underway including one to one discussion with tenants.
27. While the re-development will provide more than double the existing workspace once completed, the proposal recognises the difficulties some existing tenants may face as a result of re-development. The Council will continue to work with tenants to help them source alternative accommodation during redevelopment including sourcing specialist accommodation where required. This includes both accommodation within Council premises and/ or other commercial space. It should be noted however that there are a number of similar projects being undertaken and office space within the city is limited.
28. There is potential to accommodate some tenants within the refurbished office space at 1-3 George Street subject to the final completion date of the current works by ODSL. Other options under consideration include using space identified within the Meanwhile programme in partnership with Makespace.
29. Tenants will be given the opportunity to return once the new units are completed however, it will not be viable at their current rent levels.

Accessibility & Inclusivity

30. The existing building does not meet adequate accessibility standards with no wheelchair provision, no lift access and poor legibility and accessibility generally. Redevelopment offers the opportunity to maximise accessibility and the design will ensure the site and buildings are fully accessible, legible and including lift access throughout.
31. The redevelopment will provide a flexible mix of affordable, and market rate workspace to enable a range of business to access the space.
32. The preferred operator is committed to developing a Community Engagement Plan to ensure businesses and entrepreneurs have an opportunity to access affordable workspace. This includes creating links with local training and employability programmes to provide opportunities for local people and people experiencing disadvantage entering the labour market and/or engaging in economic activity.

Planning

33. A pre-application submission to review the shortlisted Stage Two options was undertaken to inform the options appraisal and confirmed that the principle of re-developing the site is acceptable.
34. A further pre-app for the preferred option will be submitted to support the detail design process.

Operator

35. The space is proposed to be run by an external operator as “managed workspace”. The operator will be able to deliver both affordable and commercial workspace as part of a blended offer, with a third of space being affordable defined as delivered at 80% of market rate.
36. 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.
37. Partnership with an operator allows the Council to benefit not only from the existing connections and network the partner has created but also market

knowledge, business models and knowledge of early stage business needs together.

38. Runway East (RWE) was selected as the preferred operator following an Invitation to Tender. The tender was initially for 1-3 George Street and lease negotiations are currently underway and lease terms are being finalised. RWE were also selected as the preferred bidder for Cave Street subject to parties agreeing terms. They are actively engaged in the design process for Standingford House, Cave Street and are helping inform the attractiveness of the proposals to the market and helping maximise site value to support the business case. The operator appointment is to be delivered through a Public Works Concession Contract based on a set of KPI's including income. If the operator fails to deliver on the key targets then there will be a mechanism for the Council to take back the space.

Outline Business Case

39. An Outline Business Case (OBC) has been produced in line with HM Treasury's Five Case Model 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. The management case is used to test that the project can be delivered successfully by the Council.
40. The Outline Business Case followed the completion of an RIBA Stage One and Strategic Outline Business Case followed by included a detailed RIBA Stage Two options appraisal. The OBC is included in the confidential background papers.

Options Appraisal

41. An initial feasibility to RIBA Stage One set out a long list options for the site. Commercial agents Carter Jonas were appointed by the Council to undertake an occupational market review and utilising the layouts and areas set out in the Stage 1 options appraisal. The report carried out an assessment of the scheme options including: Entrepreneurial workspace, Life-sciences and R&D, Commercial and Residential use and Alternative Residential e.g. retirement living. Entrepreneurial space was preferred as lowest risk. An alternative mixed use commercial and residential development was also recommended for further consideration.
42. A Strategic Outline Business Case (SOBC) considered the options including development area and cost reports including a financial contingency. Four options were shortlisted for further review:
 - a. Option 2 - Do minimum – essential refurbishment works to meet MEES only and on-going essential building maintenance works
 - b. Option D1 - Commercial site development with two separate buildings to encourage flexible working opportunities
 - c. Option D2 – A mixed use commercial and residential development
 - d. Option G – commercial development of the site to maximise the built area through a deep plan commercial layout.
43. These options were shown to offer the greatest income and shortest payback. The SOBC recommendation was to proceed with developing these options to an Outline Business Case (OBC) for further review.
44. The shortlisted options were then developed to RIBA Stage Two. A further two sub-options were developed:

- a. Option D1a –variation of Option D1 with linked buildings to encourage flexible working opportunities and following advice from the preferred operator
 - b. Option D2a – As option D2 but with affordable housing instead of market sale properties for the residential element
45. Option D1a is identified by the OBC as the preferred option based upon a multi-criteria analysis including; Financial criteria, Non-financial criteria and Risk. Option D1a is ranked 3rd best option based on financial criteria and net present value but generates the most revenue over a 30 year period. Option D1a is the joint best performing option based on the Council Corporate priorities specifically by increasing the amount of new workspace to encourage investment. The mixed use housing options have additional risk in achieving the amount of proposed development and add risk to realising the development on site through added complexity.
46. The proposal option D1a will provide 23,412sq.ft GIFA of development (17,320sq.ft nett lettable), an increase of 13,843sq.ft on the existing GIFA of 9,569sq.ft and more than double the minimum requirements of the OxLEP funding agreement to deliver not less than 9,700sq.ft GIFA workspace.

The Strategic Case.

47. 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 Oxford's Economic Strategy (Consultation Draft) 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.
48. The Council is looking strategically at ways to effectively manage its assets by maximising their long-term return, by generating operating efficiencies through its property management services, securing enhanced revenue receipts or raising capital receipts through future redevelopment opportunities. The Council has identified Standingford House, Cave Street as a key development opportunity within this portfolio.

The Economic Case

49. The options identified above have been subject to three types of appraisal including:
- a. Non-Financial Benefits Appraisal measured against the Council Corporate priorities
 - b. Financial Appraisal utilising a discounted cashflow model over 30 years including Revenue and Capital costs and income.
 - c. Cost Benefit Analysis to bring the financial and non-financial criteria together
50. Option D1 and D1a are jointly scored as the preferred option based on non-financial benefits criteria. These options provide a significant increase in innovative/flexible workspace which will encourage investment in new skills and apprenticeships across the local economy with the creation of an estimated 270 jobs.
51. The Financial Appraisal shows that Option D2 (mixed-use) produces the highest NPV over the 30-year cashflow period due to initial capital receipts received from the sale of the residential dwellings. However, Options D1 and D1a produce considerably higher revenue and Option D1a produces the most revenue of all options over the 30-year period (after discounting)

The Financial Case

52. The Financial case utilises the preferred Option D1a, the commercial options and is based upon whole life costs. Details of the potential increase in commercial rent are included within the confidential Appendix 1.
53. The income follows consultation with the preferred operator with indicative financials based on a scheme with an occupancy ratio of 1:4.5m².
54. The full rental assumptions can be viewed within the cashflow included in the Outline Business Case in confidential background papers.
55. The OxLEP grant would reduce the funding required to facilitate the development. The remainder is assumed to be financed by way of a PWLB Loan. The Payback is reached in year 22 of the cashflow.
56. The Council has appointed cost consultants to prepare a detailed cost plan as part of the RIBA Stage 2 proposals. This includes construction costs, development costs and OCC management costs and project contingency.
57. There are a number of currently estimated figures, both in terms of cost, as well as income, and it will be crucial as the business case progresses to develop these with more robust and up-to-date costings, based on RIBA Stage 3/4 technical drawings. Based on current RIBA Stage Two information however, modelling suggests that capital expenditure on the re-development of the site will be able to be met from the Grant, Capital Borrowing and Revenue from the preferred option.
58. Overall OCC will need to borrow £8.57m to fund the projected net cost of the proposal, this represents £9.70m of development costs including c.£400K of CIL offset by £1.13m of external grant funding.

The Commercial Case

59. The agents have considered commercial options for delivery of the new workspace including:
 - a. Land sale to a third party with the market delivering the new development
 - b. Development Management Agreement (DMA) with the Council appointing an external Development manager to manage the property development process and deliver the project
 - c. Corporate Joint Venture as an alternative to the DMA whereby the Council forms a joint venture partnership with a development partner. Options modelled include both 50/50% and 25/75% split of profits
 - d. Direct delivery whereby the Council acts as developer and funder.
60. A development management agreement route could reduce some of the risks of self-delivery, in terms of cost and timescale risk however, this is offset by a significant reduction in financial outturn, due to the increased costs involved.
61. The JV route reduces the cost risk, but decreases revenue and introduces additional risk in terms of partner selection and timescale for legal agreements which will jeopardise the grant funding availability, as there are time restrictions on the expenditure of grant funding. There is also a high level of risk that the scheme would be unlikely to meet the minimum scale requirements for the type of institutional investor that this scheme requires.
62. The self-delivery route provides the most favourable delivery option for the Council. With no delivery partner, this source of risk is removed and while this route does entail cost risk on the Council's part, this is counterbalanced by the highest financial return. This route also provides the Council with a level of control

over the timescale that should allow for the delivery of the scheme within the timescale conditions of the grant funding offer.

63. The OBC also includes a sensitivity analysis to determine whether the Council could achieve a better financial return by letting the completed development to commercial tenants on the open market, rather than proceeding with the operator model.
64. While a wholly commercial scheme might produce a higher return over the 30-year period it would not be eligible for grant funding. The operator model meets the criteria of the OxLEP funding, increasing the total revenue by a further £1.13m which can be used to offset construction costs and reducing the cost of borrowing. On this basis, the operator model produces the highest revenue over the 30-year period.

The Management Case

65. 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 together.
66. The project will need internal resourcing and the capital budget includes for costs associated with project management, legal and property advice to ensure adequate resources are available.
67. The Management Case is further supported by oversight from OxLEP with regular reporting by the Council's project team to OxLEP Programme Managers.

Programme

68. The OxLEP grant funding agreement required expenditure by the end of the current financial year however, the OxLEP Programme Board has agreed an extension to end of June 2022. In order to meet the revised date the programme proposes a planning application to be submitted December 2021 with the contract to be tendered by the start of February 2022 and to allow works to commence on site in March 2022. Completion is estimated late 2024. This will be subject to further review as the work progresses.
69. Vacant possession of the site will be required by early March 2022. Tenants have already been engaged as above but formal notice will need to be served by end November 2021 following a Cabinet decision.
70. A two stage tender is proposed based upon the planning application design proposals. This will enable early contracting with a specialist contractor which meets one of the OxLEP grant funding pre-conditions.

Financial implications

71. The total projected capital cost for the works is £9.70m including contingency and CIL payments
72. The Council will need to invest capital funds in the Cave Street re-development alongside funding from OxLEP grant to be spread across both sites.
73. £5.50m has been identified in the current Council Consultation budget's capital programme inclusive of £1.13m grant allowance and £145K of feasibility funding already allocated. The original capital budget reflected an estimated development of approximately 9,700sq.ft GIFA as set out in the OxLEP grant funding bid. Following completion of the RIBA 2 design work the scale of the development has increased to 23,142sq.ft and nett revenue increased by £9.22m over the base case of a refurbishment option.

74. The increased development will require a further £4.20m of capital programme budget to deliver the current proposed £9.30m development costs plus £400K of CIL with the projected return to the Council via rent set out in Confidential Appendix 1.
75. The feasibility costs and capital spend in the current financial year will both be recouped from the OxLEP grant. The Council will spend the remaining £1.13m of the OxLEP grant on the Standingford House, Cave Street redevelopment. The drawdown of the OxLEP LGF funding will be met from the financial year 2021/22 and 2022/23

Legal issues

76. The Council commissioned Browne Jacobson LLP to provide an independent state aid assessment which is required as a pre-condition of the funding agreement with OxLEP.
77. 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

78. Refer to the attached Risk Register Appendix 2
79. RIBA Stage Two proposals including detailed cost plans are completed and Stage Three works have commenced however, the design is still at an early stage. In addition to the construction cost contingency included within the cost plans a further 15% project contingency is included within the overall budget.
80. The Council has appointed a consultant team to manage the project including a project manager/employers agent and QS to oversee costs and delivery. A two stage tender process utilising the JCT Design and Build Contract is proposed for procurement of the construction contract. The form of contract allows for early engagement of the contractor and offers a greater certainty on cost and programme together with the transfer of the design risk. Works would be tendered on RIBA Stage 3 design information with management and preliminaries used to establish a pre-construction agreement (Stage 1). The contractor would then join the delivery team to develop construction packages through the supply chain for

final costs, and working with the Council's consultant team to validate and agree work packages.

81. The procurement of ODSL to deliver the construction contract has been considered however, due to the scale and specialist nature of the construction work and the resulting level of risk it has been agreed that they will not tender for the work. Opportunities for their future involvement through delivery of sub-contracted work packages to the main contractor will be considered during the procurement process.
82. 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. A further advance of £155K to support the planning application consultant works has also been committed to the project and will similarly be at risk.

Equalities impact

83. Refer to the Equalities Impact Assessment Appendix 3

Conclusion

84. Standingford House, Cave Street needs significant expenditure to meet minimum regulatory energy efficiency standards and an urgent need to carry out essential maintenance without which it faces an immediate and continuing reduction in income following the departure of at least two of the existing occupiers.
85. The OxLEP Local Growth Funding will support the redevelopment of the site with the opportunity to more than double the amount of accessible innovative work space to enable the creation of jobs and bring in new investment to the City. A comprehensive options appraisal and Outline Business Case has demonstrated that the demolition of the existing building and redevelopment of the whole site to provide new and additional workspace will deliver the maximum benefits to the Council over the long term compared to other options.

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Background Papers:	
1	Stage 2 Design Report (Summary) – ADP Architects and AAP Cost Consultants

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