

WEST NORTHAMPTONSHIRE COUNCIL CABINET

12TH APRIL 2022

CABINET MEMBER WITH RESPONSIBILITY FOR ECONOMIC DEVELOPMENT, TOWN CENTRE REGENERATION AND GROWTH: COUNCILLOR LIZZY BOWEN

Report Title	Appointment of an Operator for the Vulcan Works Creative Hub
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List of Appendices

Appendix A - Tender document – Invitation to Submit Final Tender (ISIT)

1. Purpose of Report

- 1.1 This report requests approval to enter into contract with the preferred bidder for the operation of the Vulcan Works Creative Hub.

2. Executive Summary

- 2.1 The Vulcan Works Creative Hub (VWCH) is located within the heart of the cultural quarter in Northampton and comprises of 68 lettable units, co-working space, breakout areas and meetings rooms. The Hub will give creative business a place where they can be based and collaborate.
- 2.2 The construction works of the hub reached practical completion in July 2021, with the focus of the work now being on the procurement of an operator for the centre and the fit out.
- 2.3 A competitive procurement process has now taken place to procure a suitably qualified operator for the management of the Vulcan Works Creative Hub with a preferred bidder being identified. This report seeks approval of the appointment of the preferred bidder to allow for the Vulcan Works to become operational and become a hub for business support for businesses in the creative and cultural industries within Northampton.

3. Recommendations

- 3.1 It is recommended that Cabinet:
- a) Approve the appointment of the preferred bidder following the procurement process for the operation of the Vulcan Works Creative Hub using Competitive Procedure with Negotiation (CPN).

4. Reason for Recommendations

- 4.1 Reasons for recommendations:
- a) to allow the Vulcan Works Creative Hub to become operational as well as a hub for business support for businesses in the creative and cultural industries.
 - b) to ensure the operator is appointed and allow the centre to begin to generate income.

5. Report Background

- 5.1 The VWCH aims to expand and develop Northampton's Cultural Quarter and the Northampton Waterside Enterprise Zone (EZ) by establishing new creative activity in a creative business centre.
- 5.2 The VWCH will be set up as a managed workspace centre and contains 68 new lettable units which is a mixture of co-working space and office space and creative 'messy' workshops. The centre will offer business support as well as including breakout areas and bookable meeting rooms which can be used by the businesses located within the centre.

- 5.3 The VWCH is anticipated to increase footfall and economic activity in the town centre, foster local creativity and entrepreneurship and improve graduate retention in the town. The center will also attract highly skilled entrepreneurs and employees to the area. This is more important than ever as Northampton works towards its economic recovery from the COVID pandemic. It is also envisaged that this is a good time for the center to open with regards to businesses potentially downsizing their required office space due to a larger culture of working from home, as well as businesses that are now outgrowing their space or workshops that they use at home.
- 5.4 The businesses in the Vulcan Works will be offered on site business support which will be provided as part of the operators remit. This will help to ensure businesses thrive and grow. Supporting businesses as we head out of the pandemic is an important part of the recovery plan for Northampton to help nurture and grow businesses which may have been detrimentally affected by the current situation. VWCH will help to encourage economic growth at a time when it is needed most.
- 5.5 The procurement of an operator to run and manage the facility was hoped to have been completed by the end of 2020 but due to pressures caused by COVID, this delayed progress, and the procurement was launched in October 2021.
- 5.6 The council is procuring an operator for the supply of services for the day-to-day operation and management of the VWCH.
- 5.7 The procurement process was a Competitive Procedure with Negotiation (CPN) under the Public Contracts Regulations 2015 (as amended), which provided the opportunity for a structured approach to the procurement.
- 5.8 The operator must develop an effective business support programme to ensure that, as a minimum, all users are aware and are able to access the business support they need. This will include working with partners such as the South East Midlands Local Enterprise Partnership (SEMLEP) Growth Hub and the University of Northampton.
- 5.9 The procurement process has ensured that an experienced and value for money operator has been appointed to ensure that the Vulcan Works Creative Hub meets its key performance indicators such as:
- Supporting 116 businesses by year five
 - 75 new businesses created by year five
 - 295 gross direct and indirect jobs supported by year five
 - £18m of net additional GVA generated by year five

- 5.10 The council commissioned an operating model options appraisal in May 2019 to assess options for how the VWCH should be operated and recommend a preferred approach.
- 5.11 The appraisal set out to analyse nine operators against a range of market indicators in order to establish the most effective way the VWCH should be operated. The council was also considered as a potential operator as part of this process to assess its own suitability to operate the center.
- 5.12 The report concluded that for the VWCH to succeed there was a need to secure a high quality, experienced operator to drive the delivery of the VWCH.
- 5.13 Accordingly, the council sought a suitably skilled and experienced operator that provided a managed workspace service, including marketing and premises management. The appointment of the operator will be through a management agreement and lease. The contract will be for an initial 3 years with the option for a 2-year extension at the discretion of the council.
- 5.14 The procurement of an operator commenced in October 2021 under the Public Contract Regulations 2015 (PCR 2015) using the Competitive Procedure with Negotiation.
- 5.15 Five prospective operators submitted the Selection Questionnaire (SQ). As part of the SQ phase this was then shortlisted down to three preferred bidders following an initial sifting exercise based on their previous experience of managing centers of similar nature and size.
- 5.16 Within the Invitation to Submit Initial Tender (ISIT) phase, the three bidders reduced to two and these final two bidders were then taken through to the negotiation stage ahead of the submission of their final tenders which were assessed on the following metrics:
- 5.17 **Management of the Centre**
This was weighted as 20 per cent of the total quality criteria and required bidders to provide a vision for the center and what their approach is for managing the hub such as ensuring they maintain adequate staffing to provide high quality management of the VWCH, how they will manage the building including repairs and maintenance as well as providing detail on how they will meet the objectives and outputs of hub.
- 5.18 **Marketing and Promotion**
This was weighted as 15 per cent of the total quality criteria and required bidders to detail their marketing plan to promote, support and enhance the activities of the VWCH as well as the development of a website for the hub and developing relationships with partners to maximise links and synergies.
- 5.19 **Implementation Plan**
This was weighted as 10 per cent of the total quality criteria and required bidders to detail how they will mobilise plans to ensure that they have adequate and suitable arrangements in place to get the center up and running as soon as possible. It also included how they will ensure the

units are in a lettable state and the meetings rooms and common areas are accessible and useable for all,

5.20 Tenant Support

This was weighted as 10 per cent of the total quality criteria and required bidders to detail how they will build a strong relationship with all tenants. This would include how they would maintain a high standard of customer service and satisfaction through ensuring there is regular communication with tenants, comprehensive induction for tenants and ensuring that any complaints or queries are dealt with in a timely and appropriate manner.

5.21 Business Support Services

This was weighted as 30 per cent of the total quality criteria and required bidders to submit a costed business support programme for the full 5-year period of the contract. It would need to demonstrate how they meet the requirements of providing a business support service to tenants, through working with partners such as the Growth Hub and University of Northampton to provide training and support on topics such as leadership, management, change management, marketing skills, entrepreneurship, finance, and strategic planning.

5.22 Performance Monitoring

This was weighted as 10 per cent of the total quality criteria and required bidders to demonstrate how they will ensure that key performance indicators (highlighted earlier in the report) will be met and how they will work with the Council to ensure that all supporting information is ready as and when required, as well as ensuring they have adequate systems and processes in place to handle and review data and sensitive information.

5.23 As part of the tender, bidders were also assessed on their financial plan for the center which included their forecast for occupancy levels and projected income, expenditure on the management of hub such as repairs and maintenance costs, health and safety, utilities, business support and marketing activities.

5.24 Bidders were also required to propose a management fee which will be paid to the operator each contract year as their fee for managing the center, a percentage 'success fee' which is calculated after the management fee and center operational costs are deducted from the income which will be paid each contract year, with the success fee needing to be between a minimum of 5% and a maximum of 30%.

5.25 When it came to assessing the bids, several different teams were involved in the independent evaluation. This included Major Projects & Regeneration, Assets, Economic Development, Assurance and Performance Monitoring, Communications, Legal, Finance, as well as Amion (external consultants) and SEMLEP. The Procurement team has also been involved throughout the process.

5.26 The scoring was split between quality and price criteria with a weighting of 60 per cent and 40 per cent respectively. Bidder 1 (preferred bidder) scored 43.2 per cent on quality and 38.31 per

cent on price with a total score of 81.51 per cent. Bidder 2 (unsuccessful bidder) scored 37.8 per cent on quality and 36.96 per cent on price with a total score of 74.76 per cent.

Criteria	Bidder 1 Score (/10)	Bidder 2 Score
Management of the Hub	7	6
Marketing Plan	8	6
Implementation Plan	7	7
Tenant Support	8	7
Business Support Services	8	7
Performance Monitoring	7	7
Finances	38.31%	36.96%

- 5.27 Despite not being part of the scoring, it is important to highlight the overall profitability of the two bids. Over the five-year term, Bidder 1 expects to generate a cumulative profit of £186,512. Bidder 2 over the five-year term expects to incur a cumulative loss of £169,223.
- 5.28 Although the prices submitted by the bidders were based on assumptions which have been assessed and tested, bidder one's fixed costs were £429,668 lower than bidder two which means that even if the assumptions appear to be optimistic it will still be a lower cost to the Council and value for money.
- 5.29 Both bidders expect to incur losses in the first two years which would need to be funded by the council. The cumulative loss projected by the preferred bidder (Bidder 1) is £587,000. Bidder 1 expects the center to generate profits in years 3,4 and 5 that would recoup those early losses and provide an overall surplus. Bidder 2 does not expect the profits in years 3, 4 and 5 to be sufficient to cover the early years losses.
- 5.30 The preferred bidder has been notified of the intent to enter contract with the council for the management of the Vulcan Works Creative Hub and discussions have started on the mobilization so all processes are in place for when the authority is given.

6. Issues and Choices

- 6.1 To approve the outcome of the procurement evaluation so the council can enter into contract with the preferred bidder for the management of the Vulcan Works Creative Hub.
- 6.2 To not approve the appointment of the preferred bidder for the operation of the Vulcan Works will mean that the centre will not be able to open and be an incubation space for businesses within Northampton, it will also mean a loss of income to the council. It would also mean that the centre would not be able to reach its targets which were set by the funder (SEMLEP) and might result in a claw back of the funding.

7. Implications (including financial implications)

7.1 Resources and Financial

- 7.2 Dun & Bradstreet checks were undertaken during the procurement process to assess the financial background of the bidders and to minimise risk to the council.
- 7.3 Over the five-year term of the contract, the preferred bidder expects to make a cumulative profit of £186,512. There is an expected loss projected in the first two years by the preferred bidder of £587,000 and it is expected that the centre will make a profit in years 3, 4 and 5 which will be sufficient to cover the early year losses.
- 7.4 With the form of operator agreement that the council will be using all of the income risk is sitting with the council and not the Operator.
- 7.5 While some of the costs that make up these figures are known or fixed, the income figures are estimates based upon the Bidders experience within the market. While these figures have been tested by council officers and external consultants there is risk that the occupancy levels that have been assumed are not able to be met which could cause the financial position to worsen.
- 7.6 On the reverse of the above if the centre can be filled faster than forecast then the council would achieve a surplus position sooner than forecast. The operator is incentivised to do through a profit share within the contract.
- 7.7 Prior to the tender process a forecast was produced estimating the level of net surplus of deficit the centre would produce over the first 5 years. This forecast estimated a smaller deficit over the first three years of the centres operation with this being £320k.
- 7.8 The council have allocated £150k from the Covid recovery monies to offset some of the deficit, due to some of the delays in opening the centre being because of Covid.
- 7.9 A request for the underspend from the current year 21/22 to carry forward will be submitted as part of the year end process to offset the year 1 gap.
- 7.10 Going forward as part of 22/23 budget setting process we will profile the forecast multi year deficit and surpluses through the Medium Term Financial Plan.

8. Legal

- 8.1 On 13 November 2019, Northampton Borough Council Cabinet delegated authority to the Economic Growth and Regeneration Manager in consultation with the Borough Secretary, the Chief Finance Officer and the Cabinet Member for Regeneration and Enterprise to appoint the successful operator for the Vulcan Works Creative Hub following an OJEU compliant procurement process.
- 8.2 A fresh cabinet decision, almost identical except for the adjustments in the timetable due to delays caused by COVID, is now required as the Northampton Borough Council Cabinet key

decision needs to be re-validated by West Northamptonshire Council under whose remit responsibility for this project now rests.

9. Risk

- 9.1 If the outcome of the procurement is not approved, then there a series of financial and reputational risks associated with the decision. The council is liable for the centre which means that for every day that the centre isn't occupied, the council is already incurring charges and costs such as utility costs and business rates. It also means a loss of revenue as there is no income received through rent from tenants.
- 9.2 If the centre was not to be become operational then the council wouldn't be able to meet the requirements set out by SEMLEP which would result in a claw back of the funding.
- 9.3 The Vulcan Works forms a key part of the plans for the economic recovery from Covid and will have a big impact for local businesses. Any delays of the opening of the centre will have a detrimental effect on this element of the recovery plan. The centre needs to be in a position to support businesses as soon as possible.
- 9.4 The council would also experience reputational damage with SEMLEP, Government and the local business community who are anticipating the hub to be open and operational soon.

10. Consultation

- 10.1 Consultation was undertaken in respect of both planning and listed building consent applications.
- 10.2 Market Demand assessment required external consultation carried out by Underwood's Ltd (Commercial Agent.)
- 10.3 Deyton Bell carried out consultation work to complete the VWCH operating model options appraisal.
- 10.4 SEMLEP have been consulted throughout the project during its construction phase and during the procurement of an operator.

11. Consideration by Overview and Scrutiny

- 11.1 N/A

12. Climate Impact

- 12.1 The council will ensure the operator will undertake the relevant Environmental Impact Assessments.

13. Community Impact

- 13.1 The council will ensure the operator will undertake programme-wide level impact assessments, relevant project-level impact assessment and Equality and Impact Assessments when required.
- 13.2 This project will have a positive impact on the community of Northampton and West Northamptonshire.

14. Communications

- 14.1 The Communications Team was involved in assessing the marketing element of the shortlisted bids. It has also checked this document for accessibility.

15. Background Papers

- 15.1 November 2019 Cabinet Report
- 15.2 March 2021 Cabinet Report