


<p>Cabinet</p> <p>19 September 2017</p>	 <p>TOWER HAMLETS</p>
<p>Report of: Ann Sutcliffe, Acting Corporate Director, Place</p>	<p>Classification: Unrestricted</p>
<p>Approval of the Allocation of S106 Funding to Design and Fit Out of Training Centre at the former London Fruit and Wool Exchange</p>	

<p>Lead Member(s)</p>	<p><u>Covering Cabinet Report</u> Councillor Rachel Blake, Cabinet Member for Strategic Development</p> <p><u>Project Initiation Document:</u> Councillor Joshua Peck, Cabinet Member for Work & Economic Growth</p>
<p>Originating Officer(s)</p>	<p><u>Covering Cabinet Report</u> Owen Whalley, Divisional Director, Planning and Building Control, Place Directorate</p> <p><u>Design and Fit-Out of Training Centre at the former London Fruit and Wool Exchange Project Initiation Document</u> Joyce Ogunade, Economic Benefits Manager, Growth and Economic Development</p>
<p>Wards affected</p>	<p>Spitalfields and Banglatown</p>
<p>Key Decision?</p>	<p>Yes</p>
<p>Community Plan Theme</p>	<p>A Fair and Prosperous Community</p>

1. **EXECUTIVE SUMMARY**

- 1.1 This document has been formed in order to seek approval from the Mayor in Cabinet for:
1. The allocation of £500,000 in Section 106 (S106) funding to the proposals set out in the “*Design and Fit-Out of Training Centre at the former London Fruit and Wool Exchange (LFWE)*” Project Initiation Document (PID), which is attached to this Cabinet report at Appendix A.

2. The adoption of a capital estimate for the project described in this report and the attached PID.

- 1.2 The project involves the expenditure of £500,000 of S106 funding on the procurement of a contractor to undertake the design and fit-out of 500 square metres (sqm) of commercial floorspace at the redevelopment of the former LFWE. This is being provided to a 'shell-and-core' finish by the developer as part of a S106 planning obligation, and will be let to the council for a 10-year rent and service charge free period for use as a training centre. The developer is also obligated to pay a financial contribution of £500,000 to specifically cover the fit-out of the training centre.
- 1.3 The contribution is due to be received in November 2017, and the premises will be available for fit-out from April 2018 with occupation from July 2018. Given the tight timeframe for delivery, the Growth and Economic Development Service are seeking agreement of the allocation of the S106 funding in advance of the contribution being received, to enable the project to start on time, in line with the planned procurement process. The risk of not successfully accessing the funds would delay the occupation of the premises, and the council would be liable to cover all costs and expenses whilst the building is empty.
- 1.4 The training centre will offer a local skills and jobs service that will enable the local engagement of workless residents and assist them into employment.
- 1.5 Table 1 below sets out the amount requested for the project and the source of funding. Table 2 sets out the project costs and the amount that requires a capital budget to be adopted.

Table 1: Source of Funding and Overall Amount Requested for Allocation

Financial Resources			
Description	Amount	Funding Source	Funding (Capital/ Revenue)
Main Construction Works	£325,000	S106	Capital
Design Team costs (Architectural, QS, Acoustic, CDM, Planning Structural, M&E,)	£110,000	S106	Capital
Contingency (unanticipated overspend on fit out costs, legal fees)	£65,000	S106	Capital
Total	£500,000		

Table 2: Adoption of Capital Budget > Requested Amount

Project Title	Amounts	
	Overall Request	Adoption of Capital Budget > Request Amount
Design and Fit-Out of Training Centre at the former London Fruit and Wool Exchange (LFWE)	£500,000	£500,000

RECOMMENDATIONS

1.6 The Mayor in Cabinet is recommended to:

1. Approve the allocation of £500,000 of S106 funding for the design and fit-Out of a training centre at the former LFWE as profiled in the PID attached at Appendix A, and in Table 1.
2. Approve the adoption of a capital estimate of £500,000 as profiled in the PID attached at Appendix A, and in Table 2.

2. REASONS FOR THE DECISIONS

2.1 The Council requested and secured a 500 sqm commercial space as part of the redevelopment of the former LFWE through a S106 agreement. Securing such a facility was identified by the Growth and Economic Development Service as an opportunity to develop and expand training and employment provision in central, key areas of Tower Hamlets. This would support residents into employment and training, which is in line with the Council's Employment Strategy, One Tower Hamlets, and the Mayoral pledge to reduce unemployment in the borough, as well as assist with the local economy.

2.2 The S106 contribution of £500,000 is to be used by the Council specifically for the cost of fitting-out the new training facility, which will help to connect businesses with their community; increase employment; and contribute to the delivery of positive improvements to people's lives and the local economy. This would underpin the Community Plan theme of:

- A Fair and Prosperous Community.

2.3 Please refer to the following associated documents/appendices for more information about the project:

- Appendix A: Design and Fit out of Training Centre - at the former London Fruit and Wool Exchange development (LFWE) PID
- Appendix B: -LFWE Site Plan

3. ALTERNATIVE OPTIONS

- 3.1 The alternative option is to not allocate the funding to this project. However the developer is still obligated to provide the premises to shell-and-core finish for use by the Council. The use of the S106 funding specified in this report is restricted to the fit out of the specific premises as outlined in the PID (attached as Appendix A), and must be spent in accordance with the legal agreement related to the development from which it originates.

4. BACKGROUND

S106

- 4.1 S106 of the Town and Country Planning Act 1990 allows a Local Planning Authority (LPA) to enter into a legally-binding agreement or planning obligation with a developer over a related issue. Planning obligations/S106 Agreements are legal agreements, negotiated between a LPA and a developer, with the intention of making development acceptable which would otherwise be unacceptable in planning terms.
- 4.2 S106 contributions must be spent in accordance with the agreement to which they relate. The contributions secured in S106 Agreements are usually tied to the need to provide a certain type of project in a defined location.³

PID

- 4.3 The background to the Design and Fit-Out of Training Centre at the former LFWE project is provided below. For further, detailed information it is necessary to consult the PID attached at Appendix A.
- 4.4 It is anticipated that the training centre space will require a medium specification 'fit-out' including suspended floor and ceilings, power stations and lighting. The Growth and Economic Development Service has consulted the Council's Building and Technical Services team to obtain estimated costs for fitting-out the premises as well as the timeline of required works.
- 4.5 The space is to be leased to the Council for 10 years on a rent and service charge free basis. The total rent for this period is estimated to be £1,000,000. After this time, the space is to be handed back to the landlord. The Council intends to sublet the premises to an external training and employment provider. The provider will be selected through the Council's procurement process and will be expected to access funding for training from external funding sources such as the Skills

Funding Agency or European Social Funding as appropriate. The Council will not provide delivery funding to the chosen provider and all bidding organisations will be expected to outline and discuss their business model and sustainability within their tender. The business rates, insurance of the premises, and all associated costs for the space would be the responsibility of the sub-tenant/training provider.

Table 3: Project Budget

Costs Breakdown	
Main Works	£325,000
Feasibility Design for project approval	£5,500
Acoustic Consultants	£4,000
Mechanical & Electrical design	£4,500
Structural Engineers	£4,500
Building Compliance Approvals/Building Control Submission	£2,000
Planning Application	£385
CDM / Principle Designer	£3,000
Architecture Team fee @ 11.5% incl; <ul style="list-style-type: none"> • Project Architect - all design and specification's translated from Client requirements • Contract Administrator - between Client and Contractor utilising traditional standard construction contract • Design Manager – managing all external designers for e.g. M&E designers to create a fully coordinated design 	£31,875
<ul style="list-style-type: none"> • External QS fees 6.5% Quantity Surveyor (subject to appointment and their fee agreement) to ensure project meets within the clients budget 	£37,375
Fire Fighting Equipment	£20,000
Porterage	£20,000
Legal costs for land searches	£780
Contingency	£41,085
Total	£500,000

**All of the above are estimated*

4.6 The £325,000 for main works is an estimation provided by the Council's internal architectural team, based on feasibility study cost estimates. This work will include, but is not limited to:

- Structural reconfigurations if necessary, such as new door openings within the existing structure.

- New internal reorganisation of the main space to the client's needs i.e. new rooms created.
- Toilet provisions required by the end tenant.
- M&E works essential for the end tenants needs – air con, lighting, sockets, mechanical fittings, sinks, kitchen, vent extract etc.
- All fixtures and fittings required by the end tenant – meeting rooms, fixed storage etc.
- All decorative works – painting, carpets, need to take the space beyond the supplied shell & core specification.

4.7 Tower Hamlets is the 10th most deprived area in England out of 326 local authority areas. The Council's Employment and Enterprise team have explored extending the provision of its employment and brokerage services to assist local people into jobs. Recent development work has identified a large number of workless residents in and/or around the Spitalfields and Whitechapel area of Tower Hamlets. The training centre at the LFWE will focus its engagement on the local residential area and enable the Council to extend its reach into an area of the borough where it does not have a dedicated facility.

4.8 Bespoke training courses developed in partnership with employers, will be delivered from the centre, with training courses linked to live vacancies or in anticipation of forthcoming opportunities. By working closely with the training provider, the Council will be able to generate more work experience placements, apprenticeships and employment opportunities for local residents with which they may not have originally been able to access. This assists in connecting local employers with the community by developing working partnerships that meet the requirements of businesses and the unemployed residents.

4.9 The appointed training provider will be expected to deliver training and employment support services in order to achieve the following outputs over the 10-year period:

- 1000 unemployed residents to be engaged per year;
- 305 residents trained/upskilled per year;
- 150 residents placed into jobs per year (1,500 residents placed into employment over the lifetime of the project).

4.10 The training facility and its advisers would also work alongside other services including the Council's WorkPath programme and local partners to co-ordinate the service offer, and form part of the Council's overall response to low employment/high unemployment rates. The landlord will ensure that they and future tenants of the surrounding space will make a commitment for occupiers to work with the chosen provider, for example, by committing to providing advanced information on all employment opportunities to the chosen provider.

5. COMMENTS OF THE CHIEF FINANCE OFFICER

- 5.1 This report requests that the Mayor in Cabinet approves the allocation of Section 106 resources of £500,000 to fund the design and fit-out costs of the new training centre at the former London Fruit and Wool Exchange. As a capital project, the report also seeks approval for the scheme to be incorporated into the capital programme and the adoption of the necessary capital estimate.
- 5.2 In order that spending decisions can be made during the financial year by the Infrastructure Delivery Board and the Mayor in Cabinet, an initial provision of £30 million for infrastructure delivery was incorporated within the 2016-17 capital programme, with uncommitted resources being carried forward into 2017-18 and future years as necessary. The approval to fund schemes from this budgetary provision is usually only made following the receipt of the relevant developer contributions, however in the case of the scheme proposed in this report, advance approval is sought in order that the 'fit-out' of the premises as a training centre can begin on receipt of the Section 106 resources. No firm contractual commitments will however be entered into until the income is received by the Council which is expected to be during November 2017.
- 5.3 Under the terms of Section 106 agreements PA/11/02220 and PA/11/02221 - the development at the former London Fruit and Wool Exchange - the developer was obliged to pay the sum of £1,200,000 for training related projects, made up of two elements. These consisted of a contribution of £700,000 for use by the Council "towards the provision of local training, employment and enterprise initiatives in connection with the construction and operation phases of the Development" and £500,000 for use by the Council "towards the costs of setting up the Employment and Skills Centre".
- 5.4 The Council is responsible for the capital refurbishment project and budgetary estimates for the separate elements of the works are shown in Table 3. The liability for any costs in excess of £500,000 will fall on the Council and it should be noted that the building is Grade II listed which increases the risk that unforeseen works will be required. The budget does however include a contingency sum of approximately £41,000 which will only be used if essential and will be released for allocation to other suitable projects if not required.
- 5.5 Once completed the training centre will be leased to the Council for 10 years on a rent and service charge free basis. The benefit to the Council of this rent free period is estimated at £1,000,000 over the ten year period. It is intended that the Council will, following a bidding process, sublet the centre to an external training and employment provider which will be responsible for all rates, insurance and associated costs. No

Council funding will be available to support the provider which will be expected to access external funding sources itself.

- 5.6 This report deals with projects which are funded through Section 106 resources. Often these resources come with time constraints and whilst it is important that these resources are not lost, the prioritisation of projects needs to be seen in the context of the Council's Capital Strategy. In this case, the funding must be used to finance the works to the specific training centre, however when considering the application of other section 106 resources it is important that a sufficiently broad planning horizon is adopted that reduces the risk of funding being lost, but also avoids the crowding out of other important capital priorities due to funding imperatives. These processes need to operate not only for Section 106 funded schemes but across the whole of the Council's capital resources.

6. LEGAL COMMENTS

- 6.1 This report recommends that the Mayor in Cabinet approve: the allocation of £500,000 towards the design and fit out costs for a training and skills facility at the former London Fruit and Wool Exchange; and the adoption of capital budget for that project as set out in Appendix A.
- 6.2 The £500,000 shall be sourced from a financial contribution payable to the Council under a section 106 agreement dated 28 March 2013. As a legal contract, the Council is required to spend any monies received in accordance with the terms of the section 106 agreement. When assessing the use of section 106 receipts for projects, it is therefore important to consider the provisions of each agreement from which such funding is taken. Whilst some agreements allow for a particular contribution to be spent on a type of infrastructure or project across the borough as a whole, other agreements are more specific in requiring that a contribution be linked more closely to the locality of the development.
- 6.3 In this case, the relevant section 106 agreement requires that the money be used specifically towards the costs of setting up an employment and skills centre within the development at the former London Fruit and Wool Exchange. Legal Services are satisfied that the use of the £500,000 for the project detailed in this report is in accordance with that specific purpose.
- 6.4 Legal Services note that the payment of the section 106 contribution is not anticipated until November 2017. This is the expected date 6 months before practical completion of the development at the former London Fruit and Wool Exchange which is when the monies are due under the agreement. This report recommends that the funding be allocated to the project now in advance of such receipt, for the reasons set out in paragraph 1.3 above.
- 6.5 Accordingly there are two elements of potential risk: (a) that the date of practical completion of the development is delayed and the timing of

receipt is postponed; and/or (b) the payer defaults in paying the monies on time. Whilst the Council could legally pursue the recovery of the money (with interest) should it be paid late or not at all, as with any litigation there is inevitably a degree of uncertainty. To mitigate this risk it is recommended that the Council; liaises with the developer to monitor and ensure that the anticipated timescales for payment are either met or any contingencies for delays contemplated; and it should be prepared to consider recovering any outstanding debt at the earliest opportunity.

- 6.6 When considering the recommendations in this report, regard must be given to the public sector equalities duty to eliminate unlawful conduct under the Equality Act 2010. The duty is set out at Section 149 of the 2010 Act. It requires the Council, when exercising its functions, to have 'due regard' to the need to eliminate discrimination (both direct and indirect discrimination), harassment and victimization and other conduct prohibited under the Act, and to advance equality of opportunity and foster good relations between those who share a 'protected characteristic' and those who do not share that protected characteristic

7. ONE TOWER HAMLETS CONSIDERATIONS

- 7.1 This report proposes to allocate funding to help deliver a dedicated training and skills facility for residents in the western part of the borough. In scoping this project, the objectives of One Tower Hamlets and those of the Community Plan have been considered.
- 7.2 It is envisaged that the facility, through its training programmes, will empower residents and enhance people's lives through skills development, and contribute to the reduction of inequality by increasing access to employment.

8. BEST VALUE (BV) IMPLICATIONS

- 8.1 If approved, the project referred to in this document is required to be delivered in consideration of best value implications and the Council's Best Value Strategy and Action Plan (2015).

9. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

- 9.1 Sustainability considerations will be applied as far as possible to the use of building materials and fixtures.

10. RISK MANAGEMENT IMPLICATIONS

- 10.1 The risks relating to the delivery of this project as well as mitigating measures are set out in detail in the attached PID.

11. CRIME AND DISORDER REDUCTION IMPLICATIONS

- 11.1 Not applicable.

12. SAFEGUARDING IMPLICATIONS

12.1 There are no safeguarding implications in respect of the fit-out of the training centre. The end-user will be screened and fully trained to ensure they are competent to deliver their training packages to the highest standards with full awareness of how to address learners with additional learning needs. The Growth and Economic Development Service has clear reporting guidelines in line with council policies to enable full evaluation and investigation of training delivery. All training-providers sign up to a memorandum of understanding/service level agreement to ensure all training delivery is in line with LBTH safeguarding procedures. All training is coordinated and co-delivered by Pre-Employment Officers who maintain regular contact with the learners and trainers, and are on hand to address any issues should they arise. Additionally they also conduct thorough reviews of the training packages to ensure value for money and allowing adaptation of delivery to meet service and learner needs.

Linked Reports, Appendices and Background Documents

Linked Report

- None

Appendices

Appendix A: Design and Fit out of Training Centre - at the former London Fruit and Wool Exchange development (LFWE) PID

Appendix B: LFWE Site Plan

Background Documents – Local Authorities (Executive Arrangements) (Access to Information)(England) Regulations 2012

- None

Officer contact details for documents:

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