

Capital Scheme Business Case

Project Name: South Lincolnshire Food Enterprise Zone – Hub Building

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Version History		
Version	Date	Description of change
v1.0	14/6/21	Document creation
V1.1	23/6/21	Final draft

Distribution		
Name	Service Area	Comments
Andy Gutherson	Executive Director, Place	Agreement in principle given to approve the signing of the Main Works Agreement, subject to the necessary political approvals being in place
James Drury	Executive Director, Commercial	Advice given on the approvals required and the routes to request these
David Colman	Chief Legal Officer	Advice given on the approvals required, the routes to request these, and the key considerations to include
Keith Noyland	Head of Finance (Communities)	Clarification of the precise figures in the Getting Building Fund award inserted into text

- Extra rows can be inserted if required;
- This document must be sent to and approved by the relevant Head of Finance who may be involved.
- If you have been sent this document for comment, please enter your remarks to support or oppose this proposal.

Executive Summary

Provide a brief summary of the report, including feedback from all relevant teams,

Executive Summary
<p>Public investment in the next phase of the development of the South Lincolnshire Food Enterprise Zone (SLFEZ) will facilitate the creation of a high quality business environment to support the continued growth and long-term prosperity of the agri-tech sector in south Lincolnshire, by driving significant levels of private investment. Work will include the construction of a new "Hub" building which will provide high quality business and collaboration space for small and start-up businesses working in the food supply chain and related sectors.</p> <p>The project also includes the construction of a further 220m of site access road and the joint acquisition with South Holland District Council (SHDC) of an additional c.11.39 hectare of land for the future development of Phase II of the SLFEZ. Both these elements were completed between March and May 2021.</p> <p>The SLFEZ has benefited from the adoption of a Local Development Order (LDO) by SHDC in November 2018 which simplifies planning arrangements for the site, including the planning application process.</p>

Wide ranging consultation with industry representatives as part of the SLFEZ Visioning work carried out in winter 2019/20 identified strong demand and a strategic need for a "Hub" building to be constructed on Phase I of the SLFEZ. Plot 12 has been chosen for the construction of the building due to the site's prominence and central location within the scheme (including the 11.39 hectare phase II). the site is owned by the County Council and planning consent for the construction of the building was granted in February 2021.

The Hub will be operated by the public sector in order to align with the provision of other support it can offer in skills, business and innovation and because it may not be a viable stand alone scheme, especially in the initial years, for the private sector to offer. The operation of the Hub will follow a similar model to other successful managed work spaces operated by the Council such as the Eventus Business Centre in Market Deeping, and provide a mix of office and workshop space available to lease on market terms.

The Hub will include space for small and medium sized enterprises, business support facilities and space for networking, collaboration and potentially conference and catering facilities. The building will be instrumental in the creation of a "community" within the SLFEZ which was identified in the Vision for the SLFEZ. The Hub will be built to a high design and energy efficiency standard as it is important that the building will set the design standard expected for future development on the SLFEZ.

The build programme shows work on site starting in April 2021 with completion of the scheme in March 2022. The design and construction of the Hub is being undertaken in such a way to allow for later extension and addition to the building as the SLFEZ grows and the need for additional support space and ancillary accommodation increases.

The Strategic Case

Why are we doing this, and how does it meet our strategic objectives?

i) Economic Impact

The SLFEZ will create business growth opportunities for the agri-food sector and its associated supply chain of businesses located in South Holland and the wider region. The construction of the Hub building is one element of a programme of investment that will unlock large scale economic growth in the rural area of Holbeach and across south east Lincolnshire. The Hub will provide new, purpose built office and workshop space to accommodate new start-up businesses and small enterprises, creating a suitable environment for these businesses to become established. This space will be let at market rents and on "easy in, easy out" lease terms, in line with the Council's other managed workspaces, and therefore there will be no subsidy control (formerly 'state aid' implications). Day to day management of the building will be undertaken by the Eventus Centre Manager as this will ameliorate the management costs.

ii) Delivery of Greater Lincolnshire Local Enterprise Partnership Priorities (incl. Strategic Economic Plan and emerging Greater Lincolnshire Local Industrial Strategy)

The Greater Lincolnshire Local Enterprise Partnership (GLLEP) Strategic Economic Plan (SEP) recognises that economic success is vital in this important area of south east Lincolnshire. The Council must deliver the potential of this sector and unlock growth which will be achieved only with appropriate investment to allow the immediate development of sites and premises for the agri-food sector.

The draft GLLEP Local Industrial Strategy (LIS) produced in November 2019 recognises that the further growth of the agri-food sector from its already strong base is a major opportunity for Greater Lincolnshire. The SLFEZ will play a major role to develop more efficient food production methods that will serve a growing global population. The Hub building will meet the objectives of the five pillars of productivity (Ideas, People, Infrastructure, Business Environment and Place) identified in the draft strategy by creating high quality business space and ancillary facilities suitable for new and small companies. The scheme will:

- focus on innovation in the food supply chain and associated sectors
- create space for a high degree of collaboration and sharing of ideas etc
- address the skills agenda by providing an increased number and wider range of high skilled jobs
- provide training and up skilling opportunities for the local population
- complement related activity on two other similar schemes in Greater Lincolnshire; North East Lincolnshire FEZ and Central Lincolnshire FEZ.

There is capacity for significant housing and employment growth around Holbeach and land adjacent to the A17/A151 junction has previously been identified to the north west of the town as suitable for the provision of high quality employment space and residential units. However, it was recognised that this land would be unlikely to come forward for development in the foreseeable future without significant public sector investment in order to meet the high cost of infrastructure provision, which is currently a significant barrier to development.

The scheme has a range of target beneficiaries including "start-up" businesses and small to medium sized enterprises. On adjacent sites within the SLFEZ we will facilitate the private sector delivery of additional larger units for growing businesses to relocate, thus creating a clear pathway for new and growing businesses to establish themselves, provide important employment opportunities, especially for higher skilled jobs, and facilitate the exchange of ideas and cutting edge technologies for the food manufacturing sector.

Wide ranging consultation with industry representatives as part of the SLFEZ Visioning work carried out in 2019/20 identified strong demand and a strategic need for a "Hub" building to be constructed on Phase I of the SLFEZ. Plot 12 has been chosen for the construction of the building due to the site's prominence and central location within the scheme.

The Hub will be operated by the public sector in order to align with the provision of other support in skills, business and innovation and because it may not be a viable stand alone scheme, especially in the initial years. The Hub will comprise space for small and medium sized enterprises, business support facilities and space for networking, collaboration and potentially conference and catering facilities. The building will be instrumental in the creation of a "community" within the FEZ which was identified in the Vision for the FEZ. The Hub has been designed to a high design and energy efficiency standard as we recognise that the building will set the design standard expected for future development on the SLFEZ.

The Hub will be located immediately adjacent to the existing University of Lincoln (UoL) Food Centre of Excellence, an important "anchor occupier", and will benefit by creating links with the occupiers of this site.

iii) Status

Access to the SLFEZ has already been unlocked following completion of a new, four arm roundabout constructed on the A151 as part of the Peppermint Junction A17/A151 improvement scheme and the construction of site service roads. Lincolnshire County Council has led work with all the major utility providers to provide services to the site, which will facilitate the development of Phase I. Briefly, these utility works comprise the following:

Utility	Specification	Expected Completion
Power	275kVA to UoL Only.	Complete
	1.7MVA overhead line upgrade	Started late Spring 2021 Complete Winter 2021
Water	Onsite works for UoL and Phase 1a	Complete
	Onsite works for Phase 1b	Ongoing
	Offsite upgrade works for potable water	Complete
Foul	Foul pipes in highway of Phase 1a	Complete
	Foul pipes in highway for Phase 1b	Ongoing
	Foul Pumping Station for all of SLFEZ	Complete
Gas	Installed for UoL, IoT and Phase 1a	Complete
	To be installed on Phase 1b	Ongoing
ICT	Openreach Fibre FTTC	Complete
	To be installed on Phase 1b	Ongoing

Land and property values in South Lincolnshire are relatively low compared with the rest of the UK and this can inhibit development, especially when exceptional or abnormal development costs are incurred. The cost of providing utility infrastructure and the highway improvements required to serve the SLFEZ site have had an adverse impact on the viability of developing the land. As a result, public sector investment is required to "pump prime" the scheme by providing start up space and enabling infrastructure in order to ensure the long term success of the SLFEZ.

The build programme for the Hub building shows work on site starting in April 2021 with completion of the scheme in March 2022. Ground investigation work was previously carried out on the subject site and no significantly adverse findings were reported. The design and construction of the Hub is being undertaken in such a way to allow for later extension and addition to the building as the SLFEZ grows and the need for additional support space and ancillary accommodation increases.

i) Finance

Following the success of a recent "Getting Building Fund" bid, which awarded £6.368million to the Council for SLFEZ development, the capital funding awarded is being used to construct a further 220m of site service road as well as the construction the 1,422 sq. m "Hub" building, which will be at the heart of the future success of the FEZ.

£5.174million from the "Getting Building Fund" award has been identified for the construction of the Hub building. This will meet the full capital cost of constructing the Hub building and the Council will not be required to make a capital contribution to this aspect of the project.

Value for Money

What are the options and which provides the optimum benefits and value for money?

Market intelligence shows that the private sector is often unwilling to undertake commercial development at the present time because rental and freehold values are too low to support the cost of development. This situation is exacerbated when abnormal or exceptional development costs are encountered. For example, the cost of decontaminating brownfield land or, in this case,

the cost of servicing and providing utility and road infrastructure and the anticipated cost of providing pile foundations.

Private sector developers also continue to face difficulties in securing development finance to fund schemes following the economic downturn, which continues to have a significant negative impact on investor confidence in all but the strongest locations or sectors.

Market uncertainty and the reluctance of the private sector to undertake speculative development schemes is also severely impacted by uncertainty following the implementation of Brexit and also following the impact of the coronavirus on the global economy.

As a result of all these factors, the private sector would be reluctant to bring forward development of the Hub building. However, public sector intervention can show that occupier demand for small, "start-up" commercial facilities does exist and with some initial "pump priming" the private sector will have the confidence to proceed with subsequent phases of the scheme. With this investment, the SLFEZ will be well positioned once the economy is in recovery.

Following the successful bid for "Getting Britain Building" funding, the full capital cost of constructing the Hub building will be met by this fund and LCC will not be required to make a capital contribution.

The following options have also been considered and discounted:

- Do nothing (business as usual) – Should the public sector decide to no longer lead the development of the SLFEZ it is expected that the scheme would in effect be "moth balled" and no development activity would be possible as the scheme is not considered viable without major public sector investment. The impact of Brexit and the coronavirus pandemic further strengthens opinion that the scheme would not progress if left to the private sector to develop unaided.
- Do minimum – without additional funding stakeholders would be able to carry out only a limited range of mainly promotional and marketing type activities and the development of the SLFEZ would take much longer to come forward. Construction of the Hub building and land assembly would not be possible.
- Intermediate Development – It is conceivable that some, small scale, public sector funding could be made available in the medium term however this would not allow the scheme to develop at the pace needed to meet demand and unlock future job growth in the time scale desired. For example, the construction of the Hub building and land assembly would be deferred for many years.

Preferred Option – The Getting Building Fundaward will allow the project to go ahead within the timeframe desired in order to bring forward commercial development on the SLFEZ. Without this funding, the cost of constructing the Hub building, land assembly and further on-site infrastructure will have a significant, negative impact on the viability of the SLFEZ and it will be unattractive to developers in the medium term.

Procurement

How will this be procured?

Due to the time constraints imposed by the funding requirements, a two stage process has been followed, first for the Architect and then for the Building Contractor.

The basis for both stages has been scored on both price and quality. Four organisations were invited for interview, who were then subsequently scored on relevant questions to the scheme. An

appointment was subsequently made with collaboration between the Architect and Building Contractor to discuss practicalities of design.

Financial Section

This will be in a spreadsheet format – the spreadsheet is a separate document which will form Appendix 1 to this document.

Project Delivery and Risk

Consider the level of complexity in both implementation and on-going management and operation and be clear about this.

Implementation

Government funding has been secured via the Getting Building fund and the Contract signed by the Executive Director of Place.

The scheme has been suitably resourced by members of the Economic Infrastructure Team. Technical expertise has been procured through the SCAPE framework with the appointment of Gleeds Cost Management.

Core Architects were appointed to design the Hub building and wide ranging consultation with Stakeholders was carried out in order to ensure a suitable building specification and mix of space. Subsequently a Building Contractor was appointed, and the Architect practice novated to the Building Contractor at a relevant point.

Planning permission was secured for the building in February 2021.

The building is being constructed on Phase I of the SLFEZ on Lincolnshire County Council owned land.

The Council has underwritten materials that the Contractor / supply chain require that are on long lead in times.

A live Risk register is in operation with monthly progress meetings and fortnightly visual progress inspection on site.

On-going management and operation

The financial projections for the on-going management and operation of the Hub building have been based on the operating model for the Eventus business centre in Market Deeping, which the Council has been successfully managing since its launch 11 years ago.

The manager of Eventus will also manage the Hub, as this will ameliorate the management costs.

The projections, attached as at *Appendix 1*, show that after a planned deficit of c.£43,000 in year 1, the Hub is forecast to make a modest surplus in year 2, rising to an average surplus of c.£55,000 thereafter.

Risks

Covid 19

- The UK is still in a Coronavirus pandemic – possible effect on all persons involved directly or indirectly

- Ability to source labour and materials - having a knock on effect on delivery timescales.
- Risk of further local / national lockdowns – impact on labour, materials and delivery

"Getting Building Fund" Contract

- Missed delivery time – Contractual delivery time is by 31st March 2022 including payments. Advanced payments towards to the end of the scheme may need to be considered.

Materials supply

- Competing with other Government funding initiatives, national infrastructure priorities, such as HS2, and the implementation of leaving the European Union has put pressure on the UK's own raw materials, materials supply and long lead in times being imported from other countries.
- The Council has underwritten materials, where required, that the Contractor deemed a risk of procuring whilst being outside of the Main Works Agreement (MWA).

On-going management and operation

- Inaccurate financial modelling – could result in on-going financial losses to the Council

Main Works Agreement (MWA) not signed

- Legal Services Lincolnshire (LSL) advised the Client team on week commencing 31st May 2021 that a further LCC approval was required to construct the Hub building. The Client team believed that the authority delegated in Executive Decision Notice I012769 (item 7) of 7th February 2017 covered the delivery of this building, but have been advised that it does not.
- This subsequently stopped the MWA from being signed, and exposing the Council to construction contractual risk – this risk remains until such time as the relevant approval is given and the MWA can be signed.

Officers Recommendations/Summary

It is recommended that approval is given to undertake the construction of the Hub building and the subsequent signing of the Main Works Agreement between the Council and the building Contractor.