

Advanced Manufacturing and Engineering Centre Project

Report number:	CAB/WS/24/034	
Report to and date:	Cabinet	23 July 2024
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Decisions Plan: **The decision made as a result of this report will usually be published within 48 hours and cannot be actioned until five clear working days of the publication of the decision have elapsed. This item is included on the Decisions Plan.**

Wards impacted: **All wards**

Recommendation: **It is recommended that Cabinet:**

- 1. Notes the current position and deliverability challenges of the AME project as set out in section 2 of Report number: CAB/WS/24/034.**

- 2. Taking into account the risks set out in section 5 of Report number: CAB/WS/24/034, agrees for the AME project to progress to the next Gateway (gateway 4), utilising up to £450,000 from accumulated funding generated from Pot B Enterprise Zone receipts.**

1. Context to this report

- 1.1 According to a recent report by Oxford Economics and the Manufacturing Technologies Association, 'making things' accounts for 34.5 percent of all UK goods and services exports. In addition, the median wage in this sector is £31,300 – which is 11 percent higher than the national median wage. The industry is worth £518 billion and supports 7.3 million UK jobs directly and across the supply chain/communities it operates in. (Source: Product Engineering Solutions Media April 2024 [Report highlights true impact of UK manufacturing on GDP - PES Media](#))
- 1.2 West Suffolk Strategic Priorities 2024-2028 make a commitment to Sustainable Growth and recognise the importance of "supporting new and existing businesses to grow". The priorities set out a focus on "attracting higher skilled enterprises to support wage growth" for the benefit of our local communities.
- 1.3 Advanced Manufacturing and Engineering (AME) is a key growth sector for West Suffolk. According to 2022 data, 9.2 percent of employees work in manufacturing in West Suffolk compared to 7.5 percent nationally.
- 1.4 The West Suffolk Manufacturing Group, set up by the Council in 2019 has been nurtured into a strong networking and information group which regularly sees over thirty independent businesses attend its meetings. Businesses have reported that attending these meetings has introduced them to other companies, opportunities and enabled them to learn different skills. One business estimated that attendance at "the group has allowed us to explore and take advantage of opportunities estimated at £800K".
- 1.5 For over ten years the Council has worked closely with the Nationally renowned Hethel Engineering Centre. Working with the team of experts at Hethel Innovation we have explored opportunities for West Suffolk AME businesses to provide business growth support such as enabling businesses to diversify their products and income streams. Hethel has been a key partner helping to deliver events in the annual West Suffolk Business Festival and are a key supporter of the WS Manufacturing Group. To this end, Hethel has been a key partner in the development and connectivity of the AME sector in Norfolk and Suffolk.
- 1.6 The business case for this project was originally approved at Council in December 2021 (Report number COU/WS/21/016 refers). This included the allocation of a £12.1 million capital budget funded from the Investing in Growth Fund through prudential borrowing. This budget included for the purchase of 6.8 acres of land at Suffolk Business Park which has already taken place. The financial case included details of the unique way this project was to be funded with an annual income from the Suffolk Park Enterprise Zone (EZ) over a 25 year (total) lifetime.

- 1.7 External factors relating to Brexit, Covid, global conflicts, inflation, access to construction materials and interest costs etc have adversely affected the affordability of UK construction projects. As a result, the current cost plan for the AME centre project estimates a total figure of £16.1 million, however after value engineering it is felt that a sum of £15.1 million should be achievable. This is £3 million over the original £12.1 million capital budget. The total cost over the life of the project (17 years to match the remaining time of the EZ) is around £22 million, which is made up of £15.1 million capital cost and £7 million in interest payable. The predicted total sum available from Pot B (see paragraph 2.3 for an explanation of the Pots) has increased recently but is still only approximately £15 million in total, this is insufficient to cover the cost increases and the associated borrowing costs and therefore the project is on hold since October 2023.
- 1.8 During this time the project team has been working with Suffolk County Council (SCC) and New Anglia Local Enterprise Partnership (LEP) to secure additional funding from Pot C to add to Pot B, to cover this shortfall. As a result of those discussions and to maintain progress, the budget for 2024 to 2025 included provision to increase the capital budget to 15.1 million subject to agreement to use of the addition EZ receipts through increasing the size of Pot B.

2. Current AME Centre project update

2.1 The Council has purchased 6.8 acres of land at Suffolk Business Park to develop an 80,000 sq ft AME Centre in two phases. The first phase of the centre has been designed to RIBA Stage 3 and includes:

- Self-contained but linked, flexible workshop units
- A Hub building with café, meeting rooms, offices etc.
- Car parking, landscaping, HGV access
- Opportunity for business support and networking events for the wider AME community

2.2 Including the cost of the land, there has been £3.9 million spend to date on the project from the initial £12.1 million budget allocation.

2.3 The Centre can be funded from the locally retained business rates generated from the Suffolk Park Enterprise Zone (EZ) adjacent. However, to achieve this, additional income from the business rates needs to be added to the retained rates that WSC have rights over. This fund (made up of 100 percent retained business rates) is split into three parts:

- Pot A (5 percent SCC and 20 percent WSC) replicates the amounts that Suffolk County Council (SCC) and WSC usually receive from business rates. These amounts form part of the council's general budgets to fund the delivery of services and are therefore already committed.
- Pot B (35 percent) is retained by WSC for local economic development initiatives (and has been agreed to be used to fund this AME centre)
- Pot C (40 percent) is retained collectively by the Suffolk local authorities (prior to April 2024 it was retained by New Anglia LEP and is now retained by SCC). At the time of writing, the decision-making process relating to the spending of Pot C is yet to be determined.

2.4 The intention is that once built, the AME centre will be managed and operated by a leading business support agency with a track record of delivering and supporting growth to AME companies. This is a game changing opportunity for the local economy. The centre can become the heart of an emerging AME cluster, providing access for companies to a range of support and physical space encouraging their journey into growth. Ultimately, local people will have access to higher value jobs, careers and skills in a key growth sector.

2.5 There are a number of outcomes that this project can deliver including:

Maximising previous investment – West Suffolk Council worked in partnership to deliver the Eastern Relief Road (Rougham Tower Avenue) including contributing £3 million to bring it forward. This opened up the 72 hectares of employment land including the 14 hectare Enterprise Zone. All of this work increased economic activity along A14 corridor and beyond.

Supporting the growth of a key sector within West Suffolk – currently there is a general lack of small and medium employment space due to the fact that this size of unit is not as commercially viable. Incubation centres like the proposed AME centre often require public subsidy. The Carter Jonas study stated that “AME centre will provide a range of workshop units providing space not readily available in the market and on flexible terms that businesses will be seeking”.

Creating a catalyst for an AME cluster – The industry is worth £518 billion and supports 7.3 million UK jobs (Oxford Economics). There are a number of companies already at Suffolk Business Park and in West Suffolk more generally that can be galvanised into a sector cluster.

Increasing average salaries and aspirations – the median wage in this sector is £31,300 – which is 11 percent higher than the national median wage (Oxford Economics).

Providing a nucleus for advice and networking for new and existing AME businesses.

Increasing the pipeline to address skills gaps with Eastern Education Group and universities, sustaining more apprenticeships and careers in this sector.

Maximising investment in the existing AME business network which aims to support business growth in this sector.

- 2.6 A Business Case for the purchase of the land and the development of phase 1 was approved in December 2021. At this point the approved budget for the scheme was £12.1 million which was to be funded entirely from Pot B income. It is worth noting that Pot B income is guaranteed for 25 years (from 2016) in total and is only received by the Council annually – therefore the Council is required to borrow the up front capital sum needed to build the centre and to use the income from Pot B to cover both the capital cost and borrowing costs over the remaining life of the EZ (rates retained until March 2041).
- 2.7 More recently, as part of the 2024 to 2025 budget setting process, it was agreed to increase the £12.1m budget to up to £15.1 million if required and provided that the scheme still achieved a break-even position for the Council through retaining further rates from Pot C.
- 2.8 The project is currently at the end of Gateway Stage 3 and the first stage tender is complete with the contract being ready to be awarded to the contractor. In addition, the scheme is ready to be submitted for planning approval and favourable pre application advice has been received from the Local Planning Authority.
- 2.9 There are cost and time implications to be considered from this further delay. However, the current cost plan estimates a total figure of £16.1 million (£15.1 million with value engineering) which is £3 million over the original £12.1 million budget and whilst the predicted total sum available from Pot B has increased to circa £15 million in total across its 25 years, this is insufficient to cover the cost increases and the associated borrowing costs (£7 million) and therefore the project is on hold.

- 2.10 It is important to note that the cost increases on this project are not due to internal factors but matters out of the control of the Council. Factors relating to Brexit, Covid, global conflicts etc have affected inflation, access to construction materials and interest costs. The design team has worked to look for opportunities to value engineer the scheme to bring it closer to budget and it is recognised that once appointed, the contractor will assist with value engineering bringing the overall construction cost (including the land) closer to £15.1 million. It is worth noting that it has been a number of months since the costs have been tested and further work will be needed to bring cost certainty.
- 2.11 Discussions have been ongoing firstly with New Anglia Local Enterprise Partnership (LEP) until its demise in March this year and also with SCC regarding the possibility of the Council accessing additional funding for this project from Pot C of the retained business rates. Unfortunately, these discussions have been delayed by the lengthy transition arrangements relating to the establishment of the new Business Board which will take on many of the responsibilities previously in the domain of the LEP. These delays have a further negative impact upon the project's cost plan.
- 2.12 It is now clear that the decision as to whether the Council is able to access the funding it needs to progress this project from Pot C, will be taken by the SCC Cabinet and the new Business Board. We continue to work with the post LEP structure hosted by SCC, and headed by the Suffolk Business Board, to ensure there is the necessary support to deliver the AME Centre.
- 2.13 Work is currently taking place to define a revised economic strategy and priorities for Suffolk, under the Business Board. Whilst this work is in relatively early days, it is already clear that the AME sector will be a key component and future priority, and that the strategy will recognise the critical role district schemes and projects will play in delivering the strategy. The AME centre project is therefore expected to be well aligned to intentions of the strategy, and we understand SCC and the Business Board will be keen to ensure the scheme has a regional visibility and benefit that stretches beyond the West Suffolk district boundary.
- 2.14 With regard to the requirement for additional funding for the scheme, both councils are working together to access additional funding from Pot C to ensure the project is fully funded prior to any construction contract being entered into. This work is progressing well and SCC officers are further briefing their members over the coming weeks to set out the detailed requirements, ahead of formal decision making process. SCC remains supportive of the scheme but is seeking to work through further details as regards mix of funding requirement (grant vs annual support), timings of investment etc, to ensure the scheme offers the best value for money.
- 2.15 In addition, SCC will continue working with the Council to ensure the future funding proposal clears the requirements of the government subsidy control

regime. An application for review has been submitted and this process is expected to take eight weeks.

- 2.16 Capital projects such as this one are organised into a series of Gateways which enable the Council to review progress and take appropriate decisions before moving the project forward. The Gateways roughly align to the RIBA (Royal Institute of British Architects) stages which are the way the construction industry understands the work packages. This project has completed Gateway 3 and has been on hold for over a year now and this delay is adversely affecting the costs of bringing the project forward. Gateway 4 is approximately 11 months long and would enable the project to be taken through to planning permission and would result in the first stage contractor being appointed. As the construction project is split into two stages, the first stage only commits the Council to detailed design and brings greater cost certainty. A decision to proceed into Gateway 4 only commits the Council to up to £450,000 of Pot B (already accounted for in the project costs). Also, SCC has agreed to fund half of this cost which is helpful in terms of reducing the financial liability and also in terms of showing SCC's commitment to the project.
- 2.17 The Council is already in receipt of Pot B funding from the retained business rates on the Enterprise Zone and it could choose to use this funding to restart the project and take it through the next gateway. This would have the effect of minimising cost increases and enables sufficient time to secure additional funding from Pot C. However, without the confirmation of funding to support the full £15.1 million there is no guarantee that the project will complete and therefore there is a risk that the costs incurred to date and going into the next gateway would be abortive.

3. Proposals within this report

- 3.1 It is recommended that West Suffolk Council (WSC), taking into account the risk of abortive costs, supports the use of Pot B of up to £450,000 to fund the next project gateway to enable the scheme to restart and be taken through Planning. SCC has confirmed that it will fund half of these costs to enable the project to recommence. At the same time, both councils are working together to access additional funding from Pot C to ensure the project is fully funded prior to any construction contract being entered into. The £450,000 amount (maximum) would be funded from the Pot B already controlled by WSC. SCC has its own access to finance for this sum.

4. Financial considerations

- 4.1 The £450,000 would be from Pot B retained business rates that the Council has already received, therefore the financial exposure of proceeding to the next stage is quite low. Further, SCC has agreed to fund half of these costs. There is however an opportunity cost to underwriting these costs if the project were not to go ahead, as this funding from Pot B would not be available for other initiatives.

- 4.2 The table below details the current financial position of the scheme on Suffolk Business Park, although as the project has been on hold for over nine months the capital estimates need to be revisited to ensure they are achievable, this will be tested as part of the next gateway.

AME Units at SBP	£
Capital Estimates	
Build Costs incl contingency (after Value Engineering)	10,643,000
Fees	1,010,453
Land purchase cost incl SDLT and legal fees	3,447,547
Total Estimated Capital Cost	15,101,000
Annual Revenue Implications	
Initial Rental Income	221,700
Initial Landlord costs	(151,010)
Borrowing Costs	(1,299,727)
Total Estimated Annual Surplus / (Deficit)	(1,229,037)
Forecast Average Annual Income from Pot B	874,618
Total Lifetime Surplus / (Deficit) - 17 years	(7,132,800)

As can be seen from the table above, there is a forecast initial annual deficit of £1.23 million before applying funding from Pot B. The forecast average annual income from Pot B is just under £875,000, so does therefore not cover the current forecast deficits. This leads to a lifetime deficit (over the remaining life of the Enterprise Zone) of £7.13 million.

5. Risks

- 5.1 There are a number of risks relating to the proposal to forward fund the next gateway of the project. The first of these is that even after all the work we have put into negotiations with firstly the LEP and now SCC, the decision is to not allow access to Pot C, or to only allow a smaller contribution than required.

Mitigation

Significant levels of work have gone into the assessment of the cost/benefit ratio to enable a persuasive argument to be presented to the Pot C decision making body. Further SCC has shown commitment to the project by agreeing to fund half of the costs of restarting and entering into Gateway 4.

- 5.2 There are several risks that relate to further delay, these include difficulties in bringing the design team back together, having to restart the design from scratch, construction costs increasing, interest rates fluctuating, and additional legal requirements/changes in policy.

Mitigation

Restart the project as soon as possible as per the recommendations of this report.

- 5.3 The focus upon costs can also bring risks to the central outcome for this project. The opportunity here is to create a step change for the local economy and the AME sector specifically. If a centre is built but there is no interest from centre operators/no independent body to run the centre for us, we will potentially have day to day revenue issues and not deliver against our ambitions for the AME sector.

Mitigation

Loss of economic value that the project will deliver can be mitigated by engaging with centre operators to ensure that there are options for the centre to be run and for the delivery to match the economic expectations.

6. Alternative options that have been considered

- 6.1 Several other options have been considered and discounted. The first of these is described as Option 2 and is for the project to stay on hold until the decision regarding access to additional funding from Pot C is known.
- 6.2 This option would enable the project to be taken forward at some point in the future when there is certainty as to whether additional funding will be allocated from Pot C to cover the gap. This option is considered to have a slightly higher financial ask in total, through increased construction and design team costs, for the Council compared to the preferred option due to the extended project delay. This option however avoids the risk of further abortive costs if gap funding for the project is not secured.
- 6.3 There are potential implications as a result of further delay to the project. Inflationary costs continue to rise and the funding gap is very likely to worsen. We have already seen that legislative changes have had an adverse impact upon costs with the new Building Safety Act requiring the project to employ a Principal Designer. Further delay may result in the need to undertake some of the preliminary surveys again, as they are only valid for a set period. In addition, we have already seen that some of the existing Design Team have been reallocated to other projects and there is a risk that when this project recommences, we may not have access to the same team (and therefore the same project knowledge) to pick up from where we left.
- 6.4 The third option considered was for West Suffolk Council to allocate the additional funding from the Strategic Priorities and Medium Term Financial Strategy (SP&MTFS) reserve to enable the current project to be taken forward regardless of whether we are able to access funding from Pot C or

not. If we used the funds accumulated in Pot B to upfront fund some of the capital costs, then the amount required from the SP&MTFS reserve would be circa £3.5 million based on current build cost and interest rate assumptions.

- 6.5 This option has the advantage of enabling the project to restart and thereby reducing exposure to further cost increases. However, this option would result in a significant allocation of the SP&MTFS reserves being spent on this one project, the remaining fund balance uncommitted is likely to then be around £0.5 million for the delivery of the agreed Strategic Priorities across the term 2024 to 2028.
- 6.6 It is worth noting that the Council is already contributing over and above the Pot B allocation as described in the original business cases through holding the delivery and operational risk associated with this project.
- 6.7 The fourth option was for work to continue to gain additional funding for the project from Pot C with a view to developing a scheme for Olding Road instead of Suffolk Business Park and or provide the land at Olding Road as our contribution towards the project funding gap.
- 6.8 This option could be to retain part of the warehouse or to completely demolish the warehouse and redevelop instead. Olding Road has the potential to accommodate a similar size of centre as proposed at Suffolk Business Park (SBP) along with a similar amount of space for a possible phase 2. Whilst Olding Road is physically close to West Suffolk College and this could be an advantage for fostering relationships, it is the case that any provider on either site will be required to work with West Suffolk College and other regional colleges to help deliver clear skills outcomes.
- 6.9 The proposed uses accord with planning policy as well as the land allocation of the current and emerging Local Plan. However, delivering the same outcomes from an AME centre on the Olding Road site relies on our ability to secure a sector specific operator who can provide the added value needed to support the businesses. At this stage there is a risk that we have not sufficiently tested this location with potential operators. There are limited specialist providers for the AME sector and therefore we may be limited in who we can secure to run the centre for us. Therefore, the potential to achieve the outcomes in terms of targeted business support and networking may be reduced. We could end up with a different type of incubation centre, which is already provided for locally. This option would require work to bring partners on board and to develop a narrative regarding the potential offer and benefits of this location.
- 6.10 High level cost estimates for this option suggest that the capital cost could be in the region of circa £13.8 million. This is lower than the £15.1 million on SBP, however this is only due to the fact that Olding Road has no land costs attached to it, the actual construction costs are expected to be higher on Olding Road than the construction costs on SBP. This lower capital cost also does not close the funding gap of the project by itself, so this option would also require additional funding from other sources to make it break even.

There are some unknown utility and highway capacity issues as well as other risks that require further investigation for this use in this location.

- 6.11 The fifth option considered was for us to “Do nothing” or to put the project on hold indefinitely or until costs reduce or additional funding can be found. This would be to effectively mothball the current project until interest rates have had a chance to reduce and Pot B to increase with time. This option carries the risk that costs do not reduce in time and that costs actually increase further – viability of the project may therefore never be achieved.
- 6.12 Mothballing the current project would mean that the projects costs incurred to date would likely be abortive costs. The total of the costs incurred to date on the project (not including the land purchase) is £444k, which would be funded from the accumulated balance of Pot B. The Council would also need to manage the borrowing costs associated with the land purchase within its current treasury management budgets until such a time that the project was to recommence, or another use was found for the land.
- 6.13 The final alternative option considered was for the development of small business units on Suffolk Business Park (SBP) within the original £12.1 million budget. This option has the benefit of not requiring a decision on Pot C. However, the land purchased at SBP is subject to a legal covenant and it may be necessary to renegotiate the proposed use with the original landowner. The development of basic employment units would be beneficial to the local economy in terms of providing a supply of smaller units of which there is a shortage locally. This option would not provide the level of support for the AME sector and would not result in a step change for the local economy. In addition, it is important to note that the use of funding over £10 million is now subject to Subsidy Control Regulations and the new scheme would be scrutinised (as are the other options but may be harder to satisfy under this option). Another disadvantage of this option would be that the Council would have to either run the units itself or try to find an operator.
- 6.14 The financial viability of this option is untested as work is required to understand what a scheme within the overall £12.1 million budget would look like, and therefore what the likely income and expenditure levels generated from the scheme would be.

7. Consultation and engagement undertaken

- 7.1 In 2021 the Council commissioned Hethel Innovation to survey local AME businesses to help build up a picture of local demand for an AME Centre. The survey revealed that 92 percent of the respondents agreed with the statement "I have plans to expand my business within the next three years". Further, nine businesses planned to recruit more staff, and a further five were investing in business growth. When asked, 'What are your priorities when choosing a physical space for your business?' respondents commented:

- Cost and fit with products manufactured
- Proximity to Bury St Edmunds and on a business park ideally
- Factory layout and infrastructure
- Facilities, comfort, and environment
- All buildings are on our land
- Size, cost, location
- Suitability
- Location
- Departmental integration

7.2 Local businesses and commercial property agents were also consulted with regard to land and premises requirements as part of the Employment Land Review study which was evidence supporting the emerging West Suffolk Local Plan.

7.3 A further commission was awarded to Hethel Innovation to support the Council in the development of the design for the AME centre. It was recognised at an early stage that the performance of such a centre is strongly related to its design and appearance.

7.4 In August 2023 Carter Jonas were instructed by the Council to undertake an assessment to support decisions relating to how such a centre would be managed going forward and what the commercial market view of likely levels of rent could be. This work supported the updating of the financial case.

7.5 All of the above engagement was undertaken with Suffolk Business Park as the identified location for the proposed centre. If Option 4 is preferred, there may be the need to undertake additional engagement and intelligence to ensure the business case is still sound.

8. Background documents associated with this report

8.1 Proposed Incubation Units item at Council 14 December 2021: Report number [COU/WS/21/016](#)