

Report to:	STRATEGIC PLANNING AND CAPITAL MONITORING PANEL
Date:	5 September 2016
Executive Member/Reporting Officer:	Councillor Jim Fitzpatrick – First Deputy (Finance and Performance) Damien Bourke – Assistant Executive Director (Development, Growth and Investment)
Subject:	ASHTON OLD BATHS – FINAL FIT OUT WORKS AND APPOINTMENT OF OPERATOR
Report Summary:	This report seeks approval of proposals for the final fit out of the Ashton Old Baths innovation centre and the appointment of an operator. It further provides a progress update on the ongoing feasibility work on the redevelopment of the annexe to the building.
Recommendations:	That the recommendations to be CONSIDERED by Executive Cabinet on the 31 August 2016 be noted: <ol style="list-style-type: none"> 1. Notes the overall progress to date with the Ashton Old Baths project. 2. RECOMMENDS to Council to approve the proposals for final fit out works for the Ashton Old Baths Innovation Centre at a cost of £871,059 as set out in section 3 of the report and amends the Capital Programme accordingly. 3. Authorises the Executive Director (Place), in consultation with the Executive Director (Governance, Resources and Pensions), to agree and complete the Management Agreement for the appointment of Oxford Innovation to operate the Ashton Old Baths Innovation Centre to protect the Council's interests so far as possible given the Council is retaining a significant level of risk and to agree Annual Business Plans during the term of the contract. 4. Approves the maximum revenue contribution of £82,434 in Year 0 and £110K in Year 1 as identified in the business plan. It is expected that there will be a surplus from year 2 and that regular reporting on this issue is set out in the quarterly revenue monitoring report. 5. Notes the progress to date with the feasibility work on the redevelopment of the annexe.
Links to Community Strategy:	The proposals contained in this report will support the delivery of the community strategy.
Policy Implications:	In compliance with Council policy.
Financial Implications: (Authorised by the Section 151 Officer)	Capital expenditure of £871,059 for the final fit out needs to be approved and then included within the capital programme. The most efficient way funding of this will need to be assessed. Provision of a maximum revenue contribution to the operator of £110,000 as identified in the business plan needs to be included within the Medium Term Financial Strategy and any surpluses in future years will be used to assist the overall budget of the

Council. Any VAT implications need to be reviewed and correct practice followed.

Any costs related to the feasibility of the Annex need to be kept within existing budgets.

**Legal Implications:
(Authorised by the Borough
Solicitor)**

This decision provides the governance required to (1) progress the fit out works at Ashton Old Baths, and (2) enter into the management agreement with Oxford Innovation. Members need to be clear that the Council takes all the risk in relation to this agreement, and that Oxford Innovation will be operating effectively as the Council's agents throughout the contract. Close contract management will be required to ensure financial spend is kept under control and value for money achieved for the Council.

It will be necessary given previous experience with such arrangements running the Council's former theatres that there is a simple and clear exit strategy in the event of poor performance of failure to achieve the necessary outcomes.

A proper review will need to be undertaken of the options to provide a data centre which does not automatically assume that the Council needs to own the data centre as these are expensive facilities that require regular updating and maintenance and carry significant liability. There would need to be a very clear business case for doing this and the options and the decision need to be made before significant capital expenditure is committed.

Risk Management:

A risk assessment is included in the report.

Access to Information:

The background papers relating to this report can be inspected by contacting the report writer Ade Alao:



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1. INTRODUCTION

- 1.1 Ashton Old Baths is an iconic Greater Manchester landmark that had been empty for over 40 years. The Council and its partners completed the main refurbishment and renovation works to convert the main pool hall of the Grade II listed building into a new innovation centre for the digital, creative and media sectors in February 2016.
- 1.2 The innovation centre's main objective is to support the creation and development of innovative businesses with high growth potential predominantly in the creative, media and digital sectors, as a new source of growth and jobs which will strengthen the competitiveness of the Tameside economy. Once operational, the centre will be integrated into a network of key stakeholders, agencies and schemes that work together to promote business growth, innovation and competitiveness.
- 1.3 The project is exemplary of a smart and sustainable growth approach. It is housed in a restored listed building, and combines conservation with its modern use. The innovativeness of the project lies not only in the creativity it nurtures but in its environment and setting. It turns a derelict grade II* listed building into an impressive business incubation hub, integrated within the St Petersfield urban business quarter.
- 1.4 The building is now back in the Council's ownership, in line with the legal agreement with the former private sector owner as this was the only way that the Council could satisfy the requirements of the Grant Funders. Main refurbishment and renovation works to the main pool hall has been completed with a free standing timber pod completed to shell and core. Structural repairs to the annexe were also completed as part of the main works.
- 1.5 This report advises Cabinet on progress with the Ashton Old Baths project and seeks approval of proposals for further funding to fit out of the innovation centre and the appointment of an operator who will as proposed act as the Council's agent.

2. PROGRESS UPDATE

- 2.1 Following completion of the main refurbishment and renovation works, the Council hosted a high-profile event on 20 March 2016 to celebrate this landmark moment. The spectacular audio-visual event attracted high level coverage by national, regional and local print and electronic media.
- 2.2 The project also featured as an example of a 'bold and creative council' by the judges in naming Tameside as the LGC Council of the Year 2016 in March.
- 2.3 The final fit out works were excluded from the main contract to ensure that the final fit out was fit for purpose for the eventual tenants of the building. Previous Council governance had also approved the process for the procurement of an operator for the building.
- 2.4 The Council commenced an OJEU procurement process in October 2015 inviting parties to register their interest in providing Centre Management Services. The term for the contract was five years with the Council, at its absolute discretion, able to elect to extend the term by up to two further periods of 1 year each.
- 2.5 A waiver was approved on 17 March 2016, subject to all necessary governance being in place, to enter into contract with Oxford Innovation in line with the Council's Procurement Standing Orders.
- 2.6 An open day for prospective tenants, who had contacted the Council, was held by Oxford Innovation on 7 June 2016 and was attended by over 30 guests. A number of businesses, with specific requirements, have now confirmed their intention to locate to the building. Pre-

lets with these businesses will be progressed subject to the approval of the fit out proposals.

- 2.7 No active marketing campaign has so far been undertaken for the innovation centre. Once governance is secured including an appropriate contract being in, the marketing plan identified in the business plan will be implemented and delivered by Oxford Innovation. This will include a branding exercise and marketing campaign to feature social media and other methods.
- 2.8 Following a positive soft market testing exercise, feasibility work is ongoing on the development of a commercial data centre and offices in the annexe of Ashton Old Baths. A data centre would enhance the business offer at Ashton Old Baths whilst providing the Council and other public sector partners with alternative disaster recovery capability locally alongside a commercial data centre operation. Detailed proposals around the data centre will be subject to a further report before any expenditure is incurred following confirmation of a review of existing need for public sector partners, commercial viability and value for money balanced against risk given the infrastructure and environment is expensive given rapid changes in technology.
- 2.9 The project has also been shortlisted for the following awards:
- The Architects' Journal Retrofit Awards (listed building less than £5 million)
 - Greater Manchester Chamber of Commerce building of the year
 - Historic England Angel Awards

3. FINAL FIT OUT WORKS

- 3.1 The new self-contained, free standing office pod incorporates over 675 sqm of office, meeting rooms, iconic event area and breakout space over four floors. Alongside this, the ground floor will incorporate semi-enclosed informal seating/meeting areas in the ancillary space under the gallery, alongside catering provision. The massing and form of the pod creates comfortable sized workspace units, utilises borrowed daylight from the existing mid-level perimeter windows, is easily ventilated and from a heritage perspective, maintains the appearance of a large open space whilst still exhibiting as much of the existing fabric of the building as possible. The approach adopted to the pod was not to try and replicate the style of the enclosing building but to provide a clear distinction with the use of plywood and western red cedar boards that provide a clear complementary distinction between the new and old. The final fit out works have therefore been developed to complement these principles of the redevelopment of the building.
- 3.2 Integral to the viability and success of the scheme is the flexible nature of the office workspace. This has been achieved by providing an open plan office space, which can be subdivided to accommodate business occupier's needs. Varying the configuration of the office workspace will not affect the historic fabric of the building and will only affect internal partition walls of the freestanding structure. This will mean there will not be a requirement for a listed building consent application to make these changes to the pod layouts in future, thus allowing increased flexibility for future tenant requirements.
- 3.3 The fit out proposals have been designed in consultation with the operator and the design team, including Wayne Hemingway of Hemingway Design, internationally renowned designers, as part of the design team finalising the fit out proposals. The fit out design will draw upon and be informed by the branding exercise, which will dual-track the developed and technical design stages. These costs are included within the year 0 set up costs.
- 3.4 The key aspects of the fit out proposals include:
- Renovating the staircase and reinstating the first floor perimeter gallery

- Construction of semi-enclosed informal seating/meeting areas in the ancillary space under the gallery
- Solid partitions between offices and glazed partitions between offices and the corridors
- Plywood floor to offices
- Cleaning and protection of timber floors
- Electric fittings, lighting and heating to the pod and semi-enclosed space on ground floor
- Fixed and loose furniture
- Class 0 lacquer treatment to all timber walls
- Additional catering provision
- Creation of an additional meeting room off the gallery.

3.5 Procurement of the final fit out works is being undertaken through the Tameside Investment Partnership and the Stage 1 proposals are shown in **Appendix 1**.

3.6 The budget costs for the proposed final fit out works are shown in the table below.

Item	Cost (£)
Building works	286,113
Mechanical & Electrical	259,936
Fixtures, Fittings and Equipment	35,446
Preliminaries	85,451
Contingency	65,512
Professional Fees	114,971
Miscellaneous	23,630
Total	871,059

3.7 The programme for the final fit out works is shown in the table below:

RIBA Workstage	Programme	
	Start	End
Stage 0 Strategic Definition	25 Apr 2016	2 May 2016
Stage 1 Preparation and Brief	2 May 2016	9 May 2016
Stage 2 Concept Design	9 May 2016	23 May 2016
Governance	31 Aug 2016	31 Aug 2016
Stage 3 Developed Design	25 Jul 2016	2 Sep 2016
Stage 4 Technical Design	5 Sep 2016	10 Oct 2016
Stage 5 Construction	10 Oct 2016	23 Jan 2017
Stage 6 Handover and Close Out	23 Jan 2017	30 Jan 2017
Stage 7 In use	30 Jan 2017	6 Feb 2017

3.8 Approval is therefore sought for the Council to approve a change to the Capital programme of additional the capital expenditure of £871,059 for the final fit out works at Ashton Old Baths.

4. APPOINTMENT OF OPERATOR

4.1 Terms for a management agreement were approved by officers for the OJEU procurement and Oxford Innovation has confirmed acceptance. The management agreement is for an operator model with incentives to outperform the initial business plan. It runs for five years and the operator will provide an annual business plan, to be agreed, based on the previous year's performance against an agreed set of key performance indicators.

4.2 A copy of the 5-Year Business Plan is attached at **Appendix 2** and is based on the following key assumptions:

- Maximum occupancy of 95%
- Fit out as per the plans shown in **Appendix 1**.
- One meeting room on ground floor.
- Events income for space hire only. Any additional costs associated with equipment hire and staffing will be invoiced directly to the hirer but are excluded from these models.
- More aggressive occupancy take-up to reflect a longer mobilisation period.
- Centre team employed early (Centre Director 2 months before opening and Assistant Centre Manager & Customer Support Assistant 1 month before).
- Rateable values of £110 psm for offices and £77 psm for rateable common areas

4.3 Under the terms of the Management Agreement, the operator, on behalf of the Council, is responsible for collecting and receiving all income from operating the centre. The operator is also responsible for paying all approved costs incurred in operating the centre as agreed with the Council in the business plan. The operator is required to open and operate a separate dedicated bank account for this purpose and to maintain detailed accounting record on an open-book basis with the Council. Any surpluses will be transferred to the Council as determined in the management agreement. At the date of the termination of the management agreement the operator will transfer any outstanding surplus back to the Council or alternative provider nominated by the Council.

4.4 A summary of the Oxford Innovation 5-Year business plan is shown in the table below:

	Business Plan Summary (£)			
	Turnover	Cost	Net	Cumulative
Year 0	0	82,434	(82,434)	(82,434)
Year 1	227,442	239,123	(11,681)	(94,117)
Year 2	381,456	309,144	72,312	(21,809)
Year 3	397,187	324,184	73,003	51,186
Year 4	407,545	332,849	74,696	125,879
Year 5	414,310	339,413	74,897	200,776

**table contains rounding differences*

4.5 Over the business plan period of 5 years, the centre is expected to generate a cumulative net surplus of £200,776. Once fully occupied, the centre is projected to generate a net surplus of £74,696 per annum for the Council. The building is expected to operate as an innovation centre beyond the current Management Agreement period and is expected to operate at a surplus for the foreseeable future.

Revenue Contribution

4.7 As the Council owns the building and engages the operator as a managing agent, it is required to make provision to cover any deficit in the initial years. All expenditure that is incurred will be closely monitored and approved by the Council as per the management agreement and therefore only legitimate costs will be allowable. In the initial period of the business plan, the costs in operating the centre are higher than the projected income. However, this position changes once the occupancy levels increase.

4.8 Costs will be incurred in advance of the centre becoming operational (Year 0) and include costs such as marketing. These costs are essential to ensure that the development is effectively promoted to prospective tenants (thus achieving high occupancy levels at opening), maintaining Oxford Innovation input throughout the fit out stage and ensuring that all necessary systems and processes are in place and mobilised for the centre's opening. These set up costs for the operator prior to opening amount to £82,434 and are included in the annual revenue contribution requirements.

4.9 Due to these initial higher operational costs the operator requires working capital funding to cover these costs. Oxford Innovation has identified the maximum revenue contribution requirement for the operation of the centre as shown in the business plan.

4.10 The working capital requirement according to the business plan peaks at month 7 at £109,593 but thereafter reduces and for the first year the overall cost to the Council is estimated to be £82,434. It is forecast that the working capital requirement will reduce every year until the centre is able to operate without financial assistance from the Council. The revenue contribution provided by the Council in the early years is therefore essentially recovered from surpluses in later years.

4.11 Approval is therefore sought to provide a maximum revenue contribution to the operator as revenue costs of £110,000 as identified in the business plan. This will assist in their cash flow.

Management Fee

4.12 In the management agreement, the operator is entitled to receive a management fee, which is based on the floor area of the centre and 4.5% of turnover. The table below shows the management fee payable to the operator over the Management Agreement period.

Item	Year					Total
	1	2	3	4	5	
Fee based on Net Internal Area	26,290	32,133	33,008	33,834	34,672	159,937
Fee based on 4.5% of Total Revenue	6,208	14,066	14,834	15,212	15,486	65,806
Total	32,499	46,201	47,845	49,050	50,163	225,743

4.13 The management fee payable has already been accounted for as a cost in the Business Plan and is not an additional cost to the Council.

Contract Management

- 4.14 The management agreement with the operator includes details of the arrangement for contract management to ensure that the Council is able to monitor and the operator's performance effectively. Central to this are the business plan and key performance indicators.
- 4.15 The operator is required to provide monthly reports to the Council on its performance against the agreed business plan and key performance indicators. Monthly meetings are also arranged with the Council's representatives to discuss the report and agree plans that may be required to address any issues.
- 4.16 In the event of a problem being unresolved, or a failure to agree on the plan, the Council may serve a remedy notice on the operator and ultimately terminate the agreement.
- 4.17 Regular reports on the operator's performance against the business plan and key performance indicators will be set out in the Council's regular quarterly monitoring reports on the budget received by Cabinet.

5. REDEVELOPMENT OF THE ANNEXE

- 5.1 While the main capital project included external repairs and structural repairs to the annexe, this part of the building still requires internal renovation and refurbishment to be brought back into use. An initial high-level appraisal of the options available for the future use of the annexe has now been undertaken.
- 5.2 Three broad options have been identified as follow:
- Option 1 – Mothballing the annexe for the foreseeable future (do nothing)
 - Option 2 – Refurbishment and use of the annexe for office accommodation
 - Option 3 – Refurbishment and use of the annexe for office accommodation and data/disaster recovery centre
- 5.3 Option 1 - mothballing the annexe could be pursued until when a viable use and funding can be identified. This involves securing the annexe and its features to reduce the risks of vandalism or unlawful access and providing adequate ventilation. It will also require the implementation of an effective maintenance and monitoring plan to protect the building. The estimated costs are an initial £20,000 with annual costs of £5-10,000.
- 5.4 Option 2 – The annexe could be refurbished and fitted out to provide 500 sqm of office accommodation. Further work will be needed to establish any requirement within the Council's accommodation strategy or to develop a business case for letting the space for commercial tenants. Another variant could see the expansion of the innovation centre into the annexe. Indicative costs for this option are estimated at £1.5 million in the concept stage cost plan.
- 5.5 Option 3 – The Council's data centre is currently hosted at Rochdale Borough Council under a contract and therefore an options appraisal would need to be undertaken to determine whether it is both vfm and viable that it should remain there or would be more advantageous to be hosted in a purpose built data centre. The data centre would also provide disaster recovery capability for the Council's business-critical ICT systems. The space available in the annexe could accommodate up to 36 racks which is about four times the Council's requirements. This provides an opportunity for other local public sector organisations or commercial data centre operators to utilise the spare capacity and provide income to the Council. Excess heat produced in the data centre, could then be used to heat offices in the annexe and the innovation centre in the main pool hall. Indicative costs

for this option are estimated at £2 million in the concept stage cost plan. Clearly, before any costs are expended on this option there needs to be a cost benefit analysis.

- 5.6 A vision and business case for converting the annex into grade A office space with a data/disaster recovery centre is currently being developed (Option 3). The requirement for grade A office space is informed by strong private sector occupier demand in St Petersfield. The data/disaster recovery centre proposal is being driven by public and private sector requirements, which is still being assessed.

Office Space

- 5.7 The proposal is to explore the conversion of most of the annexe into grade A office space to let. This will exclude the former ground floor ladies which will be difficult to use as office space due to the absence of windows and natural daylight.
- 5.8 The converted office space could be let to a single business or could form expansion space for the innovation centre as both sides of the building are connected at ground and first floor levels.
- 5.9 The Council has been contacted by a number of businesses who are interested in the annex for relocation on commercial terms. Whilst these discussions are still ongoing, it is clear that the interest has been generated as a direct result of the recent investment and profile associated with Ashton Old Baths.

Data/Disaster Recovery Centre

- 5.10 The potential for a data/disaster recovery centre is currently being examined for location in the former ladies' pool area on the ground floor and possibly in the basement.
- 5.11 The Council currently has one data centre, which is hosted by Rochdale Council's Data Centre under a contract. All the Council's systems were moved to this facility in June 2015 as part of the TAC decant and it is expected that this arrangement will remain in place for the next 18 to 24 months. These arrangements were detailed in a report approved by Strategic Planning and Capital Panel in September 2014 including a recommendation that once a new permanent location for the Council's data centre has been identified and put in place, the interim data centre at Rochdale should become the council hot-standby disaster recovery site for key systems.
- 5.12 Ashton Old Baths is already connected to the Ashton dark fibre network with more than sufficient speed of connectivity. Furthermore, the migration of systems to Rochdale means that we already have much of the hardware that would be needed to duplicate all of our key systems. This equipment would otherwise be moth balled until needed. As well as being used as a disaster recovery site, we could also redirect all of the Council's off-site storage of security backups that are currently directed to Hyde Town Hall to Ashton Old Baths as the existing link is reaching capacity.
- 5.13 A data/disaster recovery centre at Ashton Old Baths would enable the Council to fulfill its needs for data storage and disaster recovery, whilst enhancing the business offer at Ashton Old Baths. Demand has already been identified in several other public sector organisations including the NHS and schools amongst others. Work is currently underway to fully access this demand, which will inform the scope of the data centre. A soft market testing exercise has also been completed with established interest from private operators to invest in a data centre at Ashton Old Baths.
- 5.14 Detailed appraisal work is now being undertaken to identify the respective capital, revenue and net present costs, non-financial benefits and value for money for a data/disaster recovery centre. This will lead to a detailed investment business case and proposals which will be the subject of a further report.

6. RISK ASSESSMENT

- 6.1 A detailed project risk register is maintained and pro-actively managed by the project team. The key high-level risks and mitigation arising from this report are set out below.
- 6.2 There is a risk of a third party challenge to the appointment of the operator. This risk is assessed as low and is mitigated by the following actions:
- Professional advisers have been engaged throughout the procurement process to ensure that due process has been followed.
 - A clear and transparent audit trail has been maintained.
- 6.3 There is a risk that the appointed operator fails to achieve the Council's financial and non-financial objectives for the project. This risk is assessed as medium and is mitigated by the following actions:
- Use of a legal contract through the management agreement based on best industry standards.
 - Implementation of a comprehensive performance management framework.
 - Commitment of sufficient resources to monitor the contract and develop the partnership with the operator.
 - Operator incentivised to out-perform the business plan.
 - Satisfactory financial vetting of the operator.
- 6.4 Regular updates will be provided on the performance of the innovation centre against its key performance indicators.

7. CONCLUSION

- 7.1 The redevelopment of Ashton Old Baths is a unique, once in a generation opportunity that brings an iconic Greater Manchester heritage asset in Tameside back into sustainable use. It will also act as a catalyst for the completion of the regeneration of St Petersfield resulting in significant economic, social and environmental benefits and increased growth.
- 7.2 Completion of the final fit out works and appointment of an operator enables the Council to operationalise the innovation centre and achieve these benefits.

8. RECOMMENDATIONS

- 8.1 As set out at the front of the report.