



**Corporate policy and  
Resources Committee**

**Wednesday, 4 December  
2019**

**Subject: 5-7 Market Place Refurbishment**

Report by:	Executive Director for Economic and Commercial Growth
Contact Officer:	Wendy Osgodby Senior Growth Strategy & Projects Officer  wendy.osgodby@west-lindsey.gov.uk
Purpose / Summary:	To seek approval to proceed with the conversion of 5-7 Market Place into 3 x flats and a ground floor commercial unit.

**RECOMMENDATION(S):**

1. Members agree to approve the Capital Budget of up to £538,500 (includes £68,500 client owned risk register) and expenditure to obtain:
  - a finalised design;
  - statutory approvals; and
  - to carry out the associated construction works

to convert the current building at 5-7 Market Place, Gainsborough into three flats and a ground floor commercial unit with a view to selling the flats and retaining the commercial unit as an ongoing rental stream. This scheme is to be funded from the Capital Receipts net of any grant awards received.
2. Members to note the recommendations from Overview and Scrutiny Committee.

## IMPLICATIONS

### **Legal:**

Legal Services Lincolnshire have been consulted and have advised that upon completion of the works that 4 leases would require drafting; 3 for the flats and 1 for the commercial unit. Legal Services would draft the leases and carry out the conveyancing works associated for the sales of the flats.

Planning permission would be required for the finalised proposals relating to change of use from category B1 to a mixture of A2 and C3. The process is envisaged to take 8 weeks as a standard application.

Building control will be required to approve the final layouts and the ongoing works throughout the construction process.

Fees associated with all regulatory aspects of the project have been included within the professional and legal fees and/or the design and statutory approvals fees.

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**Financial : FIN/114/20**

Budget approval is required for capital expenditure totalling £538,500 to support the proposed scheme.

£376,500 of costs will be funded from Capital Receipts with the remaining £162,000 to be funded by grants, subject to the appropriate applications being completed and successfully awarded from WLDC for the following schemes:

£75,000 (Living Over the Shop)

£15,000 (Gainsborough Shop Fronts)

£72,000 (Townscape Heritage)

It is proposed that once completed, the three flats will be sold to generate capital receipts for future capital investment. A valuation report written by Bruton Knowles in September 2019 valued the three flats at a total of £255,000.

There is a risk that the flats may not sell and therefore, the option to rent the flats has been explored. Bruton Knowles estimated annual rental income for the three properties at circa £6,200 before taking into account void periods, inflation and net present value.

A third option has also been considered to sell both the flats and the commercial unit.

Ongoing revenue savings for utilities, insurance and maintenance costs have been factored in based on 2020/21 budgets and the current RPI to calculate payback periods of each option.

The payback period for the recommended option 1 is 15 years. Options 2 and 3 achieve payback in 26 years and 29 years respectively.

It is noted that should contingencies not be fully required that the payback period will decrease and a return on the investment will be seen earlier. Similarly there is a potential for increased rental income from the commercial unit as a result of other regeneration schemes planned for the town centre.

£10,000 of professional fees associated with selling and renting the units is recommended to be funded from existing revenue budgets.

**Staffing : HR104-10-19 no staffing implications**

This project is being led by the Senior Growth Strategy and Projects Officer and supported by the wider Council staff within Property Services, Finance and Procurement.

Legal advice is being provided as required via Lincolnshire Legal Services. Commercial expertise is being provided as required by Bruton Knowles. No additional staffing resources are required at this stage.

**Equality and Diversity including Human Rights :**

The newly created ground floor commercial unit will be designed with a level access and will integrate an accessible WC into the ground floor to enable use for all.

The flats, because of their very nature, will not be accessible to all due to the stairs and the inability to make the designs work whilst integrating both stairs and a lift. This is not unusual in this type of building.

**Data Protection Implications :**

**Climate Related Risks and Opportunities :**

The renovation of 5-7 Market Place will incorporate energy efficient LED lighting and energy efficient heating systems. It will not be possible to increase building U values and the like due to its nature however improvements carried out will improve the overall energy rating of the building.

**Section 17 Crime and Disorder Considerations :**

**Health Implications:**

**Title and Location of any Background Papers used in the preparation of this report:**

**Risk Assessment :**

If this building is not renovated it will fall into further disrepair, this will cause harm to the historic Market Place and entrance to the historic town centre

It is acknowledged that the project is relatively high risk in terms of both viability and financial outlook due to the nature of it being a renovation project and therefore many unknowns have to be considered. The overall project budget includes a £68,500 client owned risk register.

If the residential properties fail to sell on the open market then they will be rented.

## Call in and Urgency:

### Is the decision one which Rule 14.7 of the Scrutiny Procedure Rules apply?

i.e. is the report exempt from being called in due to urgency (in consultation with C&I chairman)

Yes

No

### Key Decision:

A matter which affects two or more wards, or has significant financial implications

Yes

No

## Overview and Scrutiny Committee, 12th November 2019

**RESOLVED** that Members support the progression of the report to the Corporate Policy and Resources Committee with the following suggestions:

- a) The report should be succinct with all three options clearly identified for ease of reference, for example in a table; *Actioned - See section 4*
- b) The cash flow should be simplified; *Actioned - See attached Cashflow*
- c) Opinions should be sought from local tradespeople and businesses to ensure best value for money;

*Due to the specialist nature of this scheme it is proposed the refurbishment is procured using a framework agreement, this will allow the opportunity to work closely with the selected specialist contractor to share aspirations and gain clear projects outcomes.*

*The procurement is split into two sections (pre-construction and construction), allowing for a greater understanding of any project costs and risks before entering into a full construction agreement. For committing to the £40k pre-con fee (which includes £25k worth of external design). WLDC will effectively have a fully compliant design, market tested and fixed price.*

- d) Consideration should be given to an independent valuation;

*No further valuations have been gathered at this time, along with the formal Valuation Report provided by Bruton Knowles, West Lindsey officers have direct experience of a similar scheme.*

- e) Members of the Overview and Scrutiny Committee recommend that a site visit be undertaken prior to any decision.

*A visit will be offered to members of the Corporate Policy and Resources Committee once any works have been completed.*

## **1 Introduction**

- 1.1 5-7 Market Place was purchased by WLDC in 2013 with a view to carrying out alterations required to either sell, convert to flats, convert to a training centre or sell on in the current condition with the aim of making a commercial return.
- 1.2 To date there have been various levels of interest / offers made on the building; however due to the level of structural works required, layout of the building and conservation challenges, none of the interest has resulted in a sale. As a result the building remains empty and is slowly deteriorating.
- 1.3 The building is situated within a Conservation Area and has listed status. There are a variety of regeneration options available for the building however the procurement of a Heritage Architect will enable a realistic solution to be provided. This solution will then inform the final solution for the building.
- 1.4 The refurbishment of this building was included in a successful funding bid to The Heritage Lottery Fund for building restoration. In addition it provides a demonstration of the Council's commitment to heritage-led regeneration as outlined in the Heritage Masterplan 2017. This project will form a crucial component of a major programme of economic regeneration, helping to secure the 'historic heart' of Gainsborough at the centre of the town's future.
- 1.5 It is important to emphasise this project relates to the future of the building and does **not** cover issues regarding previous expenditure and the purchase of the building. Please refer to the Stage 4 paper relating to 5-7 Market Place.

## **2 Background**

- 2.1 In 2016, building works commenced which had been informed by a structural report. During the period of works it was found that the frontage of the building was pulling away forcing the contractor to abandon works, and leading to the contract being settled. At that time design proposals were obtained to tie the front elevation back to the main building however a decision was made not to carry out any further works due to spiralling costs and to test the market for either rental or sale.
- 2.2 The property has received interest from various potential tenants and purchasers. Unfortunately all interest has been withdrawn due to the extensive structural costs and conversion limitations related to its listed building status. The property has fallen further into disrepair and it will not be developed without this intervention.

- 2.3 In the last financial year the property costed £4,773 to maintain, plus any urgent repair works on an ad hoc basis going forward. However the longer it is left in its existing state the further the costs will increase. There is also the ongoing risk of theft and vandalism.
- 2.4 It should be noted that the structural repairs to tie back the front elevation will be required under any circumstances at a cost of £160,000 (approx.); this is to make the building safe.
- 2.5 The timing of this project is crucial, as it will be undertaken in conjunction with a transformational programme of economic regeneration within Gainsborough town centre.
- Including:
- Market Street Renewal Limited;
  - New Hotel / restaurant;
  - Townscape Heritage Delivery phase;
  - Mayflower trail;
  - Wayfinding strategy;
  - New Cinema in the old Lindsey Centre
- 2.6 Development of this building will strengthen the success of the above projects and complement the Council's commitment to heritage-led regeneration as outlined in the Heritage Masterplan 2017.
- 2.7 Improvement proposals for the building are through a mixture of building works required for structural and maintenance purposes in addition to costs associated with conversion into flats and refurb of the ground floor premises. There will also be works required to the shop front to bring this building up to an acceptable and attractive standard suitable for the historic market place located in the Gainsborough Town Centre Conservation Area.

### **3. The proposal**

- 3.1 The property has been on the market for three years at a value of £175,000 however a sale has not yet been secured. Numerous property investors have visited the property and made offers; none have come to fruition due to the level of structural works required, layout of the building and challenges of its listed building status.
- 3.2 As the property falls further into disrepair the costs for the building works are growing in addition to the empty commercial unit being contrary to the town centre regeneration strategy. It is vital for the regeneration of the Market Place that the property is renovated as soon as possible and brought back into use.
- 3.3 It has become evident through the interest received in the property thus far that conversion into six flats is the preferred option (by investors not WLDC) to increase commercial viability, however this option is not

possible due to the listed building status and the protection of the open plan internal spaces. As a result it is unlikely a private investor will be able to make the development commercially viable.

3.4 A range of delivery options have been considered (see Full Project Documentation);

3.4.1 **Option 1:** Conversion of the premises to 3 x residential dwellings with ground floor commercial unit managed by WLDC

#### **Benefits**

- Demonstration of the council's commitment to heritage-led regeneration which will support the £1.9m Townscape Heritage Project
- The building will be fully renovated and will complement / support the wider town centre regeneration projects
- Timeframes, design, specification etc. can be aligned with the wider town centre Regeneration Strategy
- Visual improvements will support the improvements / plans for the market
- Development of high quality unique dwellings in the town centre
- The renovation works will be completed to a high standard
- Works will be completed within an agreed timeframe
- Income generation from rental of commercial unit and sale of 3 x dwellings
- Ground floor commercial premises brought back into use.
- Reduction in maintenance and insurance costs

#### **Constraints**

- Project is high risk due to refurbishment elements therefore contingency amounts can only be assumed.
- Payback period of investment is 15 years and will be funded from capital receipts net of any grants awarded.
- If a tenant can't be found for the commercial unit the payback will not be achieved.
- Sales of the flats do not achieve the required sale value damaging the profit and lengthening the payback period.
- Sale of the flats does not take place

3.4.2 **Option 2:** Seek to identify a Joint Venture to carry out the refurbishment

#### **Benefits**

- Reduced level of risk - as risk is shared
- Some level of control is retained
- Timescales can be applied for delivery therefore property does not sit empty



- The building will be fully renovated and will complement / support the wider town centre regeneration projects
- Track record of delivery high quality regeneration schemes
- High quality accommodation opportunity at an affordable price
- Ground floor premises brought back into retail use

### **Constraints**

- Day to day management will be led by the JV partner reducing WLDC's control of the development
- It will be difficult to secure a JV partner for a scheme of this nature due to the minimal returns and complexities of the scheme
- Would need to inject a higher level of funding into the project to gain the interest of a JV partner to enable them to see a return on their investment. This in turn results in little to no financial return to WLDC
- Listed building constraints may mean the project is not financially viable.
- If a tenant can't be found for the commercial unit the payback will not be achieved
- Sales of the flats do not achieve the required sale value damaging the profit and lengthening the payback period
- Profit is unlikely and any rental returns are shared if drawn down
- Commercial Unit could remain empty if rental price is set too high by the JV

### **3.4.3 Option 3: Auction the property (Sold as seen)**

#### **Benefits**

- Property will be removed from WLDC's property portfolio, removing ongoing liability and associated costs
- A small return on the investment will be immediately seen
- Minimal officer involvement

#### **Constraints**

- Property is likely to remain empty
- Property could be resold quickly and then remain empty
- The property falls further into disrepair as costs of building works are not understood by buyer therefore works do not commence
- An empty and run down building in the historic Market Place contradicts all other plans / visions for the town centre and potentially reduces the likelihood of other investment in the area due to lack of developer confidence
- The urgent structural repairs remain and therefore the building will become a health and safety risk to the Market Place in time.
- This option does not demonstrate a commitment to heritage-led regeneration, it is unlikely that any solutions would fit in the Gainsborough Regeneration Vision.

**3.4.4 The recommended option is Option 1: Conversion of the premises to 3 x residential dwellings with ground floor commercial unit managed by WLDC**

3.5 Due to the specialist nature of this scheme it is proposed the refurbishment is procured using a framework agreement as this will allow the opportunity to work closely with the selected specialist contractor to share aspirations and gain clear projects outcomes.

3.6 The procurement is split into two sections (pre-construction and construction), allowing for a greater understanding of any project costs and risks before entering into a full construction agreement. For committing to the £40k pre-con fee (which includes £25k worth of external design), WLDC will effectively have a fully compliant design market tested, and a fixed price.

#### **4. Benefits of the proposal**

##### **4.1 General Benefits**

- Demonstration of the council's commitment to heritage-led regeneration which will support the successful funding bid (£1.9m) from National Lottery Heritage Fund.
- Improve the visual appearance of the building (new shopfront) and wider Market Place making the area more appealing.
- The building will be fully renovated and will complement / support the wider town centre regeneration projects and act as a showcase of building restoration and use of the upper for residential developments in the town centre.
- Would increase footfall in the historic town centre at different times of the day / (24hr economy in the Market Place).
- In alignment with WLDC's Corporate Plan, Economic Growth Strategy 2014-2034 and Gainsborough Town Centre Heritage Masterplan.
- The renovation works will be completed to a high standard.
- Works will be completed within an agreed timeframe.
- Timeframes, design, specification etc. can be aligned with the wider town centre Regeneration Strategy.
- Development of high quality unique dwellings in the town centre.
- Ground floor commercial premises brought back into use.
- Provide high quality commercial premises in a prime town centre location.
- Provides a new business opportunity within the Market Place widening the existing town centre offer.

## **5 Constraints of the proposal**

### **5.1 General Constraints**

Design solutions may not be as expected due to heritage constraints making flats and commercial unit less appealing than hoped.

### **5.2 Financial Constraints**

- Project is high risk due to refurbishment elements therefore contingency amounts can only be assumed.
- Listed building constraints may mean the project is not financially viable, this will be confirmed following full construction drawings and listed building consent.
- If a tenant can't be found for the commercial unit the payback will not be achieved.
- Sales of the flats do not achieve the required sale value damaging the profit and lengthening the payback period.
- Sale of the flats does not occur. If the flats remain unsold we will look at the option to rent out the flats to cover the expenditure.

## **6.0 Project Dependencies**

- 6.1 Following a successful funding bid to the National Lottery Heritage Fund, it is the vision that 5 – 7 Market place will be used as an exemplar project to demonstrate the Authority's ability to deliver high quality historic building renovation projects that show the commitment to the redevelopment of that specific area, as well as the wider district to the residents of West Lindsey.