

Business Case

Project Details			
Project Name	Incubation units at Suffolk Business Park		
Project Manager	Andrea Mayley	Date	October 2021
Project Sponsor	Julie Baird	Version	V10
Business Case Stage	Full Business Case		

Executive Summary

The West Suffolk Strategic Framework 2020-2024 sets out three strategic priorities including our commitment to focus our energies and resources on the “Growth in West Suffolk’s economy for the benefit of all our residents and UK plc”. This project is a key example of how West Suffolk Council can support and invest in our communities and our businesses as it provides incubation space for new and developing companies that wouldn’t otherwise be provided.

This project will deliver 40,000 sq. ft of start-up/incubation space, phase one, with the potential for a further 40,000 sq. ft, for companies mainly in the advanced manufacturing and engineering (AME) sector and its supply chain. The costs of borrowing to fund this first phase of the development will be covered by the business rates that will be retained locally as a result of the Enterprise Zone at Suffolk Park, Bury St Edmunds.

West Suffolk Council has identified a preferred site in Bury St Edmunds which provides ample space for both phases of development and sufficient associated car parking and landscaping.

Phase 1 comprises 40,000 sq. ft of industrial (engineering and manufacturing) units, offices and IT. The units are in the region of 2,000 sq. ft each (with flexibility) served by roller shutter doors providing large vehicle access; sufficient height to provide space for a mezzanine; and a central connecting corridor – enabling users of the units to have shared pedestrian access/shared kitchen facilities etc to facilitate collaboration between companies. In addition, a central hub building will connect to the units providing café space; meeting rooms/conference/training facilities; offices; and facilities for the unit occupiers.

Phase One of this scheme is estimated to cost £12.1 million, this includes the purchase cost of the land, the construction of the incubation centre and all associated professional fees. This sum will be refined as the project evolves and as a result of the findings of several Gateway reviews.

The Council has signed a Memorandum of Understanding (MOU) with New Anglia LEP and Suffolk County Council for the allocation of funding from the retained business rates generated by the Enterprise Zone (EZ) at Suffolk Park. This funding is separated into

four pots (or funds) with each of the partners receiving a prescribed percentage. One of the pots (Fund B) is set aside to enable the funding of economic development initiatives and its allocation has to be agreed by all three partners. Without the allocation of Fund B, this project will not be able to proceed.

Financial modelling has been undertaken to be in line with the remaining life of the Enterprise Zone, due to the reliance on Fund B to finance the deficit that will come with developing the building. Over the remaining life of the Enterprise Zone, the financial modelling indicates that there would be an overall deficit the scheme after taking into account the allocation of Fund B.

Due to the building up of funds in Fund B before this scheme is likely to be completed, a net deficit position under this appraisal does not occur until after 11 years of the scheme being operational.

However, if the Council adopted a standard 40 year borrowing appraisal (over the life of the asset rather than the EZ defined period) the project produces a surplus position over its life.

The intention is that the centre, once built, will be managed by a leading business support agency in the advanced manufacturing and engineering (AME) sector. The managing partner will be instrumental in delivering high quality support and collaboration opportunities for businesses within and external to the facility.

Phase two will only be built once the centre has been up and running and has a demonstrated need for additional units and will be the subject of a separate business case. Phase two will have the potential to increase the number of units on the site from approximately 16 to approximately 36. There is sufficient space on the site for the car parking provision to be increased in line with this expansion also.

Key Drivers

There are two key drivers for this development, the first is the fact that facilities such as these are not commercially viable due to the high construction costs versus the income that can be generated. Commercial developers will expect the costs of a development to be paid back within a few years and developments such as these require a much longer timeframe and financial commitment. Therefore, there is a shortage of such space across the local area.

The second key driver is the need to support the growing advanced manufacturing and engineering sector which has the ability to offer employment which will help to: provide employment opportunities locally for those looking to start or change their careers; and provide our larger companies with supporting supply chain companies and skilled employees that are currently in short supply.

This project is a key example of how West Suffolk Council can support and invest in our communities and our businesses as it provides incubation space for new and developing companies that wouldn't otherwise be provided. It supports our Strategic Framework and is in line with our Medium Term Financial Strategy (see section below).

Key benefits and outcomes

1. Provision of incubation space not otherwise available resulting in opportunities for new companies to start or existing companies to grow in a supported environment.
2. Support to the advanced manufacturing and engineering sector which is growing in the area. Ultimately, the sector will be larger and more resilient and supply chains will be available locally.
3. Employment opportunities for local people in a growing sector.
4. The provision of aspirational careers for people providing them with the incentives to study and work hard, this relates to some of the local issues we have in low aspirational levels and low attainment levels.
5. Increased base of skilled employees enabling the sector to benefit from a local supply chain of people that is currently a reported key issue for our larger employers.

Role of the Council

West Suffolk Council has the opportunity to be an investor and deliverer of this key project. To enable this project to go forward the Council will need to borrow money up front. The Council will therefore incur some financial risk in delivering the project. These financial risks including the costs of borrowing (and the capital costs incurred) will be able to be repaid by the income derived from the Enterprise Zone retention of business rates (as agreed with New Anglia LEP and Suffolk CC – the EZ partners).

The Council will also act as the commissioner for this project, assembling and legally procuring skilled professionals to enable the development to be completed on time; to budget; and without contravening any Laws or requirements. The Council will procure additional skills and capacity to enable this project to be delivered on time and in budget. The costs of this additional resource have been included in the total project costs.

The Council will retain the ownership of the asset and will seek to procure a management/operation company to enable the full potential of the development and its outcomes to be realised. Our approach will be to seek a reasonable length, Full Repairing and Insuring (FRI) Lease. This is a similar approach to that taken with the Sam Alper development in Newmarket.

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Strategic Case

The Strategic Framework 2020-2024 includes the following commitment:

“Being ambitious in supporting and investing in our West Suffolk communities, businesses and the environment, to encourage and manage growth in prosperity and quality of life for all.”

This project is a key example of how West Suffolk Council can support and invest in our communities and our businesses as it

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provides incubation space for new and developing companies that wouldn't otherwise be provided.

The project aligns with the first of the three strategic priorities:

“Growth in West Suffolk’s economy for the benefit of all our residents and UK plc.

We will use our influence, investment, partnerships and regulatory and public protection powers to:

- *encourage economic growth in West Suffolk that benefits our local economy, our workforce, our families and communities and our global and local environments in particular by tackling climate change”.*

The project also aligns with the second of the three strategic priorities in that it will:

“support communities to fulfil their ambitions so as to improve the lives of residents and the local environment”.

The Strategic Framework includes evidence that supports this project. Image 1 below sets out the current situation with regard to employees and employment. It highlights the fact that we have relatively low unemployment, a fact which is not always helpful for companies who require high levels of staff. In addition, with regard to qualifications and attainment levels, West Suffolk Council is behind the national averages. The image also shows average wage levels. At present, in Bury St Edmunds the average house price is nine times the average income. This essentially means that many local employees are unable to afford to live and work here resulting in longer commuting and reliance upon the private motor car.

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ECONOMY AND ENVIRONMENT

Unemployment is low in West Suffolk and the economy is diverse. However, average wages and qualification levels are below the national average, leading to a continued focus on attracting high quality jobs and on improving skill and attainment levels.

Unemployment

Unemployment in West Suffolk is lower than the England average.



Qualifications

A higher proportion of people in West Suffolk have no qualifications than in England as a whole, and a lower proportion hold higher level qualifications.



Attainment

Educational attainment at GCSE is slightly below the national average in West Suffolk.

Percentage of pupils who achieved at least **grade 4** in English and Maths GCSE



Percentage of pupils who achieved at least **grade 5** in English and Maths GCSE



Published results for 2017/18
Source: Department for Education

Average wages in West Suffolk



(shown here as Forest Heath and St Edmundsbury Councils)
Average wages are below England levels.

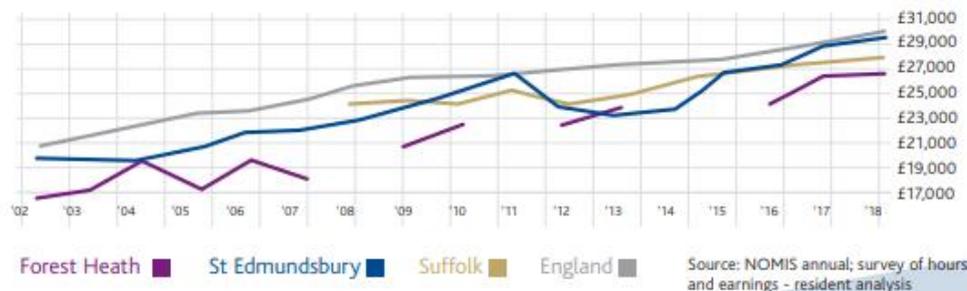


Image 1 This figure highlights the issues for West Suffolk and its economy relating to unemployment, average wages and qualifications/attainment.

In addition, this project accords with at least three of the key themes of the Medium Term Financial Strategy highlighted below:

1. Aligning resources to West Suffolk's strategic framework and essential services;

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- 2. Continuation of the shared service agenda and transformation of service delivery;
- 3. Behaving more commercially;**
- 4. Considering new funding models (e.g. acting as an investor);**
- 5. Encouraging the use of digital forms for customer access; and
- 6. Taking advantage of new forms of local government finance (e.g. business rate retention).**

Effectively this project sees West Suffolk Council act commercially as an investor in the delivery of incubation space using funding generated from the business rates on the Suffolk Park Enterprise Zone.

Strategic Needs and Existing Arrangements

A recent survey of the available commercial land in and around Bury St Edmunds illustrated that there is a dearth of industrial units around the 2,000 sq. ft size in the local economy. As a part of the Employment Land Review (ELR) work that supports the new local plan, interviews were held with local commercial agents who cited this as a major issue for them and their clients. The ELR states:

Agents – somewhat unusually, it must be said – have stated the view that the Council may have to engage in direct provision to ensure a supply of suitable modern space for growing local businesses. This is an option that should be seriously considered.

Our own development appraisal based on delivering units of the type proposed (even without the additional benefits of the hub building and the management/support available) proved to be unviable without subsidy.

The fact that there are few of these units available and the fact that they are unlikely to be provided by the market means that there is high competition for such units that do exist. It also means that our new and growing companies are forced to consider relocating or starting their businesses outside of West Suffolk.

Further, we are aware that many of our local advanced manufacturing and engineering (AME) companies struggle to find skilled workers. This is a point raised frequently at the West Suffolk Advanced Manufacturing and Engineering Group meetings. The provision of additional space for AME companies will increase the pool of available employees. In addition, the centre will provide strong links to West Suffolk College and other training providers to help ensure the supply of skilled labour.

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Scope and Service Requirements

The scope of this project is for West Suffolk Council to deliver 40,000 sq. ft (phase one) of start-up/incubation space, (with the land for a second phase of a further 40,000 sq. ft) for companies mainly in the advanced manufacturing and engineering sector and its supply chain. This business case only relates to the land acquisition and the delivering of the first phase. The costs of borrowing to fund this phase one development will be covered by the business rates that will be retained locally as a result of the Enterprise Zone at Suffolk Park, Bury St Edmunds. Further phases will need to be the subject to a separate business case(s).

The Council will retain the ownership of the developed asset and will seek to procure a management/operation company to enable the full potential of the development and its outcomes to be realised. Our approach will be to seek a reasonable length, Full Repairing and Insuring (FRI) Lease.

Key Drivers and intended Outcomes

As mentioned above, Image 1 in the Strategic Case section on Page 5 sets out the current situation with regard to employees and employment. It highlights the fact that we have relatively low unemployment, a fact which is not always helpful for companies who require high levels of staff. In addition, with regard to qualifications and attainment levels, West Suffolk Council is behind the national averages. The image also shows average wage levels. At present, in Bury St Edmunds the average house price is nine times the average income. This essentially means that many local employees are unable to afford to live and work here resulting in longer commuting and reliance upon the private motor car.

There are two key drivers for this development, the first is the fact that facilities such as these are not commercially viable and therefore there is a shortage of such space across the local area.

The second key driver is the need to support the growing advanced manufacturing and engineering sector which has the ability to offer employment which will help to: provide employment opportunities locally for those looking to start or change their careers; and provide our larger companies with supporting supply chain companies and skilled employees that are currently in short supply.

There are a number of outcomes that will be realised by the development of this project:

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1. Provision of incubation space not otherwise available resulting in opportunities for new companies to start or existing companies to grow in a supported environment.
2. Support to the advanced manufacturing and engineering sector which is growing in the area. The centre will provide the opportunities for companies to collaborate together. Ultimately, the sector will be larger and more resilient and supply chains will be available locally.
3. Employment opportunities for local people.
4. The provision of aspirational careers for people providing them with the incentives to study and work hard, relating to some of the local issues in low aspirational levels and low attainment levels.
5. Increased base of skilled employees enabling the sector to benefit from a local supply chain of people that is currently a reported key issue for our larger employers.

Benefits Criteria and Appraisal

We will use the following metrics to assess the benefits of this project.

1. Number of businesses incubated
2. Number of start-ups facilitated
3. Number of businesses supported
4. Number of jobs created
5. Numbers of new products, processes and services
6. Number of collaborations formed

In addition, we propose to survey the companies within the centre annually to understand some of the strength, weaknesses, opportunities and threats to their businesses and to understand how the centre can be improved to support them further. This survey will help to report on the softer benefits that result from the centre and provide a basis for continuous improvement.

These elements will form part of the Service Level Agreement (SLA) or Management agreement with the managing agent.

Strategic Risks

There are financial and legal risks associated with this project. A full Risk Register is included at Appendix 1. This shows that the main risks to the project relate to the financial and construction elements. A series of mitigations are proposed to reduce these risks to an acceptable level. With regard to cost and income, many of the risks relate to matters that can only be modelled at this stage (for example, we won't know at this stage the precise amount of income from Fund B over the lifetime of the project) therefore have taken

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	<p>the worst-case scenario where possible and added appropriate levels of contingency. Any risks through the construction phase will be dealt with through the procurement and legal routes. It is also proposed that a series of Gateway Reviews will be factored into the Programme to enable us to test our assumptions as the project evolves.</p> <p>Constraints and Dependencies</p> <p>The ability to access the funding to support this proposal is based in a Tripartite Legal Agreement signed by New Anglia Local Enterprise Partnership (NALEP), Suffolk County Council (SCC) and West Suffolk Council (WSC). A Memorandum of Understanding (MOU) has been agreed between these three parties for the business rates to be used for this project. The total business rates collected from the Enterprise Zone are split into four main pots (A1, A2, B and C) and this project is requesting the allocation of Fund B. Without the allocation of Fund B, this project would not be able to proceed.</p> <p>Following the agreement of the MOU, work has now started on a legal agreement between the partners.</p> <p>In conclusion, it is considered that this project fits well into the Strategic Framework and MTFS. It is clear that there are issues in the local economy that can be affected by this project, such as providing support to the growing Advanced Manufacturing and Engineering sector. There are a set of clear objectives that can be measured to assess whether the project is having the impact it was expected to have – with the opportunity to make improvements to the way the centre is run if needed. The project is not without risks, constraints and dependencies however it is considered that these have been considered, documented and mitigated. It is considered that there is a strong Strategic Case for this project.</p> <p>The next section deals with the economic case for the project.</p>
Economic Case	<p>This section endeavours to show why the current option is considered to be the best approach to delivering the outcomes desired from this project.</p> <p>Main Option and Preferred Way Forward</p> <p>A number of alternative locations, delivery models and approaches have been considered before selecting the current preferred way forward.</p> <p>The site</p>

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The council has identified a preferred site for this development in Bury St Edmunds.

This land was chosen because it is:

- a) available;
- b) allocated for employment uses in the local plan;
- c) accessible to the main highway network and in particular its proximity with the A14 Trunk Road;
- d) has great visibility to the main road (it will be easily seen by passers-by);
- e) affordable (subject to agreement but in line with the Red Book Valuation);
- f) large enough to accommodate both phases of the project;
- g) close to a large supply of potential employees;
- h) close to other businesses who may wish to attend collaboration meetings/networking events etc;
- i) can be funded by using the business rates collected from the adjacent Enterprise Zone (subject to agreement); and
- j) in accordance with the Suffolk Business Park Masterplan that indicated a range of units would be provided by the park to provide a range of employment opportunities for local people.

Other sites (Suffolk Park or Suffolk Business Park) were considered however they were either not available, unaffordable or didn't have the visibility of this site.

Consideration was given to delivering a centre such as this on other sites within the ownership of West Suffolk Council, thereby assisting with delivery (by removing the need to purchase land). Notably, the Council has interest in land at Western Way, Bury St Edmunds and at Rougham Hill in Bury St Edmunds. Both sites were discounted as they did not have the accessibility, visibility, connectivity, or access to finance that the preferred site has. In addition, the Rougham Hill site was too small.

Likewise, sites outside Bury St Edmunds were considered however they also had the disadvantage of not having proximity to the larger supply of potential employees.

Therefore, the preferred option for this project is to build an 80,000 sq. ft facility (in two phases) on the preferred site and procure a management company/operator to provide high quality business support for companies in the Advanced Manufacturing and Engineering sector.

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Delivery Vehicle

The preferred method of delivery for this project is for WSC to be the sole investor and deliverer. The benefits of this approach are that WSC:

- a) retains control of the project;
- b) is able to set out the benefits it wants to achieve and design the scheme to meet these benefits;
- c) can access the available funding; and
- d) will retain an asset once built.

Consideration was given to partnering with another body to deliver the project. This would have had the advantage of sharing any risks. The two most obvious partnership candidates are New Anglia LEP (NALEP) and Suffolk County Council (SCC). These are the most obvious because they tend to share the same aims and aspirations and because they are also signatories to the legal agreement regarding the funding. However, it was considered that there was no compelling case for entering into a partnership to deliver this project. The funding can be committed without a partnership and the risk profile of the project is considered to be manageable. In addition, neither partner has expressed an interest in joining the delivery team as this is seen to be a project than can be delivered by West Suffolk Council. The benefits of a partnership are not considered to outweigh the complexity of creating a delivery partnership.

It would be possible to enter into a Joint Venture or another mechanism with a commercial developer/provider however it is the case that development such as this require public subsidy and do not generate the income required to make this approach work.

Consideration was also given to a third-party investor who could provide finance for the development with or without the contribution from the business rates income. This option proved unviable.

The preferred option is therefore for West Suffolk Council to be an investor and deliverer of this key project. To enable this project to go forward the Council will need to borrow money up front. The Council will therefore incur some financial risk in delivering the project. The costs of borrowing (and the capital costs incurred) will be able to be repaid by the income derived from the Enterprise Zone retention of business rates.

The Council will also act as the commissioner for this project, assembling and legally procuring skilled professionals to enable the development to be completed on time; to budget; and without contravening any Laws or requirements.

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	<p>The Council will retain the ownership of the asset and will seek to procure a management/operation company to enable the full potential of the development and its outcomes to be realised.</p> <p>Critical Success Factors</p> <ol style="list-style-type: none"> 1. Securing access to Fund B of the EZ business rate receipts 2. Land purchase at an acceptable price supported by a red book valuation 3. Delivery of the Building/project (Phase 1) 4. Management/Operation Agreement with a third party 5. Building/site opening 6. Tenants attracted and committed 7. Decision to implement Phase 2 (new project) <p>Risk Assessment</p> <p>There are financial and legal risks associated with this project. A full Risk Register is included at Appendix 1. This shows that the main risks to the project relate to the financial and construction elements. A series of mitigations are proposed to reduce these risks to an acceptable level. With regard to cost and income, as many of the risk relate to matters that can only be modelled at this stage (for example, we won't know at this stage the precise amount of income from Fund B over the lifetime of the project) we have taken the worst-case scenario where possible and added appropriate levels of contingency. Any risks through the construction phase will be dealt with through the procurement and legal routes.</p> <p>In conclusion, it is considered that the main option for the delivery of this project has been well tested. The best location is in Bury St Edmunds. The advantages of this location exceed other sites within the District. The preferred method of delivery is for the Council to keep control and seek to support the project from its own resources given that it has access to funding set aside by the retention of Business Rates locally.</p> <p>The next section deals with the commercial case for the project.</p>
Commercial Case	<p>This section demonstrates that the preferred option for the delivery of this project will result in a viable procurement and well-structured deal.</p> <p>This project is supported by the West Suffolk Council (WSC) legal Team and the full implications of wider legislative requirements will be considered. All of the contracts let will follow the WSC Procurement Rules.</p>

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	<p>In addition, the Management/Operational Agreement will be drawn up by our Legal team (or an external legal team instructed by us) to ensure that it covers all necessary requirements. West Suffolk Council will client the relationship with the managing agent. Our preference is for a Full Repairing and Insuring Lease to assist with risk transfer.</p> <p>There are no TUPE or other personnel implications for WSC as a result of this proposal.</p>
Financial Case	This section is included as Exempt Appendix 2.
Management Case	<p>This section aims to demonstrate that the “preferred option” is capable of being delivered successfully, in accordance with recognised best practice.</p> <p>Deliverability</p> <p>This proposal is supported by internal Project Management Resource. This project will also require support from Finance, PM, Legal, Property, Communications and Economic Development/Growth. We will need to increase capacity in these teams to enable this project to proceed and the costs of this extra capacity have been included in the total capital costs required.</p> <p>The construction phase and the final management phase will be covered by separate contracts. Where necessary, WSC will procure the use of Specialist Advisors. For example, the valuation of the land was undertaken by the consultancy Fenn Wright who were able to provide us with a “Red Book” valuation for the site. The outline Project Management Plan is attached as Appendix 3.</p> <p>Once the project has been approved, the procurement process will commence for the delivery of the building and associated facilities. At this stage, no decisions have been taken as to the type of construction contract that will be followed. In any case, the appropriate skills will be procured to ensure the contracts are kept to budget and time.</p> <p>Risk management</p> <p>The current Risk Assessment is attached as Appendix 1. As the project moves forward the risk assessment will be reviewed and amended as required.</p>

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All contracts; change management; and risk management will be managed by the Project Team including representatives from Economic Development, PM, Finance and Legal. Any decisions that need to be taken out with this team will be presented in accordance with the Decision-Making requirements of WSC.

Monitoring

The project will be monitored via the Project Team throughout the development process.

The Project Team will have key gateway points identified at the beginning of the process to enable them to assess whether the project is on track.

Once the scheme is complete, the same project team will be able to evaluate the project in line with the benefits criteria set out in the Strategic Case section.

In conclusion, it is considered that the case has been made for this proposal. The project will be delivered in accordance with best practice and will be subject to robust risk management, financial management and project delivery practices.

There is a strong strategic fit and the benefits of the scheme will result in a tangible difference to the advanced manufacturing and engineering (AME) sector in West Suffolk. Young people and people wishing to change careers will have wider opportunities and the ability to access higher paid jobs.

The project is also a good fit for accessing Fund B of the retained Business Rates funding from the Enterprise Zone. The project can access this funding thereby reducing the financial impact on the Council whilst delivering against a key aspiration.

It is the intention to create space for new and growing businesses in an environment supported by one of the leading providers of business support to the AME sector in the Country.

Recommendations and Next Steps

It is **RECOMMENDED** that members:

- (1) Endorse the project objectives as set out on Pages 9 and 10.
- (2) Approve, the purchase of 6.8 acres of net developable land to enable the project to be delivered.
- (3) Approve, the development of 40,000 sq. ft employment space (phase one) in accordance with the details contained in this business case.
- (4) Approve £12.1m capital budget for phase one only, funded through the Investing in our Growth Fund, funded by prudential borrowing, with the revenue impact in line with the Financial Case section of exempt appendix 2.
- (5) Acknowledge that officers will take steps where possible during the project stages and gateways to bring the projects cash flow forecast closer to a cost neutral position, with any deficit to be underwritten by the business rates equalisation reserve
- (6) Officers will proceed in line with the Council's agreed Scheme of Delegation. However, where necessary agreement is sought for delegation to the Director of Resources and Director of Growth in consultation with the Portfolio Holders for Resources and Growth to make changes to the proposal to reflect the need for the project to evolve as time moves forward and to enable the project to be delivered in accordance with the Finance Case and the Programme.
- (7) Agree for the Council's Section 151 Officer to make the necessary changes to the Council's prudential indicators as a result of recommendation (4).