

**Officer Delegated Decision, 18 October 2017**

**Report title:** Further match funding for LJ Works affordable workspace project

**Wards:** Coldharbour

**Portfolio:** Councillor Matthew Bennett, Cabinet Member for Planning, Regeneration and Jobs

**Report Authorised by:** Sue Foster: Strategic Director for Neighbourhoods and Growth

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**Report summary**

In April 2016 the Council was awarded £1,644,388 from the Greater London Authority's (GLA) London Regeneration Fund to deliver 1759sqm of affordable workspace in Loughborough Junction, primarily through the construction of new buildings on a Council-owned site. The Council employed an independent cost consultant to establish this initial budget. However, there have since been a number of unforeseen cost increases.

The GLA has advised that there is no additional grant available. As per the funding agreement, the Council are therefore required to deliver the agreed outputs of the project, primarily the set amount of employment floor space.

On 25 August 2017, the Cabinet Member for Planning Regeneration and Jobs approved a decision to secure an additional £517,270 of funding for the LJ Works project. £136,770 of this was capital funding to cover predicted cost increases in relation to meeting the Council's obligations to the GLA, with the remainder being used to expand the project's original scope. The £136,770 figure was an estimate, again informed by the Council's cost consultant. The budget increase was pursued on that basis in an attempt to avoid a delay in the appointment of a building contractor and to allow the progression of work relating to the other recommendations of the report, in particular providing site security, developing proposals for the food incubator and beginning feasibility work related to the building located in Wyck Gardens. However, after carrying out a competitive procurement process to secure a building contractor, the best-value tender price is in excess of the estimated construction cost. The reasons for this are discussed in paragraph 2.2 of the report.

As such, there is now a requirement for the Council to meet the remaining cost increase. This report therefore seeks an additional £417,303.90, bringing the total additional budget needed to meet the Council's obligations to the GLA £554,073.90.

If this increase is approved, the project still represents good value for money. The Council will only be contributing approximately a third of the total capital cost, but will retain ownership of the resulting asset, which will be of considerable value. Furthermore, the wider economic impacts generated by the project (calculated using methodologies from the HM Treasury's Green Book and the Homes and Communities Agency's Valuing the Benefits of Regeneration guidance) will be significant. For example, every £1 invested is likely to return approximately 2.5 times that for the local economy. The project will lead to the creation of around 94 net additional full time equivalent jobs and create a net present value (NPV) of around £18 million (GVA) over its lifespan.

The project will provide significant other benefits for one of the most deprived communities in London. As well as employment for local people and supporting the development of new businesses, it will secure the future of the Loughborough Farm community food growing project, making the project accessible to the entire community. Other potential benefits are set out in the original bid and include: temporary construction jobs; training opportunities and skills development; increased community cohesion; environmental improvements; and a catalyst for further neighbourhood renewal.

### **Finance summary**

The GLA have provided a capital grant of £1,644,388 for the LJ Works affordable workspace project.

The Council has already committed £136,770 of capital match funding in order to meet cost increases, plus £380,500 to expand the project's original scope. However, the winning (and lowest price) building contractor tender (plus contingency) requires an additional £417,303.90 of capital to deliver the minimum floor space required and meet the Council's obligations to the GLA. This report recommends that the Council fund this additional cost increase from Community Infrastructure Levy (CIL) receipts. A summary of the additional funds already agreed and the funding that is the subject of this report is included in the Finance section below (Tables 2 and 3).

This report also recommends that £49,770 of funding already agreed from capital receipts (on 25<sup>th</sup> August 2017) is instead funded from CIL receipts.

When the £554,073.90 CIL investment is added to the £1,644,388 GLA grant, the total capital expenditure for the project linked to meeting the Council's obligations to the GLA will therefore be £2,198,461.90. The £380,500 of funding linked to expanding the project's scope is not included in this figure.

The report recommendations do not have any revenue cost implications as the project is self-sustaining. The primary aim of the project is to provide affordable workspace, rather than generate a profit. That said, the latest business plan, shows a small return to the Council of £2,375/year after the first 5 years. On this basis, the revenue to the Council would be £35,625 over the 20 year lifetime of the project. It would also retain ownership of the asset.

## **Recommendations**

1. To invest a further £417,303.90 of capital funding into LJ Works to meet the Council's contractual requirements with the GLA, from the Community Infrastructure Levy.
2. That the £49,770 of capital receipts previously allocated to the project should instead be funded from the Community Infrastructure Levy receipts.

## 1. Context

1.1 In January 2016, the council received £1,644,388 funding from the GLA's London Regeneration Fund (LRF). The main purpose of the project is to build approximately 1,759sqm of affordable enterprise space in Loughborough Junction, known as "LJ Works". The project aims to:

- Help to tackle the loss of employment space in the borough;
- Combat the rising cost of workspace as a barrier to entrepreneurs starting a business, particularly for those from communities with high levels of deprivation, such as Loughborough Junction;
- Provide space for approximately 58 businesses, with a focus on start-ups and small and medium enterprises (SMEs);
- Support approximately 123 new jobs;
- Provide additional employment and training opportunities through the construction stage (estimated to be equivalent to 30 jobs for the duration of the construction);
- increased participation in, and accessibility of, the Loughborough Farm food growing project (including associated health and well-being benefits);
- provide on-site business support in association with local partners, Tree Shepherd;
- Actively pursue a programme of training and business development support in the local community;
- Provide a 'community give back' scheme whereby all tenants are required to provide benefits (e.g. volunteering, training or skills sharing) to the local community;
- Provide capacity-building (by Meanwhile Space) for the community-led steering group in preparation for the creation of a community-based management company;
- Provide increased activity on the local high street to support existing businesses in Loughborough junction;
- Raise Loughborough Junction's profile and kick-start regeneration in the area;
- Facilitate the future provision of a new route to Loughborough Junction Rail Station in line with proposals in the emerging masterplan;
- Improve community cohesion and relationships between community organisations through collaborative working;

1.2 Working with the appointed architects, community partners and community-led steering group, a planning application was submitted in February 2017 and permission was granted on 9 May 2017. Despite efforts to maximise efficiencies and reduce costs, in advance of issuing an Invitation to Tender (ITT) for a building contractor, the Council's cost consultant reported that construction costs were expected to be approximately £41,000 higher than initially estimated. In addition, securing the site would cost and estimated £1,070 and planning costs including Mayoral CIL had been excluded from the original cost plan (amounting to approximately £50,000). Furthermore, there had been a number of abnormal costs, including the need to treat Japanese Knotweed (approximately £20,000) and deal with the risk of potential unexploded ordnance.

- 1.3 In August 2017, the Cabinet Member for Planning Regeneration and Jobs approved a decision to secure additional funding to cover these projected costs. The opportunity was also taken to secure funding to expand and improve the project through additional development, increasing the specification of one of the buildings to allow the delivery of a food business incubator and conducting a feasibility study to investigate the refurbishment of a nearby council-owned structure. The recommendations of that report have now been approved.
- 1.4 This report seeks approval for a further budget increase in response to tenders received from building contractors being in excess of all previous estimates. This increased budget relates only to match funding needed to deliver the Council's contractual obligations to the GLA in respect of their £1,644,388 grant.
- 1.5 The delivery of the LJ Works will directly support the aims of the Future Lambeth: Our Borough Plan 2016-2021 in the following ways:
  - 1.5.1 Inclusive Growth: LJ Works is a significant investment that will create employment and enterprise opportunities in one of the most deprived wards in the borough. The project will support local people to start their own businesses and nurture them through professional and peer-peer support. The injection of activity and boost to the local economy will also help to support the existing town centre and kick-start regeneration in the local area.
  - 1.5.2 Reducing Inequality: As well as supporting and prioritising local people, we are also working closely with Marcus Lipton Youth Centre to ensure that the project offers as many training and employment opportunities for young people as possible. The project will also create opportunities for people of all ages to get involved with food growing to support health and well-being.
  - 1.5.3 Strong and Sustainable Neighbourhoods: There will be opportunities for all to visit and benefit from LJ Works. As well as employment and enterprise opportunities, open days and events, anyone can become a member Loughborough Farm, which will give opportunities for social interaction, access to nature and the health and wellbeing benefits that come with this and physical activity.

## **2. Proposal and Reasons**

- 2.1 All tenders from potential building contractors were returned at above the estimated construction value. The evaluation and selection of HA Marks as the preferred contractor is explained in a report accompanying a decision made on 21<sup>st</sup> August 2017 by the Cabinet Member for Planning Regeneration and Jobs. This recommendation was subject to a period of interrogation of the winning tender in order to reduce the cost of construction. This strategy was adopted as the Council and its advisors, including architects and cost consultants, had identified a number of areas that were in excess of the specifications set out in the ITT and the project requirements, but that had not been reduced sufficiently through the procurement and associated clarification process.

2.2 This period of negotiation is now complete and the offer from HA Marks has been revised to £1,648,041.25. This is still in excess of the construction budget. However, the Council's advisors are satisfied that this is a fair price based on current market conditions. After scrutiny of the received tenders, it is believed that the increase in costs are a result of the following:

- Most contractors are either very large or relatively small. This has resulted in pricing to reflect an increase in the perceived risk of the project for smaller contractors who are not used to projects of this size. Larger contractors, on the other hand, have inflated their costs to make it worth their while.
- The market is not very competitive at the moment as there is such a high demand for construction, so contractors are able to pick and choose the projects they take on and are therefore pricing less competitively.
- There has been a rise in construction costs since our previous cost estimates were carried out.

2.3 Our advisors do not believe that we would get more competitive tender prices if we were to run a further procurement exercise. Furthermore, conducting such an exercise would certainly delay the delivery of the project outputs beyond the funding agreement with the GLA, which they have already stated would not be acceptable. We are therefore in a position where we have selected a preferred contractor, but do not have a full budget in place to proceed with the development. The GLA have made it clear that no additional grant is available. Officers will periodically review this position with the GLA in case funding becomes available towards the end of the funding period.

2.4 The risk of a further increase to the construction budget is low as the proposed Design and Build contract has a fixed price (assuming no variations to the project specifications are requested by the Council) and transfers the risk of any future rise in construction cost to the building contractor.

2.5 The options considered were as follows:

*A) Do nothing option i.e. proceed with current capital funding only*

2.6 The project is currently over budget and an additional £417,303.90 is needed in order to complete the main buildings, deliver the outputs set out in the funding agreement with the GLA. If no additional funding can be secured, the Council could investigate the possibility of further reducing the floor area that we build. This would result in the site not being used to its full potential, and most importantly, would fail to deliver the outcomes set out in the Council's funding agreement with the GLA. The risk is that the GLA will withdraw the £1,644,388 grant and the site will remain derelict.

*B) Meet the Council's contractual obligations to the GLA by supplying further capital funding*

2.7 Investing an additional of £417,303.90 of capital funding (on top of the £136,770 previously committed) would allow the Council to meet our contractual obligations to the GLA. It is proposed that this would be funded from Community Infrastructure Levy (CIL) receipts. This would deliver a total of 1180sqm (GIA) of B1 employment space on the main site, as set out in the funding agreement (supporting approximately 58 businesses and 123 jobs).

- 2.8 This sum is proposed as match-funding. When added to the previously committed £136,770, this amounts to £554,073.90, providing a ratio of approximately 1:3 of Council to GLA funding. As well as bringing a previously unviable and partially derelict site into productive use, the Council would receive 25% of any surplus generated by the project. However, with the primary aim of the project being to deliver affordable workspace for local entrepreneurs, any surplus is expected to be low. The most recent draft business plan, calculates this share to be under £3,000 per year after the initial five year period, where no return is expected (due to repayment of start-up costs).
- 2.9 It is proposed that all of this investment is provided from Community Infrastructure Levy (CIL) receipts, providing social infrastructure through the provision of affordable workspace, business training and support, funding an expanded and landscaped public realm directly opposite Wyck Gardens Open Space and improving and expanding the Loughborough Farm (a community food-growing project and a valued community asset, open to all members of the public).

### 3. Finance

- 3.1 The GLA have provided a capital grant of £1,644,388 for the project as follows:

**Table 1: Original budget and spend to date**

<b>Item</b>	<b>Original budget</b>	<b>Spend to date (claimed from GLA)</b>
Project team/salaries:	£150,685	£73,451.50
Delivery of buildings on main site (planning, design and construction fees)	£1,433,703	£99,510.75
Arch Design Competition	£60,000	£0
<b>Total</b>	<b>£1,644,388</b>	<b>£172,962.25</b>

- 3.2 The Council has already committed £136,770 of capital match funding in order to meet cost increases and its contractual obligations to the GLA (see Table 2), plus some additional funds to expand the project's original scope. However, the construction value was an estimate (prepared by the project's cost consultants), prior to tenders being received from building contractors. The winning (and lowest price) tender (plus contingency) requires an additional £417,303.90 of capital to deliver the minimum floor space required. A summary of the additional funds already agreed and the funding that is the subject of this report is included below:

**Table 2: Match funding already agreed to deliver our contractual obligations to the GLA:**

<b>Purpose</b>	<b>Amount</b>	<b>Source</b>	<b>Timing of spend</b>
Match funding already agreed to meet the Council's obligations to the GLA	£135,700	£87,000 from the Community Infrastructure Levy (CIL)	Summer 2018/19

		£48,700 from capital receipts	
Site Security (prior to commencement of construction)	£1,070	Capital receipts	August-September 2017

3.3

One of the recommendations of this report is that the £49,770 of funding already agreed from capital receipts is now funded from CIL.

**Table 3: Proposed further match funding required to meet the increased construction value established through the competitive tender process:**

Purpose	Amount	Source	Timing of spend
Additional capital match funding required to meet the Council's obligations to the GLA	£315,472.38	Community Infrastructure Levy	October 2017-August 2018
Contingency (5% of construction value)	£101,831.52	Community Infrastructure Levy	October 2017-August 2018

3.4 This is a total of £417,303.90 additional match funding to that already agreed. The total project overspend is therefore £554,073.90 and the total budget to meet the contractual obligations to the GLA is therefore £2,198,461.90.

3.5 In addition to meeting our contractual obligations to the GLA, additional funding has also been agreed to expand the project scope as follows:

**Table 4: Additional funding already committed to LJ Works in order to expand the project scope:**

Purpose	Amount	Source	Timing of spend
Additional investment to better utilise our land asset by providing 100sqm of additional workspace	£172,500	capital receipts	2018/19
Support the provision of a food business incubator on the site (by increasing the specification of the building)	Up to £200,000	New Homes Bonus (NHB) funds	2018/19
Funding a feasibility study to support a point of sale for businesses accommodated on the main project site	Up to £8,000	capital reserve	2017/18

3.6 When added to the £1,644,388 GLA grant, the total current capital expenditure for the project is therefore be £2,578,961.90.

3.7 The report recommendation does not have any revenue cost implications as the project is self-sustaining. The current agreement would see 25% of profit from the project coming back to the Council, with 25% going to the operator and 50% being reinvested back in the project. The primary aim of the project is to provide affordable workspace, rather than generate a profit. That said, the latest business plan, shows a small return to the Council of £2,375/year after the first 5 years (where any surplus would be used to repay start-up costs). On this basis, the revenue to the Council would be £35,625 over the 20 year lifetime of the project.

#### **4. Legal and Democracy**

4.1 The Localism Act 2011 provides the Council with a general power of competence. This gives the Council the power to do anything an individual can do, as long as it is not specifically forbidden.

4.2 The Council must comply with its contract standing orders and procurement rules where monies are spent in accordance with the recommendations in this report, where appropriate.

4.3 Community Infrastructure Levy receipts may be spent on funding the provision, improvement, replacement, operation or maintenance of infrastructure to support the development of its area.

4.4 The Council's Constitution requires that all key decisions, decisions which involve resources between the sums of £100,000 and £500,000, and important or sensitive issues, must be published on the website for five clear days before the decision is approved by the Director or Cabinet Member concerned. Any representations received during this period must be considered by the decision-maker before the decision is taken.

#### **5. Consultation and co-production**

5.1 The project has been developed in close partnership with community organisations. Decisions about the project, including the above recommendations, are discussed with the project steering group at monthly meetings, chaired by Councillor Matt Parr (Ward Councillor). In addition to ward councillors and council officers, the steering group includes representation from:

- The Loughborough Estate Management Board (LEMB)
- The Loughborough Estate Tenants and Residents Association (LETRA)
- The Loughborough Junction Action Group (LJAG)
- The Loughborough Farm
- Marcus Lipton Youth Centre

#### **6. Risk management**

6.1 Overall, project risks remain the same and are being managed in order to keep the risks low. A project group meets monthly to review these and other risks and issues as they emerge. The recommendations of this report are designed to directly mitigate the following identified risks:

Risk: A rise in construction costs.

Response: The additional capital requested in this report is needed to mitigate a rise in predicted construction costs. The proposed Design and Build contract will transfer the risk of any future rise in construction cost to the building contractor.

Risk: Incorrect assumptions in the business plan.

Response: Maintaining the level of floor space will increase the ability of the site operator to respond to changing circumstances. The total floorspace has been increased as part of a previous decision which will mitigate this risk further.

Risk: The operator pulls out.

Response: The Council is working closely with the preferred operator in order to ensure a successful partnership. Heads of Terms on the lease have been agreed in principle.

Risk: Local benefits are not realised.

Response: The steering group meet monthly to ensure that the benefits of the scheme to the local community are maximised.

Risk: The food business incubator cannot be realised.

Response: The previous recommendation to assign NHB funds to deliver the food incubator directly mitigate this risk. The additional funds agreed in this report ensure that the budget is in place to provide a suitable building for the food incubator.

## **7. Equalities impact assessment**

7.1 An EIA relating to the project has been prepared and published alongside the Cabinet Member Decision of 08 December 2016. The EIA demonstrates that the impact on groups that may experience barriers in accessing employment, and particularly enterprise space, is either positive (BAME groups, women, people with a disability or suffering from ill health, the young or elderly and people experiencing deprivation) or neutral (any group within the gender reassignment, sexuality, religion, pregnancy and maternity, marriage and civil partnership and language categories). As part of the EIA, an Equality Action Plan has been developed containing specific actions that the Council and its partners will implement in order to maximise the benefits of the project to the protected groups. This includes identifying and addressing any unknown barriers to participation that may exist.

7.2 The EIA will be reviewed annually in order to review the impact of the equalities action plan and identify any new equality issues.

**8. Community safety**

8.1 None. Site security will remain the responsibility of the site operator.

**9. Organisational implications**

**9.1 Environmental**

None

**9.2 Staffing and accommodation**

None

**9.3 Procurement**

A building contractor has been procured to carry out the construction works as part of a separate report, subject to the agreement of a sufficient budget. This report requests that the project budget is increased to allow us to enter into contract with the preferred building contractor.

**9.4 Health**

None

**10. Timetable for implementation**

<b>Milestone</b>	<b>Timescale</b>
Start on site	Late November 2017
Completion of building	July 2018

<b>Audit Trail</b>				
<b>Consultation</b>				
<b>Name/Position</b>	<b>Lambeth directorate/department or partner</b>	<b>Date Sent</b>	<b>Date Received</b>	<b>Comments in para:</b>
Councillor Matthew Bennett	Cabinet Member for Regeneration, Jobs and Growth	19.09.17	21.09.17	throughout
Sue Foster	Strategic Director for Neighbourhoods and Growth	12.09.17	12.09.17	throughout
Amaris Wong, Group manager, finance	Corporate Resources	23.08.17	06.09.17	Section 3
Andrew Pavlou, Principal Lawyer, Governance	Corporate Resources	19.09.17	03.10.17	4.1-4.3
Henry Langford, Democratic Services	Corporate Resources	19.09.17	21.09.17	4.4

<b>Report History</b>	
<b>Original discussion with Cabinet Member</b>	24.08.17
<b>Part II Exempt from Disclosure/confidential accompanying report?</b>	No
<b>Key decision report</b>	No
<b>Date first appeared on forward plan</b>	N/A
<b>Key decision reasons</b>	N/A
<b>Background information</b>	<p>1) London Regeneration Fund Application and supplementary document: <a href="https://www.lambeth.gov.uk/housing/regeneration/loughborough-&lt;br/&gt;junction-masterplan/lj-works">https://www.lambeth.gov.uk/housing/regeneration/loughborough- junction-masterplan/lj-works</a></p> <p>2) Loughborough Junction London Regeneration Fund workspace project: Cabinet Member delegated decision report. <a href="https://moderngov.lambeth.gov.uk/ieDecisionDetails.aspx?ID=3796">https://moderngov.lambeth.gov.uk/ieDecisionDetails.aspx?ID=3796</a></p> <p>3) Environmental Impact Assessment accompanying item "2": <a href="https://moderngov.lambeth.gov.uk/documents/s85531/Part%201%20-%20Appendix%20E%20-%20EqIA%20Loughborough%20Junction%20LRF%20project.pdf">https://moderngov.lambeth.gov.uk/documents/s85531/Part%201%20-%20Appendix%20E%20-%20EqIA%20Loughborough%20Junction%20LRF%20project.pdf</a></p>

	<p>4) Securing additional benefits from the “LJ Works” affordable workspace project. Cabinet Member delegated decision report.</p> <p><a href="https://moderngov.lambeth.gov.uk/ieDecisionDetails.aspx?ID=3984">https://moderngov.lambeth.gov.uk/ieDecisionDetails.aspx?ID=3984</a></p> <p>5) Procurement of building contractor for LJ Works:</p> <p><a href="https://moderngov.lambeth.gov.uk/ieDecisionDetails.aspx?ID=3982">https://moderngov.lambeth.gov.uk/ieDecisionDetails.aspx?ID=3982</a></p>
<b>Appendices</b>	n/a

**APPROVAL BY CABINET MEMBER OR OFFICER IN ACCORDANCE WITH SCHEME OF DELEGATION**

**I confirm I have consulted Finance, Legal, Democratic Services and taken account of their advice and comments in completing the report for approval:**

**Signature:** \_\_\_\_\_ **Date:** \_\_\_\_\_

**Post:** Tom Rumble, Neighbourhood Delivery Lead, Investment and Growth, Neighbourhoods and Growth.

**I approve the above recommendations:**

**Signature:** \_\_\_\_\_ **Date:** 18 October 2017

**Post:** Sue Foster, Strategic Director, Neighbourhood and Growth

**Any declarations of interest (or exemptions granted):** None

**Any conflicts of interest:** None

**Any dispensations:** None