

D2N2 Investment Board – December 2020

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Meeting and Date	D2N2 Investment Board – 9 th December 2020		
Subject	Project for Approval – A46 Corridor – Chapel Lane Bingham Offices		
Author	T Goshawk	Total no of sheets (Excluding cover sheet)	11

Papers are provided for:	Approval <input checked="" type="checkbox"/>	Discussion <input type="checkbox"/>	Information <input type="checkbox"/>
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Summary and Recommendations

D2N2 has an allocation of £250M of Local Growth Fund to support delivery of economic growth across the D2N2 region. The funding started in 2015 and comes to an end in March 2021.

The delivery of the fund is managed in line with the D2N2 Local Assurance Framework agreed with Government, which sets out the compliance requirements in relation to the delivery and approval of projects funded through the Local Growth Fund.

This project being put before the Investment board has now been assessed and is being recommended for consideration and approval. Following a review of the business case alongside the independent assessment of the market evidence, officers would recommend the Investment Board to approve the request of £750,000 of Local Growth Fund to be released to Rushcliffe Borough Council, subject to the confirmation of cabinet approval and the ERDF Match funding contribution.

D2N2 Investment Board
Final Business Case – Project for Decision
Local Growth Fund

Project Name	A46 Corridor – Chapel Lane Bingham offices	Project Applicant	Rushcliffe Borough Council
Construction Start Date	4 th January 2021	Construction End Date	15 th October 2021
Local Growth Fund Requested	£750,000	Total Project cost and Sources of funding	Total Cost - £3,988,628 European Regional Development Fund - £1,675,000 Rushcliffe Borough Council - £1,563,628
Gross Value Added/ Benefit Cost Ratio	BCR – 5.3:1	Expected Outputs	67 Direct jobs by 2025 180 Indirect Jobs by 2035

1.0 Project Description

The Bingham Chapel Lane Project will enable the delivery of 869m² of lettable space in 12 ‘own front door’ offices by Rushcliffe borough Council (RBC). The offices will be used to enable local businesses to grow. To facilitate this growth additional support will be offered to businesses within the centre via one-to-one support from a business advisor as well as further information, brokerage and diagnostic support via workshop sessions hosted on the site.

These offices form part of a wider delivery plan for the site which includes a new leisure centre and community hall. This new on-site leisure centre will provide meeting space, training space and networking space that can be accessed by tenants.

A study by Gleeds Advisory Ltd in 2018 into the business case for a mixed leisure and commercial development at Chapel Lane reported good indicators for offices at competitive rents but with insufficient financial returns for commercial office developers. And therefore, this type of development would require to be public sector led but grant funding to fill a viability gap.

It is hoped delivery of local employment space will help towards a sustainable growth plan for the town of Bingham. It will provide local employment opportunities, reduce out-commuting, support entrepreneurs and provide employment opportunities for local people.

The newly created floorspace is being designed to create new office space which has minimal impact to the environment and uses energy efficient technologies. The new facility is expected to achieve BREEAM 'Very Good' standards and will include PV Panels for energy usage and electric car charging points.

In response to the Covid pandemic, an independent report was commissioned by Pinders and the project design was altered to remove shared-space elements and will now provide 12 own front door offices. The business case has also taken into account that demand maybe lower than expected in the short term and so RBC have reprofiled their rates of occupancy to reflect this.

2.0 Summary of Strategic Case/Fit

The strategic fit of the project is presented below:

1. Bingham Masterplan

Bingham will experience significant growth in housing over the next 10 years and therefore RBC are committed to supporting the town through that transition. Therefore the project aligns to this strategy to support the need for sustainable development in the locality and in particular the North of the town to connect to the existing economy in the centre.

2. D2N2 SEP

The project supports two key themes from the Strategic Economic Plan:

- Supporting productive and growing businesses – Through the creation of new office space this development offers space for smaller businesses to physically grow alongside complementary business support to enhance growth.
- Enhancing the quality of places we live in and work - The development at Chapel Lane will contribute to the priority to provide a healthy, inclusive and sustainable community and contribute to the vibrancy of the town. The project offers grow on space for businesses where there is a current lack of facilities in the locality, thus enhancing the area.

3. Local Industrial Strategy

Specific areas where the project aligns to the Local industrial Strategy are:

- Inclusion - The project provides local affordable office space for SMEs in a rural location with a range of employment opportunities to suit people with different skill levels. The supply of gigabit fibre will ensure this rural area is better connected and SME's are productive and efficient.

- Environmental Sustainability: This project will deliver a low carbon emitting office building which will be available to rural businesses and not just those in urban areas.
- Productivity - The business advisor will work with the Rushcliffe Borough Council's employment and skills partnership to support businesses to deliver the talent for the current and next generation. The working space for SMEs and entrepreneurs will create an environment of shared ideas, enhancing productivity and generating economic growth.

**Assessors
 Comments**

The rationale for the project has been clearly identified within the Business Case and it is demonstrated that there is a clear alignment to D2N2 strategic objectives.

3.0 Summary of Economic Case and expected outcomes

The Economic Case sets out 3 main options for the development area:

- Option 1 - Do nothing – under this scenario we have assumed RBC will seek to dispose of the surplus land after the leisure centre development and leave delivery to the market, with no further public sector intervention. Market analysis suggests the most likely use for the site would be trade retail. We have therefore assumed under the do-nothing scenario that 10,000 sqft trade counter retail space would be delivered.
- Option 2 - 10,000 sqft standard office scheme – under this scenario a standard office scheme of 10,000 sqft would be delivered.
- Option 3 (Preferred Option) - 10,000 sqft office incubator scheme – under this scenario the same office block would be delivered as in Option 2 but with the addition of targeting high growth SME's as tenants and the provision of business support to facilitate growth.

The options analysis shows that option 3 (preferred option) provides substantially better Value for Money than option 2 or option 1. The BCR of option 3 shows there is a greater grow out rate of firms from the investment in providing business support rather than a generic office scheme.

Following calculations from the preferred option the economic analysis has confirmed that the project provides 'High' Value for Money.

**Assessors
 Comments**

The Economic case has proven that the project provides 'High' Value for Money and satisfies the LEP'S Local Assurance Framework conditions in providing good value for money.

4.0 Summary of Commercial Case

The commercial case is presented to assess the optimum means to deliver the preferred option, along with setting out the delivery and procurement arrangements. With regards to the market assessment for the project this has been independently verified by Thomas Lister Ltd. The commercial case is summarised as follows;

i. Market Assessment

- The market assessment and independent appraisal of this confirm that there will be a demand for offices within the location of the project.
- The project is suitable to speculative development as due to the nature of the office space it is unlikely that a developer would come forward to establish the product. Therefore, the council's intervention here helps to create a product that is needed by the market but will not be taken up by the private investment market.
- The project and office space being proposed will help to solve a market failure for smaller office space in the area.

ii Procurement Strategy

- Rushcliffe Borough Council appointed Henry Riley through the ESPO Framework to deliver project management and design services for the scheme and they have led on the procurement of the building contractor.
- Rushcliffe Borough Council sought a main contractor for the project through the Procure Partnership Works Framework which is an OJEU compliant framework, this decision was agreed at RBC's 9th of June 2020 cabinet
- The Borough Council carried out a two-stage tender process with seven Expressions of Interest received from the first stage which was reduced to four contractors who were invited to proceed to tender.
- Following the closure of the tender process the contractor's submissions have been assessed and evaluated and a final contractor has been selected to take the works forward. Rushcliffe Borough Council will look to appoint the contractor at the 8th of December Cabinet meeting.

The procurement process outlined has been confirmed as being compliant with both OJEU and Rushcliffe Borough Councils procurement regulations.

Assessors Comments	The Commercial case has demonstrated need and demand for the new office development within the Rushcliffe area and therefore justifies the investment of Local Growth funding. In terms of delivery of the scheme, Rushcliffe Borough Council have identified that a public sector compliant procurement process will be utilised for this scheme.
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5.0 Summary of Financial Case

The Financial Case presented within the Full Business Case primarily identifies that the D2N2 LGF would be spent on the construction of the new office units at the Chapel Lane site in Bingham

The capital costs for the development within the business case are based on the tender exercise for the project which has been completed with a main contractor provisionally selected. The value of the contract is £3,988,628 which is match funded on top of D2N2's contribution of £750,000 by £1,675,000 of European Regional Development Funds and £1,563,628 of Rushcliffe Borough Council Funding. All Rushcliffe Borough Council contributions are included within the RBC Capital Programme and are scheduled to be approved with the project at the 8th of December 2020 Cabinet meeting. The ERDF contribution to the project is recommended to be approved through written procedures on the 14th of December through the Sustainable Urban Development Committee.

Rushcliffe Borough Council have substantiated the costs for the project by providing supplementary information to the business case in the form of a cost plan and have also provided cashflows for the spend that will result from the project.

In terms of the operation of the facility the project sponsor has provided an expected operating cashflow for the project up to a period of 15 years. The project will generate income as businesses will be charged market rent for occupying the space. The rental income calculation assumes 12 self-contained units with occupancy rates increasing from 50% in the first year (6 units occupied) to an average of 92% (11 units occupied) from year 4. The cashflows show that an operating profit for the project is not expected to be generated until year 4 of the project. This will lead to an eventual modest operating profit over the 15-year projections included.

Rushcliffe Borough Council core staff will be charged with management of the lettings for the office space and will monitor and manage the maintenance of the facility. The council has previous experience of this management of similar office space and a proven track record of doing so.

Assessors Comments	The Borough Council are well established and have demonstrated their expertise and capability to be able to deliver this project on a sustainable basis. The funding will be released subject to the confirmation of the ERDF match funding which is anticipated on the 14 th of December.
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6.0 Summary of Management Case

A summary of the Management case is below:

1. Project Management – Construction Phase

For the entirety of the construction phase RBC will have an established project board which meets on a monthly basis to update and scrutinise progress against programme as well as monitor financial and other risks. This board meets on a monthly basis and will be supported by updates from a fortnightly meeting with the external project managers.

RBC have named their Transformation Service Manager as the delegated officer to lead on the project and have designated a specific officer to project manage the physical build phase internally with the support of Henry Riley to manage the contractor directly. The Borough Council have provided an extensive list of all functions and the responsible officer for their management in the build phase.

2. Project Management – Operational Phase

The Transformation Service Manager will remain as the lead for the project through its operational phase and will co-ordinate monitoring and reporting for the scheme. To manage the business support function, Rushcliffe Borough Council will procure a new business advisor to support tenants by providing specialist business advice.

Rushcliffe have confirmed that the property lettings and maintenance will be managed internally by the Council's property team who have experience in similar office spaces elsewhere in the Borough.

3. Project Evaluation

To evaluate the impact of the project, an expert advisor will be appointed by Rushcliffe Borough Council to complete a summative assessment plan in Q1 2021 which is a requirement of the ERDF funding; an evaluation in 2022 regarding the delivery of the capital works; and then again in 2023 to evaluate the delivery and impact of economic benefits. A final independent impact assessment will be completed in 2027 and 2032 (10 years after operating

Assessors Comments	The management case information and proposed structure for delivery, management and evaluation of the scheme are considered to be robust with all aspects of the scheme, from detailed design to practical completion and operation being subject to scrutiny by an established Project Board.
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	<p>Both the internal project Board and the fortnightly meeting with the external project managers are considered to be essential for the project to come forward to time and budget.</p> <p>Rushcliffe Borough Council have set out a clear and thorough monitoring structure which aligns with the LEPs monitoring processes and this should help the LEP to fully monitor the wider the impacts of the development on the economy.</p>
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7.0 Sustainability and Inclusion Impacts

As part of the business case process, Rushcliffe Borough Council have factored in environmental sustainability and social inclusion. The following information has been summarised from the document

1. Social Inclusion/Value

RBC set out a specific requirement within the tendering documentation in the quality section to guarantee that any prospective contractor would deliver on social inclusion outcomes as part of the project. The selected contractor for the delivery of works will work directly with RBC's Employment and Skills group to deliver on social inclusion outcomes and outputs, particularly targeting NEETs. The following outputs are mandatory to fulfil as part of the works contract:

- 10 Local FTE's to gain employment through the project for 1 year +
- 3 FTE's employed by the site to be people who are classified as NEET's
- 8 Apprentices from the contract and at least 6 learning opportunities
- 200 Hours of Both Local education visits and dedicated to support for unemployed people to get back into the work force.
- 25% of all project spend through SME's

Post construction the appointed business advisor for the project will work closely with the businesses who take up the office space to advise on RBC's social value and inclusion commitments to bring their work in line with the strategy.

2. Sustainability and Environmental impacts

The office building being developed will work to be as energy efficient within the cost parameters of the project, the facility will offer the following environmental/sustainability benefits:

- The facility is anticipated to achieve BREEAM 'Very Good' status
- PV panels are included within the build for sustainable energy generation
- Electrical Car charging points installed in the car park
- The contractors appointed will aim to be local to enable benefits to the economy alongside reduction in carbon footprint from travel.
- The business advisor for the role will provide advice on sustainability and environmental policy for the SME's where appropriate

8.0 Officer's Recommendations

Strategically the project aligns with regional ambitions for economic growth. In particular the project supports proposition 3.3 of the Emerging Recovery Strategy in supporting the growth of our towns and economic corridors.

The grant funding requested for this intervention unlocks the delivery of new commercial space for job creation in the LEP area.

The project has been tested against the conditions of the Local Assurance Framework and complies with all apart from Cabinet approval and confirmation of the match funding sources.

Cabinet approval for the scheme is anticipated on the 8th of December and the outcome of this will be verbally updated to the Investment Board. Secondly, the match funding contribution for the development through ERDF is currently out for written procedures decision, this approval is anticipated on the 14th of December.

Following a review of the business case alongside the independent assessment of the market evidence, officers would recommend the Investment Board to approve the request of £750,000 of Local Growth Fund to be released to Rushcliffe Borough Council, subject to the confirmation of cabinet approval and the ERDF Match funding contribution.

Getting Building Fund Checklist

<p>1. A detailed 'Green Book' compliant business case has been completed detailing the project and its alignment to the 5 case model. 'The Checklist'¹ published by HM Treasury is a useful one page guidance paper.</p>	<p>Rushcliffe Borough Council have submitted a Green Book compliant Business Case for the Chapel Lane Bingham project which aligns with the 5-case model.</p>
<p>2. A VFM assessment must be completed. This VFM assessment will be independently assessed by D2N2 and must show an overall score of 'High'.</p>	<p>The projects business case and Value for Money has been independently assessed by Hatch Regeneris who have confirmed that the project demonstrates 'High' Value for Money</p>
<p>3. Details confirming that all planning consents have been granted and that all pre start conditions have been met.</p>	<p>The project has achieved full planning permission and this was granted on the 29th of April 2020 at Rushcliffe Borough Council's Planning Committee. (reference 19/02914/FUL)</p>
<p>4. Confirmation that any Section 106 or other agreements have been entered into.</p>	<p>N/A for this project</p>
<p>5. Confirmation of the results of the procurement exercise detailing: -the tenders received (along with detailed costs) -the tender accepted (along with timescales/conditions)</p>	<p>Rushcliffe Borough Council have used the Procure Partnership Works Framework to appoint a contractor for the build process of the office space. Following an OJEU compliant process, RBC have appointed a contractor subject to agreement at the 8th of December Rushcliffe Cabinet Meeting.</p>
<p>6. Details of the construction contract to be entered into by the promoter detailing: -start date -completion date -liquidated damages/cost over runs</p>	<p>Rushcliffe Borough Council will be entering in to a JCT Design and Build (2016 edition) contract with the selected contractor. The following milestones are in place:</p> <ul style="list-style-type: none"> - Mobilisation of works – January 2021 - Office development begins – February 2021 - Office development complete – October 2021

<p>7. Confirmation that the promoter will be responsible for any variations to the contract price and that once entered into, the contract will be completed in line with the details submitted.</p>	<p>The promoter has confirmed with a written letter that the project sponsor will be responsible for any cost overruns.</p>
<p>8. Confirmation that the project has been designed to RIBA stage 4 or its equivalent.</p>	<p>The project promoter has confirmed that the design has reached RIBA Stage 4.</p>
<p>9. Details of any outstanding points preventing/delaying the start-up of the construction contract.</p>	<p>No outstanding points are preventing the start of the construction contract.</p>
<p>10. Details of any changes for the project from the initial EOI and OBC submissions with reasoning behind these changes. Including an updated viability report as submitted in point 5 of the OBC.</p>	<p>No significant changes have been recorded since the submission of the expression of interest. The outputs for the project are:</p> <ul style="list-style-type: none"> - 67 direct jobs by 2025 - 180 indirect jobs by 2035
<p>11. Confirmation that all funding is now in place with details of the sources of funding, please include letters from third party funders confirming any conditions and timescales.</p>	<p>Rushcliffe Borough Councils committee will receive the report on the 8th of December to consider the project and a verbal update will be given to the Investment Board meeting. The ERDF element of the project is out for written procedures approval at the time of writing with closure of responses on the 14th of December.</p>
<p>12. Confirmation that all land/legal agreements have been completed and are in the control of the promoter to deliver the entire project</p>	<p>All land is ownership of the project promoter, Rushcliffe Borough Council</p>
<p>13. A phasing plan identifying the start and completion elements of the project along with costs associated with each phase and the outputs/outcomes that will be delivered on a quarterly basis.</p>	<p>A phasing plan for the works has been submitted by the project promoter alongside cashflows for the contracted works.</p>
<p>14. An updated risk register identifying the key risks and the project manager responsible. The risk register needs to be scored and include a mitigation plan.</p>	<p>The project promoter has submitted an up to date risk register which includes mitigations to the issues identified.</p>

<p>15. The project sponsor must provide details of how this intervention will deliver on sustainability and inclusion outcomes, including through the procurement and construction of the project.</p>	<p>Details of the sustainability and inclusion outcomes are detailed in section 7 of the main body of the report.</p>
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