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| **Report to:** | **EXECUTIVE CABINET** |
| **Date:** | 16 December 2020 |
| **Executive Member:** | Cllr Oliver Ryan, Executive Member for Finance and Economic Growth |
| **Reporting Officer:** | Jayne Traverse, Director of Growth<br>Paul Batho, Interim Head of Investment and Development |
| **Subject:** | **ASHTON OLD BATHS – OPERATION AND MAINTENANCE** |
| **Report Summary:** | This report sets out future arrangements for Ashton Old Baths operation and ongoing maintenance. Ashton Old Baths is an iconic Greater Manchester landmark building and a key asset in the delivery of the Tameside Inclusive Growth Strategy's digital ambitions. |
| **Recommendations:** | That Executive Cabinet be recommended to:<br>(i) Authorise the submission of a change request to the ERDF Monitoring Body to evolve the current gateway criteria for new businesses applying for accommodation to support increased occupancy.<br>(ii) Extend the existing Management Agreement to one-plus, one-plus year with Oxford Innovation.<br>(iii) authorise modification to the existing contract with Oxford Innovation to incorporate the new Annexe from February 2021.<br>(iv) Subject to recommendations (ii) and (iii), approve the procurement and enter into a new management contract on expiry of the existing contract after seven years (2024) with a further report to Cabinet in 2022/23 prior to procurement.<br>(v) Approve the estimated net revenue budget of £ 36k for Ashton Old Baths as stated in table 1 for the period 2021/22 to 2023/24. This sum will be financed from the existing Growth revenue budget over this period. |
| **Corporate Plan:** | Ashton Old Baths contributes to the work, skills and enterprise priority. |
| **Policy Implications:** | The draft Inclusive Growth Strategy 2021-26 currently out for public consultation includes key aims focusing on increasing Tameside's digital infrastructure and also enabling an inclusive digital economy for people and businesses. Ashton Old Baths is a cornerstone of these aims. |
| **Financial Implications:**<br>**(Authorised by the statutory Section 151 Officer & Chief Finance Officer)** | The report provides details of the actual and estimated cost implications of the Ashton Old Baths initiative since commencement and to the end of the proposed contract extension period to 31 March 2024 (table 1 refers). The management agreement cost liability to the Council has been financed from Growth directorate revenue budget since commencement. |

The initiative has a forecast management agreement deficit of £ 70k in 2020/21. This will again be resourced from the Growth directorate revenue budget and will be incorporated into the month 9 and subsequent financial monitoring reports for 2020/21.

The initiative for the period 2021/22 and proposed two year extension to 2023/24 has a forecast estimated net management fee cost liability of £ 36k which will again be resourced from the revenue budget for the Growth directorate. This will require profiling as a cost liability of £ 66k in 2021/22, with income due of £ 12k in 2022/23 and £ 18k in 2023/24 as referenced in table 1.

In addition to the liabilities in table 1, the Growth directorate is also forecast to have financed £ 139k of repairs and maintenance expenditure on the building from date of commencement and to the 31 March 2021. The Council is contractually obliged to pay the costs incurred on the maintenance fabric of the building as it is obliged to with its managed estate. Any further building repair and maintenance costs for years 5 to 7 will be financed from the existing buildings repairs revenue budget of £ 600k within the Corporate Landlord service of the Growth directorate. Where applicable, these costs may also be financed from the Growth directorate capital programme statutory compliance budget. There is a current earmarked balance of £ 557k. Any liabilities allocated to this budget will be subject to Member approval via the existing capital programme monitoring arrangements.

It is essential robust monitoring arrangements are implemented for the current and proposed contract extension period to ensure that the business plan and financial forecasts contained within of Oxford Innovation are reconciled to the Council's accounts on a regular basis due to the significant discrepancies stated within tables 1. In addition Oxford Innovation are to provide audited accounts to the Council for each financial year to date and each year thereafter for the extension period.

Members should be satisfied that continuation and extension of this contract will deliver value for money for the Council when considering prior year performance. Members should also note that future forecasts are at risk if the forecast levels of revenue are not realised by Oxford Innovation, there are further businesses that go into liquidation and have outstanding arrears that the Council will be required to finance and any additional building repair and maintenance costs that will be required once the condition survey is completed.

IT has annual revenue budget of £74k to cover the costs of the maintenance of the Data Centre. This budget is expected to cover maintenance, security, power and other associated costs directly related to the operation of the Data Centre (not the wider building within which the Data Centre is located). It is anticipated that costs will be lower in the earlier years, and increase over the period of the contract as the Data Centre ages and requires more maintenance.

The data centre offers potential commercial opportunities to generate additional income for the Council once operational. At present there are no assumptions included within the Council's medium term financial plan on additional revenue that may be realised.

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

Members will note that the driver for reviewing the approach to the Operation and Maintenance of Ashton Old Baths is due to the financial issues are set out in the financial implications and the main body of the report.

With regards to the expansion of the current gateway criteria the project is bound by the current definition as set out in the main body of the report.

It would not be advisable to expand the criteria at risk as the funding provided to the Council could be clawed back as a result. However there is a provision to seek a variation to the current criteria and it would be advisable to follow this route.

Whilst the consent cannot be guaranteed it is anticipated that it will be looked on favourable if the project explains that the expansion is merely to include other SME Businesses which support the creative, media and digital sectors.

In relation to contractual matters STAR has provided advice which is set out in the main body of the report. As the approach being advised by STAR requires a notice being published in OJEU any potential challenge should be quickly identified.

**Risk Management:**

The report sets out key risks in Section 7 for the continued operation of Ashton Old Baths.

**Background Information:**

The background papers relating to this report can be inspected by contacting

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## 1. INTRODUCTION

1.1 Ashton Old Baths (AOB) plays a prominent role in the St Petersfield development in Ashton town centre and is also plays an important part of The Inclusive Growth Strategy for Tameside which sets out plans for the Eastern Growth Corridor taking in Ashton St Petersfield, Ashton Moss and Ashton town centre to deliver high innovation growth.

1.2 The St Petersfield development is a key gateway into Ashton town centre and has created a high quality commercial-led mixed use environment, providing Ashton with a significant town centre business area. St. Petersfield is Tameside's primary office location, offering the largest concentration of Grade A office space in the borough, with the broadest range of floorplates. The initial development phases have delivered 32,359 square metres of floor space and an estimated £44m of private sector investment has been leveraged into the scheme. St Petersfield has diversified and improved the office offering of the borough and successfully secured the presence of Purple Wi-fi, Pearsons Solicitors, the Pennine Care NHS Foundation Trust and further investment from Network Connect. £127,000 of Evergreen Funding has been secured that will enable the development of a development prospectus and feasibility works study to enable the next phases of St Petersfield to progress. A paper is in preparation that will seek authority for the procurement of a multi-disciplinary team to prepare an updated masterplan for St Petersfield together with more detailed proposals for specific development plots. Forecasts indicate that St Petersfield is capable of providing up to 2500 new jobs by 2024 whilst creating temporary construction employment, safeguarding existing jobs and bringing Brownfield land back into use. Up to £2.775m of additional NNDR income is forecast together with additional commercial income from new businesses.

1.3 Ashton Old Baths is an award winning iconic Greater Manchester landmark building and is identified in the Tameside Inclusive Growth Strategy as a key asset for future growth. Since 2016 the main refurbishment and renovation works to the main pool hall have 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. These works together with the final fit out turned a derelict grade II* listed building into an impressive business incubation hub, integrated within the St Petersfield urban business quarter and saw the building come back into Council ownership. The building now features in documents such as the GM Digital Strategy, and Manchester Inward Development Agency's efforts to promote Greater Manchester as a leading digital city.

1.4 The success of AOB since opening in 2017 include:

- Peak of 81.5 Full Time Equivalent jobs created (May 2019) and currently 40 jobs.
- Average of 54 Full Time Equivalent jobs per year
- Occupancy at or above budgeted levels for majority of months since 2017
- 39 companies supported through licenses since 2017
- Gross Value Added contributions of:
  - £2,486,075 Gross Value Added to Tameside economy in 2017/18
  - £4,168,850 Gross Value Added to Tameside economy in 2018/19
  - £3,191,270 Gross Value Added to Tameside economy in 2019/20
  - £2,182,750 Gross Value Added to Tameside economy in 2020/21
- Spend of £41,933 by Oxford Innovation on Tameside suppliers since 2017
- Annual business rates payable to the Council of :
  - 2017/18 : £ 51,891
  - 2018/19 : £ 47,707
  - 2019/20 : £ 56,913
  - 2020/21 : £ 60,977 (forecast)

1.5 On 31 August 2016 a report to the Executive Cabinet approved the proposals to fund the final fit out and appoint Oxford Innovation as the operator and business support organisation for the centre acting as the Council's agent. Oxford Innovation are now in their fourth year of managing AOB. The AOB Innovation Centre opened in May 2017 and has generated significant presence within the digital and creative media sectors in Greater Manchester. Features have appeared in the August 2018 edition of the North West Business Insider and Issue 3 of the Greater Manchester Chamber of Commerce magazine plus a number of newspaper articles.

1.6 On 12 December 2018 a report to the Executive Cabinet approved proposals for AOB next phase (Annexe and Data Centre). As at October 2020 the works to refurbish the Annexe into an expansion of the business centre and to create a Data Centre were on site with estimated completion of mid-February 2021. It should be noted that in 2016 the Annexe was expected to be completed by 2018 and this informed strategic thinking on AOB and its medium term income projections.

1.7 In this report the current floor space, open since 2017 is referred to as 'existing', the additional floor space realised from the opening of the Annexe in February 2021 is referred to as 'new'.

1.8 The need for this report has come about due to several elements of the project including:-

- Impact of Covid-19 in 2020, economic recovery and long term plan for profitability including evolving the Gateway criteria to offset the impact of Covid-19.
- Extending the existing management contract at the same time as modifying to include the new Annexe (prior to February 2021 completion of Annexe building work)
- Financial, due to the actual and forecast trading position as detailed in table 1. .
- The building fabric and maintenance is being moved to Corporate Landlord in line with the rest of the managed estate.
- Evolving the Gateway criteria and types of businesses in occupancy (COVID19 impact on occupancy)

1.9 The Tameside Inclusive Growth Strategy 2021-26 (draft under consultation) sets out the following aims which the continued future successful operation of AOB fundamentally contributes to along with being a significant component of the planned innovation zone named the Eastern Growth Corridor:

- Aim 1 - Increase number of high skill, high paying jobs in the borough
- Aim 2 - Increase skills across our whole population
- Aim 3 - Increase productivity across our whole economy
- Aim 4 Encourage, start and grow new businesses and social enterprises
- Aim 7 - Make our Town Centres hubs for living, culture, employment and services
- Aim 10 – Deliver the digital and transport infrastructure needed to grow the economy
- Aim 11 - Enable and inclusive digital and create economy for people and business

1.10 The Digital Creative and Tech sector has been identified by the UK Industrial Strategy and Greater Manchester Local Industrial strategy as one of the country and regions key economic growth opportunities. It is recognised in the Emerging Tameside Inclusive Growth Sector as an opportunity for Tameside. The sector's cluster in Greater Manchester is the second largest in the country, employing 63,000 and growing by almost 30% between 2013 and 2018. This growth is creating high pay, high skill, knowledge intensive jobs. Tameside lags behind the city region in terms of employment and growth, with only 1,400 jobs, despite rapid growth in the creative area between 2013 and 2018. Ashton Old Baths, alongside the borough's dark fibre infrastructure, are Tameside's key strategic investments to help us scale up the presence of the sector in the borough. It is now a recognised as an asset for the city region, pictured in the GM Digital Strategy, and included in the promotional video to sell GM as an investment location for the sector. The Data Centre being delivered further strengthens the borough's infrastructure, and provides new opportunities to attract and grow start-up and scale-up businesses to the borough.

1.11 Manchester has established its reputation as the fastest growing tech city within Europe with venture capital reaching £687m in 2019 up from £199m in 2018. Digital Minister Caroline Dinenage recently said: "*Manchester's tech star has been rising for the past few years and the recent success…has helped to cement the city's reputation as an industry hub to rival the capital*". This provides a good indication of future potential growth for the tech/digital/creative industry in Manchester and Greater Manchester more widely.

## 2. OPERATION OF AOB SINCE OPENING

2.1 In August 2016 it was estimated that over the business plan period of 5 years, the centre was expected to generate a surplus. The centre has experienced high occupancy until the impact of Covid-19. Plans for the future including income from the new annexe space and the canopy for the event space put the centre in a positive position for future years. Once fully occupied, the centre was projected to generate a net surplus of £75k per annum for the Council by year 4. Table 1 provides details of the original business plan projections for the centre compared to the actual trading position via the annual accounts provided by Oxford Innovation and forecast for the proposed contract extension. In addition a comparison to the actual liabilities financed by the Council are also presented. These liabilities have been financed from the Growth directorate revenue budget and it is proposed that the net forecast cumulative liability of £ 36k for years 5 to 7 is financed from the existing Growth directorate revenue budget over this period. It is important to note that any savings and revenue income generated from the Data Centre are not included in table 1.

**Table 1**

| Year | Financial Year | Business Plan Projection | Oxford Innovation Actual | Council Accounts - Management Agreement |
|---|---|---|---|---|
| | | **( ) = Deficit** | **( ) = Deficit** | **( ) = Deficit** |
| | | **£** | **£** | **£** |
| 0 | 2016/17 | (82,434) | 0 | (20,000) |
| 1 | 2017/18 | (11,681) | (54,800) | (54,178) |
| 2 | 2018/19 | 72,312 | (6,605) | (126,687) |
| 3 | 2019/20 | 73,003 | (31,293) | (50,921) |
| 4 - Forecast | 2020/21 | 74,696 | (69,657) | (69,657) |
| 5 - Forecast | 2021/22 | (65,583) | (65,583) | (65,583) |
| 6 - Forecast | 2022/23 | 11,890 | 11,890 | 11,890 |
| 7 - Forecast | 2023/24 | 17,757 | 17,757 | 17,757 |
| | **Total** | **89,960** | **(198,291)** | **(357,379)** |

2.2 In addition to the liabilities in table 1, the Growth directorate is also forecast to have financed £ 139k of repairs and maintenance expenditure on the building from date of commencement and to the 31 March 2021. Repairs and maintenance costs incurred to the fabric of the building include response to repeated vandalism and the repair of the roof as is general with the Council's other historic and prestigious buildings within the managed estate. The Council is contractually obliged to pay the costs incurred on the maintenance fabric of the building. Any further building repair and maintenance costs for years 5 to 7 will be financed from the existing buildings repairs revenue budget of £ 600k within the Corporate Landlord service of the Growth directorate. Where applicable, these costs may also be financed from the Growth directorate capital programme statutory compliance budget. There is a current earmarked balance of £ 557k. Any liabilities allocated to this budget will be subject to Member approval via the existing capital programme monitoring arrangements.

2.3 The management agreement sets out the operator (OI) is entitled to receive a management fee, which is based on the floor area of the centre and 4.5% of turnover.

2.4 The economic impacts associated with this scheme were calculated in accordance with best practice guidance. In December 2018 the operational economic outputs from the Ashton Old Baths project were expected to be:

| **Table 2 2018 Economic Business Case Projections** | | | | |
|---|---|---|---|---|
| **Economic Impact business case December 2018** | **Area (m2)** | **Estimated Jobs created** | **Estimated GVA Per Annum** | **Business Rates Per Annum** |
| New Office Space (Annexe) | 677 | 73 | £4,044,200 | £45,922 |
| Existing Office Space | 765 | 83 | £4,598,200 | £51,891 |
| **Total** | **1442** | **156** | **£8,642,400** | **£97,813** |

2.5 GVA is a productivity measure. Measuring productivity helps define both the scope for raising living standards and the competitiveness of an economy. The new 677 sq m office floor space is estimated to create 73 direct permanent digital sector jobs (9.29 sq m/ employee of Gross Internal Area). The employee value for the digital sector in Tameside per annum is based on Oxford Economics Greater Manchester Forecasting model (2017) figures for Tameside. The value per employee per annum is therefore assumed at £55,400. This figure was then multiplied by the estimated direct new jobs created which produced estimated GVA per annum for the new office space of £4,044,200.

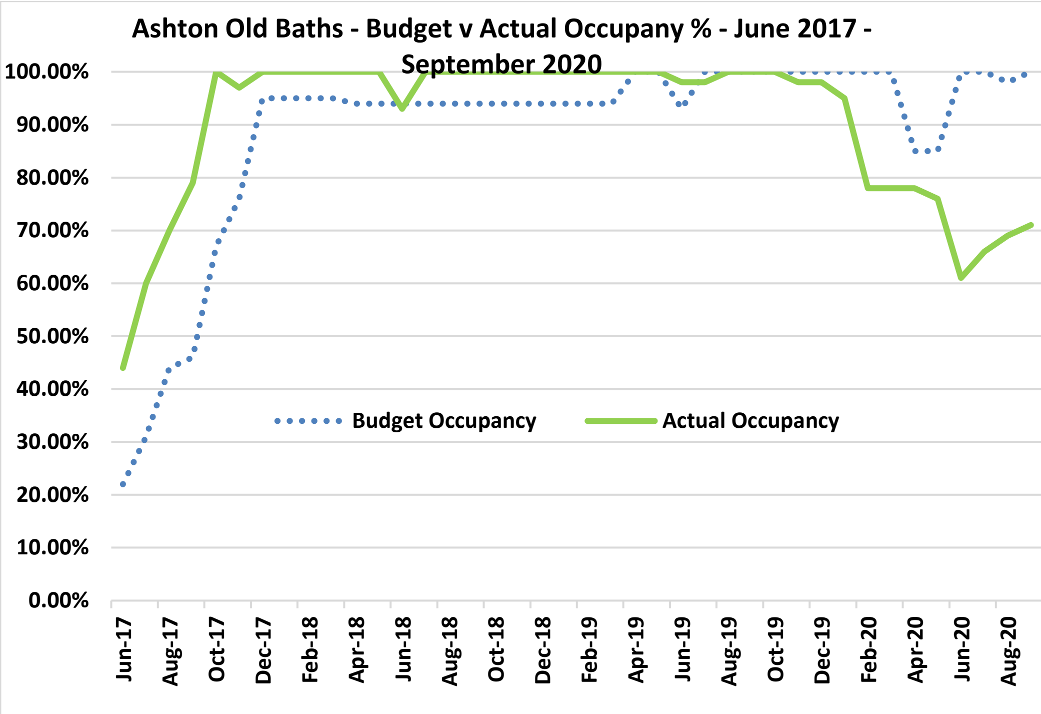
2.6 The new office floor space was expected to generate extra business rates of circa £45,922 per annum from the AOB project. This figure was based on actuals from 2017/18 from Oxford Innovation who manage the Ashton Old Baths Phase 1. This would be in addition to the Business Rate contribution between 2017 and 2020 which on average has been £52,170 per annum.

2.7 Table 1 shows a forecast cumulative overall expenditure above that budgeted by Oxford Innovation over the lifetime of the project to 31 March 2024. This is due to:

- Impact of Covid-1919 on occupancy since March 2020.
- The top floor event space is not able to be used for most of the year due to it being too cold, resulting in this planned source of revenue being severally restricted to date, this will be resolved for the financial year 2021/22. The canopy for the top floor event space has been included in the new Annexe phase and is expected to be in place before March 2021.
- Defined Gateway criteria as to the type of companies that were permitted to occupy a unit in the centre under the terms of the ERDF funding, also restricting revenue opportunities especially during the Covid-19 pandemic.

2.8 AOB is Council asset and statutory responsibility for the safe maintenance and repair for the entirety of the buildings structure currently sits with Corporate Facilities Management. As a Council owned asset, the building will be formally included into the Council's Corporate Landlord portfolio with corresponding budget allocation for future repairs and maintenance which will be ascertained via information from a full building condition survey. In addition the new Data Centre which operates as a 'building within a building' will have additional specialist requirements which are planning to be addressed by way of a separate Management and Facilities Management Contract tendered and managed by ICT Services. This new management contract will be funded by ICT service. Co-ordination of the services required by the Data Centre, the business units and the shared spaces is currently being reviewed and discussed by IT and Estates.

2.9 Occupational levels within AOB have been above those budgeted until November 2019 which has driven income demonstrating the success of the centre in the context of demand. Since the start of 2020 occupancy has fallen due to tenancies ending and the impact of COVID19. The graph below highlights that AOB has been a commercially attractive space for businesses locating in Tameside and has good prospects for occupancy in the medium to long term (post COVID19/recession).




2.10 The new internal canopy over the event space area is incorporated into the works for the refurbishment of the Annexe. This will support OI to generate future income that has not been possible to date having an impact on overall profitability. The new internal canopy is expected to be in place in 2021/22 with plans to install before March 2021 subject to delivery and installation variables. This will support income generation as the event space is marketed.

2.11 Since mid-April 2020 there have been 71 enquiries of which only 16 were Gateway compliant (digital and creative). The current types of businesses that are enquiring about space are from non-gateway companies such as Legal Services, Recruitment, Healthcare, Caring, Housing Association, Interior Design, Doctors, Accountants, Market Research, Call Centres, Education, and Life Coaches. The majority of enquiries coming from professional companies. These companies are a mix of start-ups and SME's. An evolution of the Gateway criteria in line with the original purpose of the project would support occupancy and income levels.

2.12 One company has gone into liquidation leaving a bad debt of £ 9k as a result of economic uncertainty caused by Brexit to the international markets they operated in. This cost will have to be financed by the Council under the terms of the management agreement.

## 3 FUTURE MANAGEMENT (LICENSES/ROLES/CONTRACT EXTENSION AND VARIATION)

3.1 Licences are issued by Oxford Innovation on behalf of TMBC, under the terms of the existing Management Agreement. The licences will be reviewed as part of the monthly meetings and monitored as part of the review process.

3.2 The table below sets out management arrangements for AOB:

| TABLE 3 - ROLE | RESPONSIBLE |
|---|---|
| **Repair and maintenance of building shell and drainage infrastructure** | Corporate Landlord / Corporate Facilities Management |
| **Maintenance of internal business unit and annex (excluding data centre) and provision of full facilities management service. Including statutory testing regime.** | Oxford Innovation via management contract associated performance management by Corporate Facilities Management and Estates |
| **Maintenance of data centre demise including full relevant statutory testing regime** | 3rd party Facilities Management provider via ICT Services |
| **Business Engagement/ Tenant Liaison** | Employment and Skills & Oxford Innovations via Management Contract |
| **Licences** | Estates Service and Oxford Innovations via Management Contract |
| **Client side monitoring of Management Contract Operation and Performance** | Estates Service and Finance Service |
| **Management of the operational contract for the Data Centre** | Data Centre Management Contract (Procurement currently underway) |

3.3 Tameside Council has a management agreement with OI. The agreement is currently in its 4th year and is in the form of a management agreement rather than a lease. The Management Agreement is dated 28th February 2017, for a 5 year term, with the option for two +1 year extensions at TMBC's discretion.

3.4 This report proposes that the +1, +1 year extensions to the management agreement are enacted and that a modification to the existing contract also takes place to enable OI to provide overall management arrangements to the existing and new Annexe space with the exception of the Data Centre which will be managed by an external provider (currently being procured with budget identified for this management contract).

- It is proposed that the extended contract is triggered (in conjunction with the modification) to become live in February 2022 for +1, +1 year until February 2024
- It is proposed that the modified agreement with OI begins in February 2021 and ends in February 2024 when the 7 year contract (5 +1 +1 year) contract finishes.
- It is proposed that a procurement process takes place in early 2023 for the management of AOB to test the market and provide best value.

3.5 The reasons for extending and modifying the management agreement are pragmatic, the Annexe needs to be brought under effective management from completion and business continuity is required especially in the Covid-19 operating environment. The modification is needed for economic and technical reasons and would cause significant inconvenience and substantial duplication of costs for the Council if not managed by one provider with operational experience of the building and local market.

3.6 Following legal advice from STAR the extension can take place under Public Contracts Regulation 72 (1) (a) as it was specifically stipulated in the original contract.

3.7 Following legal advice from STAR the modification to the contract can take place under Public Contracts 2015 Regulation 72 (1) (b). This modification is sought due the increase in price of this variation (plus any earlier variations) not exceeding 50% (actual variation in price of 19%) of the value of the original contract (subject to indexation) and the variation being required to accommodate additional works, services or supplies by the original contractor, which have become necessary but were not included in the initial procurement, where a change of contractor either:

- Cannot be made for economic or technical reasons; or
- Would cause significant inconvenience and substantial duplication of costs for the contracting authority.

3.8 The justification for a modification is met based on the following evidence relating to economic reasons:

- The Annexe will nearly double the space that OI would be managing, their quoted increase to their management fee related to operating the new space is only £66,665, 43% of their £152,421 fee for the management of the existing space over the course of the 3 years. OI's costs are not doubled due to access to economies of scale, their ability to extend existing structures, systems and insurances.
- Any new operator would incur costs as part of their "standing up" period which OI have already incurred, and would therefore be duplicated should a new operator be appointed, these are set out below. Any new operator would be marketing office space to the same potential customers as OI which would lead to potential economic/pricing competition impacts.
    - Key Suiting, staff recruitment and training costs (Estimated at £3.5k per post)
    - IT such as PCs, CRM, Tablets and Printers (Est. @ 1.5k per user)
    - Marketing costs such as branding, website build and sales collateral (Est. £14k)
    - Fire alarm, intruder alarm and electricity monitoring systems creating financial costs to ensure technical interoperability issues are resolved
    - Staff salaries and on costs (est. £50k – 75k)
    - CRM and Accountancy System Licenses (est. £750 per license)
    - Quality management system (dependent on appointed supplier)
    - ISO accreditation costs i.e. 9001 and 14001 (dependent on appointed supplier)
    - Insurances
    - Economies of scale on FM contracts and supplies, utilities.

3.9 OI have indicated that they are open to a modification of the contract to extend their management contract to the new Annexe. The initial 2016 medium term plan for AOB was predicated on the Annexe being operational by 2018 and therefore OI have submitted business plans previous including this eventuality. Following agreement on future plans the negotiation to this modification would be led by STAR with the support of the Growth directorate.

3.10 An alternative option that has been considered and rejected would be for the Council to extend the existing contract with OI and manage the Annexe space internally from February 2021. This option has been rejected due to its impact on business continuity in operating the centre, duplication and marketing and need for a one centre approach to tenant liaison, building management and licenses.

3.11 The latest business plan for OI for years 5 to 7 (forecasts in table1) anticipates that the canopy is in operation, the ongoing impact of recession and the evolution of the Gateway Criteria.

## 4 PROPOSED EVOLUTION OF GATEWAY CRITERIA

4.1 The current Gateway Criteria is that all potential occupants must be a '*SME Businesses within the creative, media and digital sectors'*. This sector based approach was intended to meet the strategic aim of developing a digital sector cluster in Tameside. This criteria is established from the European Regional Development Fund (ERDF) Funding Agreement November 2013 and Heritage Lottery Fund Grant Agreements.

4.2 The economic impact of Brexit uncertainty, followed by the unprecedented drop in economic activity caused by Covid-19 lockdown and subsequent recession has seen the centre experience its first major decline in occupancy, and demand from businesses who meet the gateway criteria. However, there has been continued interest from business who meet elements of the gateway criteria.

4.3 Following legal advice there is sufficient comfort in the Grant Funding Agreement to suggest that an expansion of use would be acceptable, provided it targets existing and growing SMEs in priority sectors. Tameside Council will formally request this change. This will be submitted following Cabinet's consideration of this report.

4.4 The options for Gateway criteria are set out below with the preferred option being an evolution to support the future occupancy, start-ups impacted by COVID in the short term and financial performance of AOB.

- **Option 1**
  Maintain the current gateway criteria, accepting the loss of rental income in the short term, keeping space available for Digital, Media and Creative companies who may be looking to find space away from the high cost Manchester city centre office market. This would allow time to potentially exploit the marketing benefits of the data centre being installed.

- **Option 2**
  Remove all gateway criteria for moving into the centre to re-fill the office space as expediently as possible, maximising rental income, but compromising the strategic aim of AOB acting as an innovation centre, growing a new sector in the borough and increasing the diversity of Tameside's Economy. This would generate income to support the centre, and support future strategic development aims of the centre in phase 2. Market analysis provided by Oxford Innovation indicates the centre would be 100% occupied with no gateway criteria.

- **Option 3 (Preferred Option)**
  Evolve the gateway criteria by enabling companies that support digital, creative and media companies to start and grow. It is proposed to maintain a requirement for businesses to be early in their lifecycle and to meet a test that that keeps to the spirit of the type of business to be admitted to the centre in the initial agreement and ensures an intention to grow. The test will require any applicants to demonstrate that they meet at least two of the following
  i) The intention and commitment to grow turnover and / or employment levels in the next 12 months, with a business plan to support this - (for example, a sole trader start-up graphic designer would be asked to commit to increasing their turnover by at least 20%, and show they have a business plan to do so, whilst a more established growth business could commit to creating several new FTE roles, and to demonstrate their route to funding these new positions).
  ii) That the nature of their business is knowledge intensive or that they are innovative in the way that they deliver their services – (for example a market research company could be using or developing a machine learning platform to perform in depth data analysis, or an architecture firm could be developing Virtual Reality or Augmented Reality visualisations of their designs to allow clients and contractors to "visit" their buildings before construction begins).
  iii) That they can help in attracting more knowledge intensive or digital creative and tech sector businesses to AOB or provide support to the digital, creative and tech sector businesses in AOB and across the borough – (for example an

accountancy firm may specialise in supporting clients who's business plan involves venture capital investment, or in accessing R&D tax credits, or a legal firm may specialise in Intellectual Property protection or mergers and acquisitions to support growth through a business acquisition strategy).

4.5 Market analysis provided by Oxford Innovation indicates that based on previous enquiries from April 2019 to date 23 companies from 77 enquiries would have met the evolved Gateway criteria (30%). This would have ensured full occupancy of AOB during the last 12 months and provides an indication of the benefits in evolving the criteria.

4.6 The recommendation is to change the Gateway Criteria as per Option 3 and for authority to be given to delegated officers to workup the details of widening the Gateway Criteria. Once completed implement these changes as soon as possible to allow income to be increased by allowing a wider range of companies to occupy AOB business centre, thereby helping local business and the economy in the post Covid-19 recovery.

## 5. ANNEXE AND DATA CENTRE OPENING AND MANAGEMENT

5.1 The works being undertaken to the internal listed building fabric involve sensitive heritage repair, reinstatement and restoration of original built fabric to help partly restore it to its former glory. Where materials have deteriorated beyond repair, replacement materials to match the existing are being used as part of the sympathetic refurbishment allowing the continued maintenance of the building and securing its long-term future.

5.2 The scheme addresses the much-needed longer-term conservation and re-use of this eastern side/Annex part of the baths. The Council is doing this with a sympathetic discrete new office and data centre use that is compatible with the significance of the building. The scheme has been designed by MCAU Architects and delivered by Casey Group along with Sudlows a specialist Data Centre Designers and installation contractor. The scheme will be completed on 12 February 2021.

5.3 The business case and capital funding for the new Data Centre were agreed by Executive Cabinet in December 2017. A 5 + 5 year contract for day-to-day management and maintenance of the facility and associated equipment is currently underway with support from STAR – budget for which is already in place. There is £74k per annum in the IT services revenue budget to cover the costs of the maintenance of the Data Centre. This budget is expected to cover maintenance, security, power and other associated costs directly related to the operation of the Data Centre (not the wider building within which the Data Centre is located). It is anticipated that costs will be lower in the earlier years, and increase over the period of the contract as the Data Centre ages and requires more maintenance.

5.4 Whilst the new Data Centre was designed to be independent and free standing from the rest of AOB and the Annexe, and operationally they will be run as separate facilities, there will be some linkages for example fire and security alarms.

5.5 In total the Annexe will provide an additional 677 sqm (7,287 sq ft) new office space to the existing 765 sqm within the main pool hall area. Each floor has the following key elements:

- Ground Floor: Approximate gross internal floor area of 289m², consolidates the main entrance to the building which incorporates a new reception office, an integrated coffee bar area supporting the Innovation centre, co-working space and the new Data Centre.
- First Floor: Approximate gross internal floor area of 388m² made up of 3 new offices, co-working space and meeting rooms. Main Pool Hall: The relocation of co-working space allows for new office space and flexible meetings rooms to be created on the

ground floor level through new partitions and modification of external glazed screens to increases the financial viability of the innovation centre.
- External: The external works involve repairs to existing elevations, external lighting and signage and has secured planning approval.

5.6 It is proposed that subject to a decision for extension and modification a new Management Agreement/Specification is prepared to consolidate all elements of the AOB to work in unison with the Data Centre Management Agreement.

## 6. SUMMARY OF PROPOSALS FOR THE FUTURE OF AOB

6.1 This section of the report sets out the future for AOB including developments to enhance the operational income of the centre.

6.2 By providing a roof to the top floor event space we will ensure that the area can be let out throughout the year from March 2021 (subject to demand issues due to Covid-19). The planned enhancement of the top floor event space needs to be a focus of future plans for profitability in a post Covid-19 environment.

6.3 The additional floor space available for income significantly increases the additional floor space adding 677 sqm new office space to the existing 765sqm provides a significant opportunity. It should be noted that although the floor space almost doubles the projected expenditure for AOB does not double which should have an impact on future profit and loss should budgeted occupancy levels be realised.

6.4 Covid-19 has had a significant negative impact on the economy and has also changed working patterns. The future impact of Covid-19 is unknown due to the timescales for creation and success of a vaccine. AOB has not been immune to the impact of Covid-19 and whereas the plans to bring AOB into profitability have been set out in this report the continued impact of a COVID19 driven recession will continue to have an impact.

## 7. RISKS

7.1 The table below sets out the risks relating to the issues set out in this report.

| **Table 7 Risks** | | | |
|---|---|---|---|
| **RISK** | **POTENTIAL IMPACT** | **RATING HIGH/ MEDUIM/ LOW** | **MITIGATION** |
| 1. Business plan projections are not met. | Council liable for future losses which could be realised due to lower than expected income due to COVID19 driven recession, event space not usable, leading to lower than expected occupancy levels. | High | • Opening of the Annex and Data Centre enhances the marketability of AOB.<br>• Top deck event space will have a canopy installed enabling more income to be generated.<br>• Effective Council project management supports the effective management of issues relating to expenditure and income.<br>• Establishment of a budget for Corporate Landlord will enable a sustainable approach to managing ongoing building costs. |

| | | | |
|---|---|---|---|
| | | | • Evolving the Gateway Criteria supports increased occupancy and income generation. |
| 2. Budget for Corporate Landlord costs is underestimated | The Council is liable for costs to maintain the building. | High | • Budget identified and takes into account the costs from opening in 2017.<br>• A Victorian building such as AOB will have maintenance costs over its life cycle. |
| 3. Management Agreement for Annexe not being in place for February 2021 completion date. | The Council would be required to manage the space resulting in three different management organisations in the building concurrently (the Council, Oxford Innovation, Data Centre procured provider). | Medium | • Advice has been taken from STAR procurement and a Modification to the existing contract can be undertaken in time for February 2021. |

**Table 7 Risks**

| RISK | IMPACT | RATING | MITIGATION |
|---|---|---|---|
| 1. Business plan projections are not met. | Council liable for future losses which could be realised due to lower than expected income due to COVID19 driven recession, event space not usable, leading to lower than expected occupancy levels. | High | • Opening of the Annex and Data Centre enhances the marketability of AOB.<br>• Top deck event space will have a canopy installed enabling more income to be generated.<br>• Effective Council project management supports the management of issues relating to expenditure and income.<br>• Establishment of a budget for Corporate Landlord will enable a sustainable approach to ongoing building costs.<br>• Evolving the Gateway Criteria supports increased occupancy and income. |
| 2. Corporate Landlord costs underestimated | The Council is liable for costs to maintain the building. | High | • Condition survey to be completed and maintenance managed. |
| 3. Management Agreement for Annexe not being in place for February 2021 completion date. | The Council would be required to manage the space resulting in three different management organisations in the building concurrently (the | Medium | • Advice has been taken from STAR procurement and a Modification to the existing contract can be undertaken in time for February 2021. |

| | | | |
|---|---|---|---|
| | Council, OI, Data Centre provider). | | |

## 8. CONCLUSIONS

8.1 Estates acting as lead department for the management of AOB with inputs from Legal, Finance, Growth and Asset Management with reports to the Director of Growth.

8.2 Oxford Innovation's performance is monitored a monthly basis to review delivery and initially there will need to be a re-mobilisation process to set up the new management structures and systems and to vary the contract to include the new Annexe. This will also involve IT and the commissioning of the new IT facilities.

8.3 Following a decision on when to retender (proposed to be 2022/2023) the management agreement for AOB and a procurement project team will be assembled for this purpose to action the decision over when to go to market, complete the required governance, execute a procurement and evaluation process, award the contract and mobilise the new contract.

## 9. RECOMMENDATIONS

9.1 As set out on the front sheet of the report.