

Southend-on-Sea Borough Council

**Report of Deputy Chief Executive and Executive Director
(Growth & Housing)**

To

Cabinet

On

15th September 2020

**Report prepared by: Emma Cooney, Director of Regeneration
and Growth**

**Age
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Item
No.**

Forum 2

**Place Scrutiny Committee
Cabinet Member: Councillor K. Robinson
Part 1 (Public Agenda Item)**

1. Purpose of Report

The purpose of the report is to update Cabinet on the delivery of Forum 2 in the context of the economic impacts of the Covid-19 pandemic, and to seek Cabinet's agreement to the closure of the project in its current form, with the associated financial implications, as part of a joint decision with the College. The report also seeks agreement to the exploration of other routes to deliver the identified outcomes.

2. Recommendations

- 2.1 That the financial impact of the Covid-19 pandemic on project viability for Forum 2 is noted and that as a result, the project as is currently planned is brought to a conclusion;**
- 2.2 That as a result of this, the associated capital expenditure budgets and their financing are removed from the current Capital Investment Programme;**
- 2.3 That the £6m Local Growth Fund (LGF) money secured for the project is released back to South East Local Enterprise Partnership (SELEP) for re-investment across the SELEP area and the costs incurred to date (c£1.4m) are borne on a 50:50 basis by the Council General Fund and by South Essex College (the College) and that the Council's share of circa £700k is funded from the Business Transformation Reserve;**
- 2.4 That the outcomes identified for delivery through the project are noted and officers are requested to undertake an options appraisal as to how these could be still delivered in an alternative way, and that £50,000 is set aside in the Business Transformation Reserve to support this work.**

3. Background

- 3.1** The Forum development was always intended as a two phase project to deliver educational, cultural and wellbeing benefits to residents, visitors, students and businesses while adding vibrancy to the town centre. Forum 2 is a 2050 roadmap project (as set out in section 6.1), is identified in the Southend Central Area Action Plan (SCAAP) and is an anchor for Southend in the Thames Estuary Production Corridor proposition as part of the Thames Estuary. It is a project that both the Council and the College have been committed to for a considerable length of time.
- 3.2** Outcomes to be enabled through the delivery of Forum 2 can be summarised as:
- Support the Southend economy, and particularly the cultural and creative sector, through skills development and provision of performance and workspace;
 - Increase the opportunities for residents, visitors and businesses to engage with the cultural sector thereby improving quality of life;
 - Investment in, and activation of, space in the town centre
 - Anchoring Southend in the Thames Estuary Production Corridor¹.
- 3.3** The scheme received planning consent in November 2019 for a four storey development plus a basement. It was due to start on site summer 2020 with a view to opening for the September 2021 academic year and was to deliver a mix of teaching, commercial and gallery space including new creative and digital 'start-up'/co-working space for artists and local creative/digital businesses; contemporary and community art gallery; performing arts and music studios; computer music suites and a post-production room; commercial restaurant with associated professional kitchen; and general teaching rooms.
- 3.4** Forum 2 was intended to contribute to the wider regeneration activity within Southend and would, in particular, be a key part of the reimagining of the town centre. It was intended to capitalise upon the success of the existing Forum facility and complete the transformation of Elmer Square into an attractive and innovative learning quarter within the heart of the town centre, which could be enjoyed by students and the wider community alike. It would also provide much needed academic teaching/learning accommodation, expansion of Focal Point Gallery and workspace for new business start-ups and would serve as a key driver of wider town centre footfall and spend through the enhanced cultural offer.
- 3.5** At the beginning of June 2020 South Essex College made the Council aware of the impacts of the Covid-19 pandemic on its financial position as well as its future teaching requirements. There has been a significant financial impact in the College's 2019/20 financial year and it is predicted there will be an even larger impact for 2020/21 and beyond. Apprenticeship income, Higher Education, international and commercial work has all been severely curtailed or stopped all together.

¹ The Thames Estuary Production Corridor is a collaboration by partners across Kent, Essex and London to create a world-class centre for creative and cultural production: leading global innovation, creating new jobs, developing local talent and supporting the rapid growth of the creative economy.

- 3.6** Whilst the College still requires the areas of teaching space to be delivered through Forum 2 (those where a high degree of in room learning is required), the Coronavirus has made the College move very quickly to online learning in other areas and it now considers this will be a major part of its future delivery strategy. This will require the College to make a substantial investment in online resources.
- 3.7** The College has been undertaking comprehensive financial forecasting in relation to these changing conditions. It is of course necessary for the College to prioritise its existing students and provision, but due to such financial uncertainties it is not currently able to commit to the same level of investment in Forum 2 as previously planned, resulting in a financial gap for the project which would need to be met for the project to continue.
- 3.8** Alternative routes to delivering Forum 2 in situ have been explored and have not been found to be feasible:
- 3.9** Option 1 – Increasing the Council’s investment in the project to meet the funding gap. Considerations have included:
- State Aid implications arising as a result of the amended funding model with the building being predominantly funded by the Council but the majority of space used by the College. These implications would also affect the College.
 - The revenue operating costs for both the Council and the College would also continue to have to be met in uncertain times and for the Council will have added to the Council’s increasing Medium Term Financial Plan.
 - There would be increased capital financing costs of approximately £70,000 p.a. for every £1m increase in the Council’s investment, which would also need funding. As the building is a predominantly educational one it would not return sufficient income to meet the costs of funding the capital borrowing.
- 3.10** Option 2 – A reduction of the existing building plans to reduce costs. Considerations have included:
- While this could reduce the overall capital cost it wouldn’t close the gap and would still require additional funding revenue and capital from the Council, thereby encountering some of the above challenges.
 - Revised designs and a new planning application would be required to reflect the changes, but it would not be possible to achieve this and start the work on site to such an extent that the LGF funding could be delivered within the timescale required.
 - It might also require an updated business case for SELEP if the outputs to be delivered were to change as a result of the reduced space. This would have an impact on time available to commence delivery on site and meet the spend deadline while presenting a risk of the funding being withdrawn or reduced thereby increasing costs to be met by the Council and College.
- 3.11** On the basis of the above proceeding with the project in its current form and location is not a feasible option and it will be necessary for the Council, College

and potentially other partners, to work together to identify whether some or all of the outcomes set out for the project may be met through alternate routes.

- 3.12** Forum 2 would have made a significant contribution to the Southend 2050 ambition (as set out in **section 6.1** of this report). Its economic impact in relation to skills, sectoral support and the town centre would have been of particular benefit in the current economic climate. On a sub-regional basis it would also have reinforced Southend's role in the Thames Estuary Production Corridor proposition which in turn is forming part of the Thames Estuary Growth Board agenda to attract investment into the sub-region. It is therefore critical to explore other ways to achieve the desired outcomes for the local economy, to reinforce Southend as part of the Thames Estuary proposition and ensure Southend is well placed to benefit from any related future investment.

4. Other Options

- 4.1** Alternative options have already been explored in relation to continuing with the development, notably the Council increasing its investment in the project or reducing the size of the scheme and therefore the cost. However neither of these will be deliverable within the timescales of the LGF funding and present a range of other risks.
- 4.2** The Council could decide not to pursue the outcomes which were to be delivered through Forum 2. This would have a detrimental impact on the Southend 2050 ambition and related outcomes.
- 4.3** The recommended alternative option is to undertake a wide options appraisal as to other ways in which the desired outcomes can be achieved.

5. Reasons for Recommendations

The Forum 2 development which had secured planning consent and commensurate funding is not viable as a result of the Covid-9 pandemic and resulting pressures on organisational finances, particularly those of South Essex College. However both the Council and the College remain committed to delivering the outcomes sought through Forum 2 and therefore should continue to work together to identify other ways in which these may be achieved within a viable budget envelope.

The LGF funding should be returned to SELEP as it can no longer be spent on the project it has been secured for within the time available.

6. Corporate Implications

6.1 Contribution to the Southend 2050 Road Map

Forum 2 is a 2050 roadmap project and its delivery would contribute to a number of the outcomes. Through the delivery of the creative workspace it would also help deliver the artists' studios identified on the roadmap.

Opportunity and Prosperity:

- **We have a fast-evolving, re-imagined and thriving town centre, with an inviting mix of shops, homes, culture and leisure opportunities** – *supported through the investment in the town centre adding to the culture, leisure, employment and education provision*
- **Our children are school and life ready and our workforce is skilled and job ready** – *through the education offer through both the College and Focal Point Gallery*
- **Key regeneration schemes, such as Queensway, seafront developments and the Airport Business Park are underway and bringing prosperity and job opportunities to the borough** – *Forum 2 is a regeneration scheme activating an otherwise vacant space*
- **Southend is a place that is renowned for its creative industries, where new businesses thrive and where established employers and others invest for the long term** – *through the focus on skills and employment in the cultural and creative sector*

Pride and Joy:

- **The variety and quality of our understanding cultural and leisure offer has increased and we have become the first choice English coastal destination for visitors** – *through the enhanced culture and leisure offer contained in a contemporary space.*

Active and Involved:

- **Even more Southenders agree that people from different backgrounds are valued and get on well together** – *the Forum is open to all and is a space where people from all background can meet and learn through culture, art installations, library provision and direct educational teaching. Forum 2 would seek to build on this.*

Connected and Smart

- **Southend is a leading digital city with world class infrastructure that enables the whole population** – *through the provision of digitally well-connected education and work space and educational opportunities to support use of digital media.*

6.2 Financial Implications

Ceasing the project in its current form will have immediate financial implications for both organisations with approximately £1.4m of abortive costs having been incurred to date, which will need funding.

The project is scheduled to be receiving £6m of LGF support through SELEP under its current Growth Deal with Government, of which approximately £1.4m has already been drawn down and will need to be repaid plus costs incurred above this sum not yet drawn down, and both need to be split on a 50:50 basis between the Council and the College. The sum for the Council will be approximately £700k and will need funding through the Council's General Fund

revenue budget. As no budget currently exists for these abortive costs the funding will need to come from the Business Transformation Reserve.

The terms of the funding are such that spend is required by March 2021 therefore retaining the funding while exploring and securing other options and taking an alternative route through the SELEP processes is not possible within the timescales.

The Council and the College are both partners to SELEP and have been beneficiaries of SELEP funding so have a commitment to make an timely decision in respect to the project in order to enable SELEP to reallocate the funding to other projects so that it is spent before the end of the Growth Deal period.

Forum 2 is also on the SELEP reserve list for LGF 4 'Get Britain Building' so it will also be removed from the list at the same time as notifying SELEP of the return of the funding.

The Council's revenue cost of operating the Focal Point Gallery element of the project would have cost in the region of £370k per annum. This would have also placed additional revenue implications on the Council as again there is currently no revenue budget and therefore these annual net costs are now avoided with the project not proceeding.

There would be increased capital financing costs of approximately £70,000 p.a. for every £1m increase in the Council's investment. Again there is no budget for financing costs for this project above the existing £2.7m in the capital investment programme and if the Council's contribution went above the current £2.7m then there would be an increase required in the current revenue budget, which has now been avoided.

The capital expenditure budgets and their financing are in the current Capital Investment Programme are as follows:

	2018/19 (M)	2019/20 (M)	2020/21 (M)	2021/22 (M)	Total (M)
Capital expenditure budget	0.470	0.668	7.634	10.178	18.950
Funded by SBC (borrowing)				2.700	2.700
Funded by LGF	0.470	0.668	4.500	0.362	6.000
Funded by College			3.134	7.116	10.250

Going ahead with the current scheme, even without increasing the Council's investment in the project, would have had a significant impact on the Council's overall VAT position for a seven year period, restricting certain other capital interventions throughout the period. In the event that this could not be managed over that period, the mitigations would have a significant impact on the College's VAT position.

Assuming the closure of this project it will be necessary for the Council, College, Focal Point Gallery and potentially other partners, to work together to identify whether some or all of the outcomes set out for the project may be met through alternate routes. To enable this to happen £50k will be set aside in the Business Transformation Reserve to support resourcing, surveys, studies etc. Existing staff resources in the Council will be utilised to work with the college and partners on various options.

6.3 Legal Implications

The Council will need to serve notice on the design team and cost consultant, in accordance with the relevant contracts, to terminate the contracts. This will involve the payment of appropriate fees in respect to works undertaken up to the point of termination, which are included in the figure set out at paragraph 6.2.

The Council will also need to cease the procurement of the main contractor. Whilst the Council has not formally entered into contract with the main contractor it is recognised that they have incurred some expenditure in relation to the project and an agreement of settlement of these costs will be made. An estimation of these costs is also factored into the figure on abortive costs set out at paragraph 6.2.

6.4 People Implications

Generally the project was being managed through existing staff resources at both the Council and the College so there are no direct staff implications. These staff resources will be redirected to undertaking the options appraisal of alternative delivery models.

Some staff costs at Focal Point Gallery have been capitalised against the project with corresponding time spent on the project offset through a backfill arrangement. As a result there will be a pressure to continue the current programme whilst considering other options which could be supported through part of the additional funding set out in the recommendations.

6.5 Property Implications

The closure of the Forum 2 project in its current format will result in the proposed building, opposite the Forum, not being delivered as planned. Delivery of the same outcomes via other means will likely have other property implications, and could still relate to the identified site but also may not. These will need to be considered through the options appraisal process.

6.6 Consultation

The recommendation to close the Forum 2 project in its current form has been subject to discussion between the Council and the College. Co-production and wider engagement, including with Focal Point Gallery, would need to be undertaken in relation to any alternative delivery models.

6.7 Equalities and Diversity Implications

Closing the project in its current form means that the opportunities it presented for learning, performance, business and community engagement for residents, students and visitors of all backgrounds will not be available. Equality and diversity would be a key consideration for any alternative delivery models.

6.8 Risk Assessment

The recommended course of action is being put forward so as to minimise further financial and reputational risk to both the Council and the College. Any potential future delivery options will require further risk assessments to be undertaken.

6.9 Value for Money

It has been essential to review all aspects of the delivery and future operation of the Scheme given the significant direct financial impact and challenges caused by Covid-19. This viability assessment led to the recommendation to stop the Scheme progressing. This provides the best value for money outcome given the significant changes to the local operating environment and now anticipated large reductions in the level of revenue income streams for the new facility.

6.10 Community Safety Implications

There are no community safety implications of closing the current project. Community safety implications would be a consideration for any alternative routes of delivering the outcomes.

6.11 Environmental Impact

There are no environmental implications of closing the current project but would be taken into account in regards to any alternative routes of delivering the outcomes.

7. Background Papers

Forum 2 Cabinet Report 13th March 2018 (Item 824).

8. Appendices

None.