

# BUSINESS CASE FOR CHURCHFIELD BUSINESS CENTRE (INCUBATION UNITS)

## Hastings Town Fund

SEPTEMBER 2021



# EXECUTIVE SUMMARY

## Introduction

As part of the Town Fund initiative, Hastings Borough Council wants to develop new small business incubator units on a currently redundant site (Site PX) identified for industrial development in the Hastings Local Plan adopted in 2015. This is an application for £750,000 of grant funding from the Town Fund to leverage other funding, enable the development of a BREEAM excellent building standard business unit in Hollington, one of the most deprived parts of the town.

## Summary of Strategic case

A key ambition of the Town Investment Plan is job creation, industry focus and enabling the long-term growth of the local economy. This will require diversification of local industries, encouraging start-ups, creating new and modern business and factory spaces and enabling, equipping and preparing residents for future job skills needed. This project aims to deliver this ambition by servicing local businesses and filling the 'space' need gaps within the commercial market.

## The Project

The council proposes to develop 29 new incubator units, ranging from 322<sup>sqft</sup> to 344<sup>sqft</sup> in size (a total of 9,558<sup>sqft</sup>). The council owns the land and the project has full planning permission in place. Tenders for the build phase has been concluded and the project is ready to proceed.

The proposed site is ideally located on a well-established industrial estate within an area of three estates known as the '3C's'. The industrial estate style location is within easy reach of the two major trunk roads (A259 and A21) providing ideal access for business employees and visitors, has on-site parking, a bike storage facility and nestles alongside and close to potential variety of manufacturing supply chain contacts.

Details of the planning consent and related documentation can be found by following the attached link:

[Churchfield Business Centre Planning Consent](#)

There are 33 conditions placed on the planning consent and all these can be satisfactorily addressed as the development proceeds (many relate to on site working arrangements and assurance).

The grant funding will be used towards the development and building costs of the incubator units. This will enable the project to financially break even within six years of development and close the gap funding to ensure long-term viability. It will begin to generate small surpluses for the council from year 6 onwards which is to be used to improve general council services for its residents.

The council has estimated a total development and build cost of £4,503,000 to complete the project by September 2022. The grant funding will allow the council to borrow £2,950,000 from the Public Works Loan Board to enable the development.

Hastings Borough Council is the scheme promoter and will be leading on the development and directly managing the building for the benefit of its residents.

## **A Town Fund Fast Track Project**

The project was identified as a fast-track project in January 2021 as part of the TIP 1 submission. Since then, it has been proceeding at pace to ensure deliverability / build asap. The risks to the Churchfield Business Centre development have been greatly reduced with planning consent being granted in August 2021; the works being tendered for and the construction price agreed; HBC Cabinet approval of the project; and a start date agreed with the contactors (November 2021). The delays with Town Fund approval process have meant the project has been developed with risk to the council. However, if the business case is approved this risk is removed.

### **Economic Case**

The Council commissioned Mott Macdonald to assess and provide an economic analysis for the development proposal. Their summary conclusion was as follows:

*The economic appraisal of the Preferred Option has been carried out in line with the HM Treasury Green Book (2020) and the MHCLG Appraisal Guide (2016). In accordance with this guidance, the Economic Case focuses on public value from the perspective of society and appraises, in a proportionate manner, social, economic and environmental costs and benefits.*

*The appraisal has considered the costs and income of the project to estimate the net economic cost of the scheme. The VfM assessment estimates that the Preferred Option demonstrates very high VfM, with a BCR of 3.1 and NPSV of more than £3.7m.*

See Appendix 6 – Mott Macdonald Economic Case Notes

### **Financial case**

The project is financially supported by various stakeholders and part funded by SELEP (Local Growth Fund) and ERDF (CHART Programme). Both have social and economic ambitions of encouraging more entrepreneurs from the deprived areas and the need to ensure the units are affordable to this client group. Their funding was confirmed following a similar rigorous application process and business case presentation.

The scheme has a revenue (income) gap funding during the first five years of the project despite the £750k town fund grant towards the build cost (income from the lease of the units less operational and loan cost). The business case for the project demonstrates it would allow it to break even within six years of completion, and then begin to earn income for the council. This justifies the investment from a local authority perspective. The local authority is already taking risks in terms being able to let and maintain the occupancy rate over 90% by year four of the project and no further increases in interest rates prior to the PWLB loan agreement. This leaves little scope for further flexibility in the Town Fund grant application.

See Appendix 2 – Churchfield Business Centre Income and Expenditure Forecast Sep 21

### **Commercial Case**

The project will be led by our Estates Service Team with the work allocated to the Estates Manager and Principal Estates Surveyor to project manage and organise the delivery of the works, both of whom have been working on the development of the Churchfield Business Centre project for the past 18 months. The team is supported by the Design Team whose role will also be to project manage the build phase of the work.

HBC is committed to excellent programme management and project control systems. This project will be managed using the corporate standard version of MSP and PRINCE2 lite by the Project Management consultant. This will include the use of a Project Plan (Microsoft Project or equivalent), Risk and Issue Logs which will be maintained by the project team.

The structure of the commercial delivery model for this project is as follows:

Co-founders: MHCLG/HBC

Accountable Body: HBC

Sponsor: HBC

Funding and Delivery Client: HBC

Detailed design and Delivery Management: HBC and appointed consultant design team

Operator: HBC (Estate Officer and Economic Development Officer)

End user: Business tenants

The project risk register is provided by Allan Consultancy (Project Management and Architects) in Appendix 3 and a Construction Contract Programme Management GANTT Chart is shown in Appendix 4

## **Management Case**

The council has delivered a substantial number of major capital projects in recent years. This includes the new factory for BD Foods, refurbishment of five factory units at Theaklen Drive, development of Castleham Business Centre, Stirling Rd, and development of the Stade Open Space.

Hasting Council Cabinet has overall governance and has given approval of the project and permission to deliver under delegated powers of authority. Cabinet is the projects' scrutiny body and provides overall governance of the council. Cabinet gave full project approval at the scheduled meeting in January 2020.

In the long term the project will generate revenue for the local authority which can be used to support and improve day to day council services to its residents.

The council manages over 300 tenanted commercial assets. Locally the council is seen as a good reputable landlord offering well maintained properties. We have a dedicated Estate Management and Building Maintenance team (staff of 7) overseeing our tenanted asset portfolio. They include qualified and experienced estates and building surveyors, technical staff and administration support. We also have an Economic Development team which is able to offer business support advice together with Locate East Sussex. As a large landlord, we are also able to offer growth solutions and pathways with other properties in our portfolio.

The need and demand for this project is based from HBC own assessments of the market as a commercial landlord and that by Locate East Sussex - our local inward investment oragnisatinional partner.

See Appendix 8 – Land and Premises Study 2020

## **Churchfield Business Centre (incubation units)**

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**STRATEGIC CASE**

**Churchfield Business Centre**

# STRATEGIC CASE

## INTRODUCTION

### Summary of the strategic case

A key ambition of the Town Investment Plan is job creation, industry focus and enabling the long-term growth of the local economy. This will require diversification of local industries, encouraging start-ups, creating new and modern business and factory spaces and enabling, equipping and preparing residents for future job skills needed. This project aims to deliver this ambition by servicing local businesses and filling the 'space' need gaps within the commercial market.

## CASE FOR CHANGE

### Context and challenges

Churchfields Estates Development: public funding is needed due to the low rental/land values which persist in Hastings. Build costs are comparable to the South East and there is clear evidence of market failure to bring employment land into use. The work of the Hastings and Rother Task Force over the past 20 years has been to respond to this imbalance (see Appendix 1 – Hastings and Rother Task Force Review) and this continues to be the challenge. The current pandemic and economic outlook have exasperated the situation.

The council has not been able to develop this land for industrial use since its acquisition in March 2017. It sought part-funding from East Sussex County Council Business Incubator Fund Programme in February 2018 but this was declined due to our request for 'grant' funding rather than 'loan' funding. The project has needed to secure three sources of external grant funding (including the Town Fund) to make this project viable.

The council is seeking £750k funding for the viability gap to develop 29 business incubator hubs at a total cost of £4.5m. The Churchfield Business Centre is anticipated to support c.52 Full-Time Equivalent (FTE) jobs at the site with the creation of 29 new jobs over a 10-year period. The Benefit Cost Ratio (BCR) has been estimated at 3.2, with HM Treasury considering a BCR of >2.0 to be high Value for Money, meaning this scheme can be considered very high VFM.

This represents excellent value and the bid proposes a relatively low-level entry rent for the units to enable local 'start ups' in Hastings to establish themselves and then, through support by our Estate Management Team, to flourish. Given low rent proposed and land values, this development will not be viable without this funding support.

The council is investing in this project itself for long-term income generation purposes to realise the potential of this site. This is being funded by a loan via the PWLB, there are however limits to the borrowing cost to the council during difficult economic times.

### Evidence of need

Evidence of need for business incubation units is detailed below in the 'options' analysis. However, in summary there have been several local market research studies showing the need for such units.

Annex 3 of the Town Investment Plan (page 67) identifies a report by Locate East Sussex December 2020 on the demand for industrial business spaces in Hastings. This states the following:

*The supply-side shortages in the B1c use class appear to have affected Hastings more than perhaps any other area in East Sussex and have brought the market there to near paralysis. Whereas (for example) in Wealden and Lewes*

*districts there is at least some new B1c/B8 supply coming forward, this has rarely been the case in Hastings. One agent, with over 20 years' experience of the Hastings/ Bexhill commercial property market reports an unprecedented situation where, despite a dip in demand exacerbated by the great uncertainty surrounding Brexit, he has 'never seen such low levels of available space' right across the size spectrum. Indeed, he points to a short period in 2019 'where no industrial space was available at all'. The very low vacancy rate is further evidenced by Hastings BC's large property portfolio of which, when reviewed in June 2019, only two out of the 99 units were available, a vacancy rate of only 2%.*

See also Appendix 8 – Land and Premises Supply Study 2020

Post Covid the vacancy rate in HBC commercial property remains low but businesses are falling behind slightly in their lease payments to the Council, reflecting the difficult economic situation businesses are experiencing.

The spaces created at Churchfields will be affordable, flexible in use and respond to financial capacity of new and emerging entrepreneurs. It will be a 'qualitative' change in the offer to local entrepreneurs provided by a reputable landlord.

### **Future needs and opportunities**

The employment development sites are located on the Churchfields Industrial Estate and could provide a substantial transformation to the productivity capacity of Hastings. The builds will provide good start up accommodation that will encourage business clusters to form, grow and stay in Hastings. It has good links to local road networks, recently built and funded by East Sussex County Council and SELEP.

This proposal will form Phase 1 of development on the site, and it's anticipated that this development will kick-start investment to enable the rest of the site to be developed. The make-up of businesses located on the estate include nationally and internationally respected enterprises including Marshall Tufflex, Interface, Technoturn, LG Optical as well as Plastica, BD Foods and HG Aerospace on neighbouring estates. The presence of incubator units in the area will enable mutual supply chains and support systems to develop in the area.

### **Market failures and COVID-19 influence the case for change**

Churchfields Estates Development: public funding is needed due to the low rental/land values which persist in Hastings. Build costs are comparable to the South East and there is clear evidence of market failure to bring employment land into use. The current pandemic and economic outlook have exacerbated the situation.

The type of lease offer proposed by the council, 'easy in easy out' 6 months leases will enable startups to take the opportunity without the risks often associated with leasing a property. This is to encourage entrepreneurship and access to such facilities to our most deprived communities. This is an objective of both the CHART Programme ([Connecting Hastings and Rother Together](#)) and the Town Fund Programme. However, for the council the risks of supporting 'incubation' businesses are high (turnover rates and business failure) and funding is needed to ensure the council can break even within 5 to 6 years of development to ensure sustainability.

In addition, as part of the Covid recovery, skills, retraining and job creation projects are well-timed for the current economic needs for modern businesses to thrive. The workspaces provided will support the many residents and local businesses that will require flexible spaces to work away from more traditional office space. These will provide a suitable space for SMEs and start-ups to innovate with access to state-of-the-art technology and digital connectivity. Similarly, the business incubation units will increase the availability of high-quality business premises and infrastructure in the town.



## POLICY ALIGNMENT

### Local, regional, and national policy alignment

The proposed development of the site into incubator units aligns with several key economic development strategies and plans by generating new private sector employment, and boosting productivity by providing affordable, fit for purpose supported units.:

Strategy/ Plan	Type	Strategic Priority
Levelling Up Fund	National	Government has identified Hastings as target for the Levelling Up Fund, as a priority category 1 local authority. This is based on an index taking into account the following the following place characteristics: • need for economic recovery and growth; • need for improved transport connectivity; • need for regeneration
Building Back Better	National	Sets out the government’s plans to support growth through significant investment in infrastructure, skills and innovation, and to pursue growth that levels up every part of the UK and enables the transition to net zero.  As a shovel ready project, scheme will provide an immediate fiscal boost to the local economy.
UK Industrial Strategy	National	Business environment – guaranteeing the best place to start and grow a business. Places - creating prosperous communities across the UK.
South East Local Enterprise Partnership Strategic Economic Plan	Regional	Business growth, new commercial space, jobs and skills.
<b>East Sussex Economic Recovery Plan</b>	Sub Regional	The East Sussex Economic Recovery Plan aims to build sustainable prosperity for the region and to drive economic recovery and resilience post COVID-19. It identifies six missions, of which the following four align with our Town Investment Plan:  • ‘Cleaner energy, greener transport’ aligns with our challenge theme of ‘Jobs & enterprise growth’. Our intervention will provide green skills and employment opportunities • ‘Building skills, creating jobs’ aligns with our challenge theme of ‘Jobs & enterprise growth’ • ‘Fast-forwarding business’ – (supporting businesses and jobs in leisure, hospitality, tourism, retail and culture).

Hastings Borough Council Corporate Plan	Local	Growth, inclusion and futureproofing priorities through offering income generation, business growth and support opportunities and increased job opportunities.
Hastings Climate Change Emergency Declaration	Local	In 2019, Hastings Borough Council declared a climate emergency and committed to becoming carbon neutral by 2030. The development proposed will meet the BREEAM 'very good' to 'excellent sustainability standard' for a commercial building.
Hastings Local Plan and Development Management Plan	Local	The three priority areas within the Local Plan of 'More homes', 'Tackling Climate Change' and 'More Jobs' are directly linked to our challenge themes of 'Lack of quality housing' and 'Jobs & enterprise growth'. <ul style="list-style-type: none"> <li>• Interventions providing new employment spaces and skills programmes will deliver increased capacity for employment, co-working, enterprise and business growth, new jobs, skills and entrepreneur opportunities</li> <li>• Our three overriding principles also align with the Local Plan priority areas to deliver inclusive economic growth, clean growth and improve our health and wellbeing (by enabling and creating opportunities to quality commercial buildings to entrepreneurs living in the most deprived wards).</li> </ul>

## VISION AND OBJECTIVES

This proposal is part of the **Enterprise & Employment Infrastructure** programme theme of the Town Investment Plan. This project will develop and grow new enterprise spaces for SMEs and social enterprises in our core employment sites, enabling more space for growth and self-enterprise on our industrial estates.

It fits with our shared 2030 vision for the Fund which states:

**A healthy, vibrant and quirky seaside town that people love to visit, live and work in and say, 'I can make it in Hastings'. #MakeItInHastings**

The proposal fits with the strategic objectives set out in the Town Investment Plan (January 2021):

- Create a resilient local economy by building on the town's economic strengths, through greater diversification and innovation

Fits with one of the key challenges in the programme:

- Jobs & Enterprise Growth

Fits with the three key principles identified in Town Investment Plan

1. Programme interventions that deliver inclusive economic growth:

*‘Inclusive regeneration ensuring residents in the most deprived parts of Hastings benefit directly from capital interventions, through improved linkages to supporting activities, skills and workforce development.’*

The location of the project (Hollington) is the sixth most deprived Lower Super Output Areas in East Sussex (employment; housing; health) in Hastings - [Indices-of-Deprivation-2019-final.pdf \(eastsussexjsna.org.uk\)](#) . The project will work in tandem with the Connecting Hastings and Rother Together (CHART) to provide support to potential entrepreneurs living in the town’s most deprived LSOA’s (Lower Super Output Areas).

2. Programme interventions deliver clean growth:

*‘Growing our income while cutting greenhouse gas emissions and maximising the advantages for business from the global shift to clean growth. Success means transforming our buildings and industries into low-carbon hubs, safeguarding existing jobs and homes for the future.’*

The Churchfield Business Units will be built to a **BREEAM** (Building Research Establishment's Environmental Assessment Method) standard with the objective of meeting Excellent to Very Good standard. Pursuance of the BREEAM standard has led to the introduction of many sustainable design solutions and requirements making this one of the most ‘carbon neutral’ commercial building in Hastings. In turn this will help to ensure the running costs of each business are minimised through energy saving measures, helping to keep fuel bills low.

3. Programme interventions that improve our health and wellbeing:

*‘Dynamic and inclusive Health and Wellbeing outcomes by the creation of attractive social places and facilities, organisational partnership working, improved access to services and opportunities for self-improvement.’*

The building will provide for 29 business units including a ‘class / training room’ facility for meetings, networking, training etc (tba). It will be a modern sustainable building located near woodlands and amongst other high spec manufacturers creating opportunities for learning, sharing, skills transfer and business growth. It is accessible by public transport and is walking/cycling distance of potential users

**Measures of success**

The proposed Churchfields Business Development incubation units will provide for as follows:

<b>Unit Size</b>	<b>Total</b> 9558 <sup>sqft</sup> (887m <sup>2</sup> )	<b>Number</b> <ul style="list-style-type: none"> <li>• X5 322<sup>sqft</sup> (30m<sup>2</sup> units)</li> <li>• x24 344<sup>sqft</sup> (32m<sup>2</sup> units)</li> </ul>
<b>Provision of amenities and services</b>	<b>Communal</b> <ul style="list-style-type: none"> <li>• Fully accessible</li> <li>• 47 parking spaces (approx. 1 per unit, plus visitor parking)</li> <li>• Solar panel array on roof (may reduce energy costs for tenants)</li> <li>• Security; Waste; Heating and Hot Water; Fire Safety System; Ground Maintenance; Access/signposting to business support</li> </ul>	<b>Individual</b> <ul style="list-style-type: none"> <li>• Shell unit with electric points, heating, telephony/broadband points</li> <li>• Individual kitchenette in each unit.</li> </ul>

<b>Use of units and enabling clustering</b>	<b>Permitted</b> <ul style="list-style-type: none"> <li>• General B Class use (offices, small industrial use and research)</li> <li>• Likely 0 – 5 employees per unit (dependent on the nature of the business)</li> <li>• 29 Business units – let on an ‘easy in easy out’ lease basis with one month’s notice</li> </ul>	<b>Not Permitted</b> <ul style="list-style-type: none"> <li>• Invasive/noisy activities</li> <li>• Warehousing and Retail</li> </ul>
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## THE PROPOSED INVESTMENT

### Options considered - Do Nothing and Do Minimum scenario

Impact of non-intervention (do nothing):

A do-nothing option would leave the area of land identified for commercial development since 1993 (Churchfield Industrial Estate - Sidney Little Road site) underdeveloped without any momentum. This may have negative effects on the ability of the Hastings area to support newly created businesses and jobs, resulting in outward migration of skilled workers and innovative technologies, potentially out of the reach of the SELEP area.

Four options for investment for the site were considered:

- **Do nothing** - at the strategic level this underutilises the opportunities created by past investments (particularly the Link Road) in the area and the progress of economic regeneration of the town, leaving a brownfield development site to fester blighting the local commercial neighbourhood.
- **Do minimum** – given the site is currently empty and identified as an employment site as part of the Local Plan and adjoins the Churchfield Industrial Estate. Commercial development is the only practical option. However, a do minimum approach could allow for the site to be cleared and tidied up and continue to wait for a private developer to show interest on the site. However, given its assigned use within our local plan industrial development and the local need for greater job density this is not a viable option.
- **Do something** – use the site to create additional industrial units based on current and projected demand from market analysis, but not considering a strategic approach to develop the other two adjoining sites.

This project has become a do something project from the original application submitted to the Town Deal Board in November 2020. The original ask to the Town Board was for £2.75m for the development of three adjoining sites. Grant offer was reduced by the Town Board to £750k for only one site. The two adjoining pieces of land identified in the Town Investment Plan had to be withdrawn due to a shortfall in the government overall grant final offer to the town (from £28m investment plan ask to £24m). Development of these additional two pieces of land will now be developed as other funding and financing opportunities becomes available. The Town Board project prioritisation process and further viability assessment of the two other sites means they have been withdrawn from the original Town Investment Plan application.

- **Do optimum** - use the site to create additional units with a phased development approach, based on current and projected demand from market analysis, to initially provide facilities for start-ups and small-scale business with flexible leases with phase 2 development to allow for larger units if demand and external funding opportunities arise.

The **Do something** approach will deliver best against the council’s and the Town Board’s (MHCLG) priorities and strategies and is the only affordable option

## Project Risks

Having been developed as fast track project and identified as such in January 2021 as part of the TIP 1 submission, the project has been proceeding at pace to ensure deliverability / build asap. The risks to the Churchfield Business Centre development have been greatly reduced with planning consent being granted in August 2021; the works being tendered for and the construction price agreed; HBC Cabinet approval of the project; and a start date agreed with the contactors (November 2021). The delays with Town Fund approval process have meant the project has been developed with risk to the council. However, if the business case is approved this risk is largely removed.

The key risks affecting delivery are as follows:

- Viability gap for development of site – funding gap may increase if borrowing levels or interest rates increase (agreed at 2.06% Sep 2021). Mitigation: Works have been tendered for and price agreed with adequate contingency.
- Planning permission for site refused – now granted (August 2021)
- The development may take longer than anticipated – build phase (24 months) may be optimistic: Mitigation: Contract period agreed (42 weeks – weather permitting) and liquidated damages included in contract for delays.
- Lack of demand for units results in them not being filled. Mitigation: market research showing need and may have to be flexible on rents and type of occupation. Waiting list for the units now open giving significant time for tenants to be identified and secured.
- Build contractor liquidates halfway through the build process. Mitigation: reputable local contractor appointed with over 25 years of construction work. Liquidated damages and other measure inserted in contact agreement.
- Uncertainties created by Covid 19. Migration: the contractor's confident construction can continue at some scale if 'lock down' re-introduced'.

Further risk analysis provided on page 34 (financial) and page 38 (commercial)

An up-to-date Risks, Actions, Issues and Decisions (RAID) log is attached – Appendix 3

## Scheme dependencies:

- Planning Permission: The proposal for the incubator units have been granted planning permissions (August 2021).

## [Churchfields Business Centre Planning Consent](#)

- Ecological conflict: None. Ecological and topographical surveys conducted as part of the planning application have been completed, which resulted in recommendations around drainage and the preservation of habitats for indigenous plant and animal species which have been incorporated into the site plans – follow above link to planning website and various reports and responses included.
- Construction works have been tendered for and a price agreed with the selected contractor encompassing all proposed works within the funding envelope (August 2021).

## Constraints

Constraints Description	Remarks / Mitigation
Securing elected members approval to financially invest in the project and the associated risks	Development of the units has been financially assessed and shows long-term viability. The proposal is also in alignment with the council's long-term income generation objectives.  The project has been approved by HBC Cabinet to proceed at risk.
Planning approval for the development and complying with any constraints on approval	Planning permission for the development has been granted (August 21). The site is specifically identified in the Local Plan for commercial development and environmental and ecological assessment has already been conducted showing minimum impact. Constraints on planning approval mainly relates to working arrangements and environmental care during development.
Securing the required level of loan from the Public Works Loan Board	Loan from the PWLB has been granted. Interest rate fixed for the 40 years of the loan (2.06%)
Interest rate variance when the PWLB loan is secured compared to existing	Interest rates determine how quickly the project is able to break even and the future rental charge proposed meaning they are a key constraint on what can be delivered by this project.
Ability to deliver the development within the timescales required	The council has excellent experience in delivering large capital projects including new factory units as identified in the application.
Future management and maintenance of the investment proposed	Need to deliver a project that is that can be managed and maintained by the management and maintenance team.  The council has a well-established commercial management and maintenance team, able to maintain over 96% occupancy rates of commercial units (August 2021).

## Complementary activities

The package of employment developments within this project align to several national and local strategies, initiatives and policies:

The National Industrial Strategy (2017) outlines the five pillars of productivity that the nation will adopt in creating local and regional strategies moving forward, for a better and more productive Britain. We believe that the development of the employment sites, in particular the modern co-working flexible innovation centre, will help boost productivity in Hastings as it will cultivate the right types of environments where businesses and workers can create, collaborate and innovate. This package of projects will accommodate the change in work patterns and provide the services that are needed.

The SELEP Economic Strategy (2017) outlines the plans of how they will boost regional economic productivity and raise private sector leverage to match public sector investment. With heavy focus on improvement in skills and training, the projects are directly aligned to providing adequate and modern spaces that will allow young people in particular to engage in skills workshops and launchpads as well as seek employment with local businesses.

Development of phase 2 and 3 on the wider site is dependent on further external grant funding. There may be an opportunity for a follow-on application to the Levelling Up Fund or other sources or when gap funding is no longer required.

Locally, there are in total three projects aligned with the Enterprise and Employment Infrastructure Programme theme. Each of these projects will tackle up to three of the four challenges identified in the TIP 1

- Challenge 1: Jobs and Enterprise Growth - fitting with the themes of regeneration, thriving economy and job creation

- Challenge 3: Disconnected, Unloved Town Centre – by bringing back into use a number of vacant properties

### **Need and demand for high quality business incubation units**

Market research conducted by Dyer & Hobbis back in March 2017 indicated that:

- The average current available space, which is between 116m<sup>2</sup> – 1,245m<sup>2</sup>, is far greater than that of desirable incubator space dimensions. The majority of space is also over 10 years old and is to let.
- Demand for smaller units is higher than normal levels with a significant shortage of available units of between 28 – 116m<sup>2</sup>.
- Phased development is essential to prevent flooding of the market with too many available properties, which could lead to long void periods. Although demand for small unit remains high, there is always a finite number of potential tenants in the market at any one time.

For an updated report please see Annex 3 of Town Investment Plan page 50 and also Appendix 8 – Land and Premises Supply Study 2020. This report states:

*‘Hastings and its travel to work area have a substantial amount of ‘move on’ space, but little or no suitable available provision for micro and start-ups. This is causing a blockage for growth, where demand for incubator units outweighs availability. The recently completed Glovers House in Rother; funded through Growing Places Fund monies secured from SELEP, was originally designated for incubator use however, it has since been secured for use in its entirety by Park Holidays (making it easy for the landlords to manage and recoup investment) reducing access to incubator units further in the 1066 travel to work area.*

*Other available micro and small business space is not generally considered to be suitable for the market need. It is either an insecure tenancy, relatively expensive, in a poor location (town centre – little or no parking/access) or is not a suitable type of space (e.g. housed in a high-rise block).*

*Recent consultation with the sector is one of relative stability for most despite the current climate. However, much of the industrial stock in Hastings comprises of older stock often being at least 30 to 40 years old, aptly described as “cheap but not cheerful”.*

*The industrial commercial space market in Hastings has been in virtual paralysis and one agent reported that for a short period in 2019; that there was no industrial space available at all. Employment growth is dependent on having stock available with supply being the key to unlocking the market, even where there is new development, wider supply is so poor that there are no empty second-hand buildings.’*

As a large commercial landlord (with over 300 units of variety of sizes and types), the council has considerable knowledge and understanding of local business need. Within Hastings and the travel to work area, there is a high level of occupancy in small and micro units which is mirrored by high levels of demand. However, there are very few that can be considered incubator units and therefore businesses often move into workspace that, although inexpensive, is insecure, of poor quality and without ongoing support. The demand is primarily from micro business and start-ups that require basic fit-out and flexible easy in/out terms to enable them to continue growing in a flexible manner, as evidenced by the volume of speculative enquiries the council, our agents Dyer & Hobbis and Locate East Sussex receive. As evidence, the council’s existing business centres on Castleham Industrial Estate are currently 90% full.

Hastings Borough Council is a desirable landlord offering well maintained properties and this assists the business to attract investment when aiming to secure a loan, at a possibly favourable term over and above those available to other organisations. The mix of external funding (including the Town Fund) will allow the council to keep the lease charges competitive for a longer period (starting at £12.08<sup>sqft</sup>), helping

tenant businesses to flourish in their early phase of development. Those who have succeeded will need 'move on' accommodation and larger units – creating spaces for new businesses. As large commercial landlord HBC will support this process.

The need is also clearly identified by an assessment of available incubation units in Hastings in Feb 20:

### Hastings Business Operations managed properties (Feb 20):

	Occupancy	Size	Lease Charge
<b>Creative Media Centre (offices)</b>	95%	Unit sizes: 130 <sup>sqft</sup> – 825 <sup>sqft</sup>	Average lease charge £25 <sup>sqft</sup> Service offered: ready to go internet & telephony service
<b>Innovation Centre (includes workshops &amp; offices)</b>	95%	Unit sizes: 15 <sup>sqft</sup> – 600 <sup>sqft</sup>	Average lease charge £20 <sup>sqft</sup> Service Offered: ready to go internet & telephony service

### Council managed small / micro spaces

Castle Business Centre, Stirling Rd	Occupancy	Size	Lease Charge
<b>Business Centre East (16 units)</b>	95%	Unit sizes: 220 <sup>sqft</sup> (20m <sup>2</sup> ) – 1130 <sup>sqft</sup> (105m <sup>2</sup> )	Easy in/out lease per - £12.08 <sup>sqft</sup> (£130.03m <sup>2</sup> ) inclusive  Currently two vacant units (on offer)
<b>Business Centre West (21 units)</b>	95%	Type: micro (all 10 employees or less), varied. All let, with regular movement	
<b>Total no. of units at CBC Stirling Road = 37</b>			

[https://www.hastings.gov.uk/estates/propertiestolet/castleham\\_east/](https://www.hastings.gov.uk/estates/propertiestolet/castleham_east/)

The proposed Churchfields Business Development incubation units will provide for as follows:

<b>Unit Size</b>	<b>Total</b> 9558 <sup>sqft</sup> (887m <sup>2</sup> )	<b>Number</b> <ul style="list-style-type: none"> <li>• X5 322<sup>sqft</sup> (30m<sup>2</sup> units)</li> <li>• x24 344<sup>sqft</sup> (32m<sup>2</sup> units)</li> </ul>
<b>Provision of amenities and services</b>	<b>Communal</b> <ul style="list-style-type: none"> <li>• Fully accessible</li> <li>• 47 parking spaces (approx. 1 per unit, plus visitor parking); bike park; electric charge points</li> <li>• Solar panel array on roof (may reduce energy costs for tenants)</li> <li>• Security; Waste; Heating and Hot Water; Fire Safety System; Ground Maintenance; Access/signposting to business support</li> </ul>	<b>Individual</b> <ul style="list-style-type: none"> <li>• Shell unit with electric points, heating, telephony/broadband points</li> <li>• Individual kitchenette in each unit.</li> </ul>
<b>Use of units and enabling clustering</b>	<b>Permitted</b> <ul style="list-style-type: none"> <li>• General B Class use (offices, small industrial use and research)</li> <li>• Likely 0 – 5 employees per unit (dependent on the nature of the business)</li> <li>• 28 Business units – let on an 'easy in easy out' lease basis with one month's notice</li> </ul>	<b>Not Permitted</b> <ul style="list-style-type: none"> <li>• Invasive/noisy activities</li> <li>• Warehousing and Retail</li> </ul>

### Description of project

The site identified for development in this proposal forms part of a 173,298<sup>sqft</sup> (16,100 m<sup>2</sup>) parcel of land, the largest undeveloped plot on Churchfields Industrial Estate. It borders two other larger plots which are also owned by the council and which could provide further larger new business spaces in the future. The council considers that development of the incubator units will inform future proposals for the larger 'move



on' units on the bottom part of the site. These proposals will be taken forward when other external funding opportunities arise.

However, combining these plots in the future will provide better development opportunities and employment growth in the town, as well as a managed on-site growth pathway for the tenanted businesses.

Locally, there is considerable demand for quality small business units as argued later in the Economic Case. The council has an occupancy rate of 97% (pre covid) for all its industrial units and this reflects the level of local demand and need. It is intended that this project will also contribute towards the overall goals of the SELEP Economic Plan by generating new private sector employment, and boosting productivity by providing affordable, fit-for-purpose supported units.

Incubator units are office, industrial, or high-tech space usually with a form of management in place and often shared amenities or services. They are intended to provide an economical and supportive environment for new business start-ups or those needing to move into professional premises. They are popular because they provide startups and small businesses with formal recognition as reputable businesses with their own offices and headquarters.

The make-up of businesses located on the estate includes nationally and internationally respected enterprises including Marshall Tufflex, Interface, Technoturn, LG Optical as well as Plastica, BD Foods and HG Aerospace on neighbouring estates. The presence of incubator units in the area will enable mutual supply chains to develop in the local manufacturing sector and support systems to develop in the area. The strength of the local manufacturing sector is identified and discussed in the Town Investment Plan (page 27).

From our experience and local feedback (commercial letting agents, businesses and our high level of occupancy rates), the council is seen as a good reputable landlord offering well maintained properties. The council has a very low vacancy rate with team of support staff to help and advise the business to grow, provide for move on accommodation and competitive rental / lease arrangements. Hastings Borough Council is considered a sound investment when aiming to secure a loan by local entrepreneur and is likely to achieve favourable loan amounts and terms over and above those available to private developers or other organisations.

The council manages over 300 commercial assets. We have a dedicated Estate Management and Building Maintenance team (staff of 7) overseeing our commercial and building portfolio. They include professional building surveyors, project managers and technical staff. We also have an Economic Development team which is able to offer business support advice together with Locate East Sussex. As a large landlord, we are also able to offer growth solutions and pathways with other properties in our portfolio and alternatives to the private sector.

#### **Development site location description:**

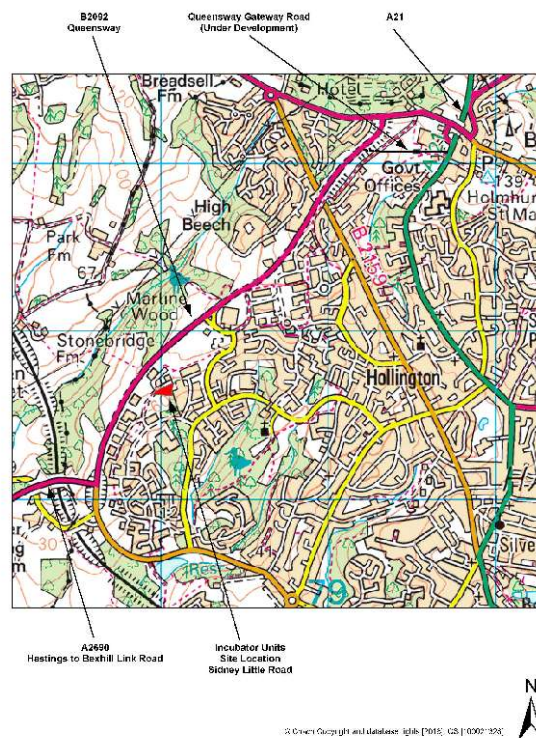
The currently underdeveloped land is owned by Hastings Borough Council and located on Sidney Little Road, Churchfields, Hastings. The site is situated close to the western boundary of Hastings, within Churchfields Industrial Estate, and in close proximity to two further industrial estates, Conqueror and Castleham (known collectively as the 3C's). A significant portion of the estate is owned and managed by the council, with a very high letting rate (95%) and few empties for any period. There is no residential housing in close proximity to the site.

The site is also located within close proximity to the Hastings – Bexhill Link road (Combe Valley Way) which links the A259 and routes toward Eastbourne, Newhaven and Brighton to the east, and Ashford and Folkestone with its direct links to onward travel to France, via Queensway, the A21 (routes toward Tunbridge Wells, Gatwick and London). Further improvements to the road network in the vicinity of the site are underway with the Queensway Gateway Road currently under construction. The Gateway Road (built with SELEP funding to enable better access to employment sites) will further enhance access from

the site to the A21. The make-up of businesses located on the estate is mixed, in the main small and medium enterprises, many of which can be categorised as manufacturing or light industry. Businesses include Marshall Tufflex, Interface, Technoturn, LG Optical as well as Plastica, BD Foods and HG Aerospace on neighbouring estates. The council's employment land retention policy ensures that the units close by will remain B class units to maintain employment levels. Businesses on the site are anticipated to particularly benefit from excellent highway connectivity to allow workers to easily reach and interact with a large number of customers and suppliers.

At 16,100 m<sup>2</sup>, it is the largest undeveloped plot on Churchfields Industrial Estate and is valued at £600,000 (Dyer & Hobbs – Local Commercial Agents valuation). The actual proposed development site is PX and Qx for above business centre project. The site borders plots NX2 (3,200m<sup>2</sup>) and NX3 (1,700m<sup>2</sup>) which are also owned by the council and will now not be part of this project following the reprioritisation process. Combining all these plots at a future stage will provide even better development opportunities and employment growth.

All three sites were first identified as employment land by the Local Plan in 1993 – with the private sector unable to develop the site due to low land value. The council purchased the site in March 2017. The council considers the development of the incubator units will complement the proposal for large units on the bottom part of the site; it is also an ideal site and location for such a development. With planning permission for the proposals now approved the potential for further development has been made much easier to address as and when other funding opportunities arise.







## How the project addresses objectives and vision of the Town Investment Plan

### Project Objectives

- Objective 1: Build 29 units of 30 - 32m<sup>2</sup> to attract start-up businesses given the latent demand.
- Objective 2: Establish a proposed lease model of 'easy in, easy out', with affordable and favourable long-term tenancy term, allowing the businesses to keep costs down to attract further investment and so grow more quickly, thereby benefitting the Hastings economy.
- Objective 3: Create more positive environment to develop for phase 2 of the other adjoining plots of land ready for submission to other funding opportunities as they arise.

### Problems or opportunities the project is seeking to address

- Problem / Opportunity 1: Lack of affordable workspace for start-ups and micro businesses.
- Problem / Opportunity 2: Create local infrastructure for local businesses to expand into from home or unsuitable locations to modern commercial spaces.
- Problem / Opportunity 3: Parcel of land is not being fully exploited for economic benefit and income generation for the council

**The proposal is clearly aligned with the Theory of Change identified in the Town Investment Plan as shown below (page 47).**

# Theory of Change



The Strategic Context; Objectives; Inputs; Intervention; Outputs; Outcomes; Impact and Local Conditions all align with the proposals set out in this project.

Inputs	Outputs	Outcomes	Impact
<p>Project delivery resources for capital build</p> <p>Construction team</p>	<p>Total 9558sqf (887m<sup>2</sup>) space</p> <p>Made up of x4 322<sup>sqft</sup> (30m<sup>2</sup> units) and x24 344<sup>sqft</sup> (32m<sup>2</sup> units)</p> <p>Fully accessible</p> <p>32 parking spaces (approx. 1 per unit, plus visitor parking)</p> <p>Solar panel array on roof (may reduce energy costs for tenants)</p> <p>Security; Waste; Heating and Hot Water; Fire Safety System; Ground Maintenance; Access/signposting to business support</p> <p>Shell unit with electric points, heating, telephony/broadband points</p> <p>Individual kitchenette in each unit.</p>	<p>General B Class Use Space (offices, small industrial use and research)</p> <p>Likely 0 – 5 employees per unit (dependent on the nature of the business)</p> <p>Development Phase 14 Design and Construction Jobs (year 1 and 2)</p> <p>Number of Business Units Created 29</p> <p>Business Units – to be let on an 'easy in easy out' lease basis with one month's notice</p>	<p>Commercial/employment floor space completed and utilised will be monitored through occupancy.</p> <p>Additional increased space brought forward by this intervention (such as phase 2) will be recorded.</p>
<p>Estates services letting and management</p>	<p>To support c.52 Full-Time Equivalent (FTE)</p>	<p>Jobs created</p>	<p>Jobs created or safeguarded will be</p>

	jobs at the site with the creation of 29 new jobs over a 10-year period.	Building occupancy rate Rental income achieved Number of businesses that move on to larger spaces	monitored through the regular assessment and reporting on tenant occupancy and move on.
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### Expected outputs

A summary of the intended benefits by building the units are as follows:

Unit Size	Total 9558 <sup>sqft</sup> (887m <sup>2</sup> )	Number <ul style="list-style-type: none"> <li>• X5 322<sup>sqft</sup> (30m<sup>2</sup> units)</li> <li>• x24 344<sup>sqft</sup> (32m<sup>2</sup> units)</li> </ul>
<b>Provision of amenities and services</b>	<b>Communal</b> <ul style="list-style-type: none"> <li>• Fully accessible</li> <li>• 49 parking spaces (approx. 1 per unit plus visitor parking)</li> <li>• Solar panel array on roof (may reduce energy costs for tenants)</li> <li>• Security; waste, heating and hot water, fire safety system, ground maintenance, Access/signposting to business support</li> </ul>	<b>Individual</b> <ul style="list-style-type: none"> <li>• Shell unit with electric points, heating, telephony/broadband points</li> <li>• Individual kitchenette in each unit.</li> </ul>
<b>Use of units and enabling clustering</b>	<b>Permitted</b> <ul style="list-style-type: none"> <li>• General B Class use (offices, small industrial use and research)</li> <li>• Likely 0 – 5 employees per unit (dependent on the nature of the business)</li> </ul>	<b>Not Permitted</b> <ul style="list-style-type: none"> <li>• Invasive/noisy activities</li> <li>• Warehousing and Retail</li> </ul>
<b>Jobs Created</b>	<b>Development Phase</b>  <b>Number of Business Units Created</b>  <b>Jobs created by tenant businesses (the jobs calculation is based on published government guidance.</b>  <a href="#">Employment Density Guidance 2010</a>	<ul style="list-style-type: none"> <li>• 14 Design and Construction Jobs (year 1 and 2)</li> <li>• 28 Business Units – let on an ‘easy in easy out’ lease basis with one month’s notice</li> <li>• To support c.52 Full-Time Equivalent (FTE) jobs at the site with the creation of 29 new jobs over a 10-year period. Businesses will be establishing with some succeeding and moving on and others continuing to need support or closing. The building will continue to offer opportunities to new entrepreneurs over the next 20 -30 years</li> </ul>

## Wider economic and social outcomes

The proposal is aligned to deliver the three key principles identified in Town Investment Plan

### 1. Programme interventions that deliver inclusive economic growth:

*'Inclusive regeneration ensuring residents in the most deprived parts of Hastings benefit directly from capital interventions, through improved linkages to supporting activities, skills and workforce development.'*

The location of the project (Hollington) is one of the most deprived wards in Hastings. The project will work in tandem with the Connecting Hastings and Rother Together (CHART) to provide support to potential entrepreneurs living in the town's most deprived LSOA's (Lower Super Output Areas).

The property management arrangements allow for local entrepreneurs to start their businesses without taking the level of risks often associated with leasing commercial properties. This enables those with less start up liquidity to pursue their business ideas.

### 2. Programme interventions deliver clean growth:

*'Growing our income while cutting greenhouse gas emissions and maximising the advantages for business from the global shift to clean growth. Success means transforming our buildings and industries into low-carbon hubs, safeguarding existing jobs and homes for the future.'*

The Building Research Establishment (BRE [www.bregroup.com/](http://www.bregroup.com/)) has two recognised standards of certification for assessing the sustainability of planning projects, infrastructure and buildings - CEEQUAL and BREEAM both are recognised commercial standards. The Churchfield Business Centre has adopted the BREEAM standards in the design and construction of the buildings and premises.

BREEAM ([www.breeam.com/](http://www.breeam.com/)) is a leading sustainability assessment method for master planning projects, infrastructure and buildings. Its ambition is to meet the very good to excellent standard of this assessment process. It will be one of the first BREEAM standard certified (very good to excellent) commercial office build in Hastings.

The building will be built to a **BREEAM** (Building Research Establishment's Environmental Assessment Method) standard with the objective of meeting Excellent to Very Good standard.

### 3. Programme interventions that improve our health and wellbeing:

*'Dynamic and inclusive Health and Wellbeing outcomes by the creation of attractive social places and facilities, organisational partnership working, improved access to services and opportunities for self-improvement.'*

The building will provide for 29 business units including a 'class / training room' facility for meetings, networking, training etc (tba). It will be a modern sustainable building located near woodlands and amongst other high spec manufacturers creating opportunities for learning, sharing, skills transfer and business growth.

## Stakeholders and consideration of their viewpoint

**HBC internal:** predominantly the council's Income Generation Board with day-to-day support from the Councils' Estates Team. Other teams include Economic Development within the Regeneration and Culture department as well as the local inward investment partner Locate East Sussex. Market research for the scheme has also been conducted by external consultants Dyer & Hobbis who are one of the largest commercial agents in the area.

Internal management of stakeholders is coordinated by the councils Corporate Management Group and the Economic Development Team. It maintains regular meetings with Locate East Sussex, Let Do Business and other partners in the area. The council's Commercial Estates team manage the relationship with established and potential clients with the support of its commercial agents.

**External stakeholders:** key external stakeholders include South East Local Enterprise Partnership; Team East Sussex (local federated body); and East Sussex County Council – all these bodies are part funders of the project and therefore have a key interest in ensuring the development proceeds.

Another key funder of the project is the Connecting Hastings and Rother Together Programme (CHART). It is a community-led Local Development Programme with access to European Structural Investment Funds (ESIF) to support projects that bring a fresh approach to tackling deep-rooted problems which conventional working has not managed to solve. It is particularly focused on:

- helping disadvantaged people to find and keep work locally
- helping disadvantaged people to start a business or set up as self-employed
- stimulating the local economy to create jobs suitable for local people

The CHART Programme is overseen by a Local Action Group, consisting of representatives from the community and voluntary sector, local business community and residents. As part funders of the project the LAG is a key stakeholder of this project.

Other key stakeholders include Locate East Sussex (local inward investment support provider); Let's Do Business; Federation of Small Business and the local Manufacturing Business Group.

All the above stakeholders have been involved in providing evidence, support and feedback to progress this development proposal and engaged in the process.

Finally, the project has been through a full planning consultation process with responses received from a wide range of consultees including environmental groups; local businesses; residents; and a variety of statutory authorities. Their responses have influenced the design including location of access points to site; planting of trees in replacement of those lost; provision of electric charge points, bus shelter etc.

Wider public stakeholder engagement has been limited due to Covid 19 lockdown restrictions during 2020 and 21 and was not as such required for this project greater than achieved via the planning application process.



**ECONOMIC CASE**

**Churchfield Business Centre**

# ECONOMIC CASE

## SUMMARY OF ECONOMIC CASE

The summary conclusion of Mott Macdonald's economic analysis is as follows:

The economic appraisal of the Preferred Option has been carried out in line with the HM Treasury Green Book (2020) and the MHCLG Appraisal Guide (2016). In accordance with this guidance, the Economic Case focuses on public value from the perspective of society and appraises, in a proportionate manner, social, economic and environmental costs and benefits.

The appraisal has considered the costs and income of the project to estimate the net economic cost of the scheme. The VfM assessment estimates that the Preferred Option demonstrates very high VfM, with a BCR of 3.2 and NPSV of more than £3.7m.

## INTRODUCTION

The strategic interventions proposed by this scheme have been informed by the council's Income Generation Strategy. As part of this work, the council commissioned an independent marketing report to enable the drafting of a business case for the development of the sites PX and QX. *Please see Appendix 7: HBC Sidney Little Road (Churchfield Business Centre) Dyer Hobbis Incubation Need Report March 2017*

The report established the demand for small units with the recommendation to build the suggested scheme but to phase further development so as not to flood the market with available space. By agreeing to easy-in/easy-out licences, the aim would be to grow the tenants from the incubator units into larger units already available on site or into any future proposed buildings in phase 2.

## APPROACH TO ECONOMIC CASE

### Scenarios considered

The council has considered various options to progress the proposed development. These are as follows:

- 1. Proceed without Town Fund funding in place, or with reduced funding:** The council has considered funding the development of the project itself but it's challenging to generate income from good quality business incubator units. The revenue loss during the development phase and first six years of the project (after the building is opened) is considerable and without Town Funding, is expected to total approximately £165K. Without Town Fund grant funding, the council would need to take on additional financial risk which would be unwise in the current economic climate.

The council had a budget deficit of £443k for 17/18, £1.039m in 18/19 and £1.036m in 2019/20. The underlying deficit grows to £2.4m during 2021/22. The council, whilst it may be prepared to take the risk of less than 90% to 92% occupancy is unable to fund an ongoing deficit programme.

There are also other large capital projects in the pipeline which the council is taking forward. These are identified in the Town Investment Plan and include Hastings Castle; Priory Street Car Park; Town Living and the Wellington Place proposal. All need a degree of grant funding and this project can be fast tracked with a £750K funding request.

This development proposal is a reduced funding proposal to that originally identified in the Town Investment Plan. The original proposal identified 3 adjoining sites for development and this has now been reduced to one site, with a reduction in funding from £2.75m to £750k. The scheme approved to

proceed by the Town Deal Board in August 21, was identified as a 'fast track' project in the TIP in January 21. It has been developed at risk to the council with the assumption that the Town Fund grant application would eventually be approved and the business case substantiated much earlier. To have stopped the design and development of the scheme until full funding approval would have caused considerable delay with the delivery of the project and loss of other match funding sources also supporting the project.

- 2. Higher rent charge:** there could be an option to charge higher rents to close the funding gap. All the commercial demand studies however show rents needs to be maintained low in a poor economic town such as Hasting otherwise the business move closer to more dynamic economic areas such as Brighton, Tunbridge Wells and Crawley etc. In Hastings that 'dynamic' does not exist being a 180 degrees coastal town and with one of the lowest productivity rates in East Sussex – Annex A of Town Investment Plan. Construction cost in Hastings is similar to the South East Average but the rent achievable to show return on investment is a reasonable period would be challenging and risky for a local authority. The objective of this initiative in line with the TIP is to enable and 'grow our own' entrepreneurs and support this development process. This is important to the 'levelling up' agenda and justifies the need for subsidy.

**Non-Intervention:** A do nothing option would leave the whole Sidney Little Road site underdeveloped without any momentum. This may have negative effects on the ability of the Hastings area to support newly created businesses and jobs, resulting in outward migration of skilled workers and innovative technologies, potentially out of the reach of the LEP area.

### **Preferred option:**

The preferred option is for the Town Fund grant to be approved. The grant will enable the council to rapidly proceed with the project. The scheme has now had Cabinet approval with the expectation the Town Fund application would be approved much earlier as originally outlined by the government. It was always identified as a fast-track project and we have been proceeding to prepare for the build phase as quickly as possible. This has all been achieved and the construction is ready to go on site in November 2021.

The scheme still has a revenue (income) gap funding of £165K during the first six years of the project (income from the lease of the units less operational and loan cost) despite the £750K Town Fund ask. The business case for the project demonstrates it would allow it to break even within six years of completion and then generate income for the council (See Appendix 2 – Churchfield Business Centre Income and Expenditure Forecast Sep 21). This justifies the investment from the Borough Council's perspective. The local authority is accepting the risks in terms being able to let and maintain the occupancy rate over 90% by year four of the project and no further increases in interest rates prior to the PWLB loan agreement. This leaves little scope for flexibility in the Town Fund funding application.

Stakeholders consulted on the preferred option include our partners, East Sussex County Council, HBC Commercial Properties Management Team, Team East Sussex (East Sussex LEP), Locate East Sussex and local commercial agents Dyer Commercial.

SELEP and ERDF (CHART Programme) has also provided some match funding reflecting their support for the project. This project has been through an appraisal process from both these external funders.

## ECONOMIC BENEFITS

**Appendix 6** provides for a quantitative analysis of the economic benefits of the project. These have been calculated by Mott Macdonald and covers three key metrics:

- Land value uplift (LVU) at the intervention site.
- The labour supply benefits from safeguarded and created employment.
- Amenity disbenefits resulting from lost greenspace.

The summary conclusion of Mott Macdonald Analysis is as follows:

The economic appraisal of the Preferred Option has been carried out in line with the HM Treasury Green Book (2020) and the MHCLG Appraisal Guide (2016). In accordance with this guidance, the Economic Case focuses on public value from the perspective of society and appraises, in a proportionate manner, social, economic and environmental costs and benefits.

The appraisal has considered the costs and income of the project to estimate the net economic cost of the scheme. The VfM assessment estimates that the Preferred Option demonstrates very high VfM, with a BCR of 3.2 and NPSV of more than £3.7m.

### Summary of additional benefits

Benefit	Timescale
The Towns Fund and LGF funding will allow the council to keep the lease charges competitive for a longer period of time, helping tenant businesses to flourish in their early phase of development.	Proposed first increase (9%) in rent 24/25. This is subject to HBC Cabinet approval at the appropriate time.
Hastings Borough Council is considered a desirable landlord and this assists the business to attract investment when aiming to secure a loan, at a possibly favourable term over and above those available to other organisations.	In perpetuity from 2021
The grant will help the council to create momentum towards developing two further sites in the area in the future including a 35,000 <sup>sqft</sup> factory and varying size of light industrial units with a total area of 11,797 <sup>sqft</sup>	Following completion of development phase in 2022
Development of a sustainable commercial building	BREEAM (Very good to excellent standard)
Provision of a 'training and calls room facility' within the building	Operator to be confirmed

## **Additional Local impact**

- Self-starts – This is a long-term high-quality commercial premise for the town consisting of 29 units. It will therefore initially support 29 start-up businesses once the building is fully occupied however the number is likely to be greater as businesses go in and out of these premises during its lifetime.
- Business opportunity to expand – we offer long term support to enable businesses to grow.
- The proposed site is ideally located on a well-established industrial estate within an area of three estates known as the '3C's'. The industrial estate style location is within easy reach of the two major trunk roads (A259 and A21) providing ideal access for business employees and visitors, has on-site parking, and nestles alongside and close to potential variety of manufacturing supply chain contacts.
- The make-up of businesses located on the estate includes nationally and internationally respected enterprises including Marshall Tufflex, Interface, Technoturn, LG Optical as well as Plastica, BD Foods and HG Aerospace on neighbouring estates. The presence of incubator units in the area will enable mutual supply chains to develop in the local manufacturing sector and support systems to develop in the area. The strength of the local manufacturing sector is identified and discussed in the Town Investment Plan.
- A new high-quality building providing an example of a sustainable commercial/industrial building built to exemplar standards, meeting local and national net zero ambitions and providing a best practice example for others to follow.
- In summary, the council is seeking c£750k funding for the viability gap to develop 29 business incubator hubs at a total cost of £4.5m. Overall, the existence of a quality facility such as proposed represents excellent value and the bid reflects the low level of rent payable by many businesses in Hastings and the need for support in enabling them to flourish. Given low rent and land values, this development will not be viable without this funding support.

## **Benefits link to theory of change and strategic case**

The council is seeking c£750k funding for the viability gap to develop 29 business incubator hubs at a total cost of £4.5m. It is anticipated that the development will support c.52 Full-Time Equivalent (FTE) jobs at the site with the creation of 29 new jobs over a 10-year period. Businesses will be establishing with some succeeding and moving on and others closing. The building will continue to offer opportunities to new entrepreneurs over the next 20 -30 years

Overall, the existence of a quality facility such as proposed represents excellent value and the bid reflects the low level of rent payable by many businesses in Hastings and the need for support in enabling them to flourish. Given low rent and land values, this development will struggle to become viable without this funding support.

The Churchfield Business Centre proposal delivers the three key principles identified in Town Investment Plan (see above – Strategic Case). These are all likely to be part of the Levelling Up agenda due to be published by the government later in 2021. It will create opportunities for local entrepreneurs without having to take the financial risks often associated with leasing commercial premises. The unit sizes are relatively small, but if they are successful and can grow the council with its profile of commercial properties can support this process with assurance.

## ECONOMIC COSTS

The cost of development is now reliably known with formal planning application approval August 21 and an agreement with Westridge Construction on the build cost, following a competitive tender process, also in August 21. Much of financial risk to the project has therefore been eliminated.

A summary of the economic costs to the project are listed below:

Main Cost Items	£££	Remarks
Development Land (for all three sites in Sidney Little Road)	£600,000	Total value of land purchased by HBC in March 2017 (16,100m <sup>2</sup> ). The incubator units will be developed on site using approximately 887m <sup>2</sup> .
Design and Build Cost (including surveys, planning etc.)	£4,503,000	Cost – confirmed via construction tender process with good levels of contingency.
HBC Project Management Cost	£30,000	The project will be managed in house using existing staffing resources
Revenue loss from management letting until full occupancy - see Appendix 2	£165,627	Loss of income for the first six years of the project until breakeven point – based on occupancy assumptions.
PWLB Loan Amount	£2,950,000	HBC loan from PWLB
PWLB Loan Cost over 40 years	Estimated total loan cost over 40 years <b>£4,310,160</b>	This is dependent on interest rate when the loan is confirmed. This is currently 2.06% (Aug 21)
Local Growth Fund request	£500,000	Funding confirmed June 2019
CHART (ERDF) Funding	£303,000	Funding confirmed January 2020
Management and Maintenance Cost	£20,000 per annum (estimated at the beginning of the project)	Management and maintenance costs considered in assessing the financial viability of the project.

Appendix 6 provides Mott Macdonald's analysis of the economic costs (Present Value):

### Net economic costs, discounted 2021/22 values

Funding profile	2021/22	2022/23	2023/24	Total
Towns Fund grant funding	£372,000	£427,940	£0	£799,940
Public sector co-funding	£620,000	£288,146	£0	£908,146
Private sector contribution	£0	£0	£0	£0
<b>Total cost</b>	<b>£992,000</b>	<b>£716,086</b>	<b>£0</b>	<b>£1,708,086</b>

Source: Mott MacDonald

## Operating costs

The council has an in-house Estates team which manages its commercial stock portfolio. This and other costs are shown in Appendix 2 – Churchfield Business Centre Income and Expenditure Forecast Sep 21.

Management and Maintenance Cost	£20,000 per annum (estimated at the beginning of the project)	Management and maintenance costs taken into account in assessing the financial viability of the project.
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## VALUE FOR MONEY ASSESSMENT

The VfM assessment for this project is based on a 40-year appraisal period, in line with the payback period for the PWLB loan, therefore the minimum period the asset must be kept operational. In line with HM Treasury Green Book 2020 guidance, the benefits have been discounted at a rate of 3.5% per annum. The price base year is 2021. The results of appraisal are presented in the table below.

**Table 1.3: VfM summary**

<b>Economic Case - VfM analysis</b>	<b>Project BCR</b>
Total net additional benefits (£)	Preferred Option (NPV, 2021-22 prices)
<b>Benefits for the BCR</b>	
Welfare impact (fiscal - tax loss/welfare cost)	£2,188,714
LVU	£3,315,584
Amenity disbenefit	-£72,270
<b>Total benefits for the BCR (A)</b>	<b>£5,432,028</b>
<b>Costs</b>	
Towns Fund (B)	£908,146
Co-funding local authority cost (including borrowing) (C)	£799,940
<b>Total cost (LUF + Co-funding) (D)</b>	<b>£1,708,086</b>
Private sector cost (E)	£0
<b>BCR calculation formula (A - E) / D</b>	<b>3.2</b>
<b>NPSV</b>	<b>£3,723,942</b>

Source: Mott MacDonald

HM Treasury considers a BCR of >2.0 to be high VfM meaning this scheme can be considered very high VfM.

## NON-QUANTIFIED BENEFITS

The project provides a range of social value factors including green and energy efficiency features; development of a stalled site; addressing market failure; small business incubation units for start-ups; rental on an easy in easy out basis (reducing risks for start-ups; business units located in Hollington (one of the most deprived wards in Hastings); and supporting inclusive growth.

The development will feature an energy efficient BREEAM standard building for other developers to consider and see as an example.

Westridge Construction, awarded construction for the development, is also an exemplary construction training provider committed to working with East Sussex College Group and local employment support organisations to create opportunities for local people to access employment. See attached link to their training offer page: [Training / Westridge Construction Ltd](#)

## **SUMMARY**

The preferred option is for the Town Fund grant to be approved; the grant will enable the council to rapidly proceed with the project. The scheme has now had Cabinet approval with the expectation the Towns Fund application would be approved much earlier, as originally outlined by the government. It was identified as a fast track project and we have been proceeding to prepare for the build phase as quickly as possible. This has all been achieved and the construction is ready to go on site in November 2021.



# **FINANCIAL CASE**

## **Churchfield Business Centre**

# FINANCIAL CASE

## SUMMARY OF FINANCIAL CASE

The project is financially supported by various stakeholders and part funded by SELEP (Local Growth Fund) and ERDF (CHART Programme). Both have social and economic ambitions of encouraging more entrepreneurs from the deprived areas and the need to ensure the units are affordable to this client group. Their funding was confirmed following a similar rigorous application process and business case presentation.

The preferred option is for the Town Fund grant to be approved; the grant will enable the council to rapidly proceed with the project. The scheme has now had Cabinet approval with the expectation the Town Fund application would be approved much earlier as originally outlined by the government. It was always identified as a fast-track project and we have been proceeding to prepare for the build phase as quickly as possible. This has all been achieved and the construction is ready to go on site in November 2021.

## INTRODUCTION

Total Project Value: £4.5m

Town Fund Request: £750,000

Local Growth Fund: £500,000

Connecting Hastings and Rother Together (CHART-ERDF) - £303,000

HBC Funding (via PWLB): £2,950,000

### Preferred base case option

The preferred option is for the Town Fund grant to be approved; the grant will enable the council to rapidly proceed with the project. The scheme has now had Cabinet approval with the expectation the Town Fund application would be approved much earlier as originally outlined by the government. It was always identified as a fast track project and we have been proceeding to prepare for the build phase as quickly as possible. This has all been achieved and the construction is ready to go on site in November 2021.

The scheme has a revenue (income) gap funding of £165K during the first five years of the project despite the £750k town fund grant towards the build cost (income from the lease of the units less operational and loan cost). The business case for the project demonstrates it would allow it to break even within six years of completion, and then begin to earn income for the council. This justifies the investment from a local authority perspective. The local authority is already taking risks in terms being able to let and maintain the occupancy rate over 90% by year four of the project and no further increases in interest rates prior to the PWLB loan agreement. This leaves little scope for further flexibility in the Town Fund grant application.

Stakeholders consulted on the preferred option include our partners, East Sussex County Council, HBC Commercial Properties Management Team, Team East Sussex (East Sussex LEP), Locate East Sussex and local commercial agents Dyer Commercial.

SELEP and ERDF (CHART Programme) has also provided some match funding (£500K LGF and £303k CHART- ERDF) reflecting their support for the project. This project has been through an appraisal process from both these external funders.



## COSTS AND FUNDING SOURCES

The cost of development is now reliably known with formal planning application approval August 21 and an agreement with Westridge Construction on the build cost, following a competitive tender process, also in August 21. Much of financial risk to the project has therefore been eliminated.

### Capital costs profile

Churchfield Business Centre - Expenditure Profile August 2021 (following construction tender process)	Price for construction agreed with Westridge Construction			Total
	21/22	22/23	23/24	
Cost type - Capital	£0	£0	£0	
Substructure – foundations, piling, GF construction etc.	£284,000	£118,496		£402,496
Superstructure – Frame, roof, stairs, walls, windows, doors	£157,555	£1,242,000		£1,399,555
Internal Finishes		£204,500		£204,500
Fittings and Furnishing & Equipment		£58,000		£58,000
Services		£420,000		£420,000
External Road and Car Parks		£702,000		£702,000
Main Contractors Preliminaries	£67,554	£92,000		£159,554
Main Contractors Overheads	£78,000	£80,000		£158,000
Construction / Design Development and Design Contingency		£320,000		£320,000
Project and Design Team Fees	£213,000	£105,895		£318,895
Contingencies		£360,000		£360,000
End of Defects Period			£65,936	£65,936
<b>Total funding requirement</b>	<b>£800,109</b>	<b>£3,702,891</b>	<b>£65,936</b>	<b>£4,568,936</b>
<b>Funding source</b>				
Capital - Public Works Loan Board	£400,000	£2,550,000	£65,936	£3,015,936
<b>Total funding requirement from LGF 3B</b>	<b>£500,000</b>			<b>£500,000</b>
<b>Town Fund</b>	<b>£300,000</b>	<b>£450,000</b>		<b>£750,000</b>
<b>CHART (ERDF)</b>		<b>£303,000</b>		<b>£303,000</b>
<b>Total Project Budget</b>	<b>£1,200,000</b>	<b>£3,303,000</b>	<b>£65,936</b>	<b>£4,568,936</b>

### Sources of funding

Year	21/22	22/23	23/24	Total
<b>Total funding requirement</b>	<b>£800,109</b>	<b>£3,702,891</b>	<b>£65,936</b>	<b>£4,568,936</b>
<b>Funding source</b>				
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<b>CHART (ERDF)</b>		<b>£303,000</b>		<b>£303,000</b>
<b>Total Project Budget</b>	<b>£1,200,000</b>	<b>£3,303,000</b>	<b>£65,936</b>	<b>£4,568,936</b>

## PWLB borrowing payment arrangements

Estimated Annual Costs	22/23	23/24	24/25	25/26	26/27	27/28	Assumptions
HBC Loan Cost per annum (£2,950,000 over 40 Years from PWB)	£107,754	£107,754	£107,754	£107,754	£107,754	£107,754	Interest Rate 2.06% (Annuity Loan)

## AFFORDABILITY ASSESSMENT

Please see preferred option as set out above. Appendix 2 – Churchfield Business Centre Income and Expenditure Forecast Sep 21 – provides details of our calculation and breakeven analysis and affordability. This has been approved by our S151 officer and the Council's Cabinet.

The rent is based on our current charges for similar smaller sized units on other industrial estates. Rent charges could vary upwards much more quickly if the demand level proves to be high and the vacancy rate stable. The current economic situation however volatile and making any reliable prediction of the market is difficult.

The project is financially supported by various stakeholders and part funded by SELEP (Local Growth Fund and ERDF (CHART) Programme). Both have social and economic ambitions of encouraging more entrepreneurs from the deprived areas and the need to ensure the units are affordable to this client group. Their funding was confirmed following a similar rigorous application process and business case presentation.

## Summary of financial risks

Risks and constraints	Remarks and Mitigation
Viability gap for development of site	The funding gap may increase if borrowing levels or interest rates increase. If gap funding cannot be accessed, the programme will not be financially viable in the future and rents substantially increased year by year to cover shortfall in revenue.
Funding is not secured	HBC intends to borrow £2,950,000 from the Public Works Loan Board. Small risk the government may set limits of ability of LAs to borrow for commercial developments.
Planning permission for site refused	Planning permission granted Aug 21
The development may take longer than anticipated	Build phase may be longer, 24 months may be too optimistic. Appointed contractors have confirmed the build phase to 9 months.
Lack of demand for units	Market research showing the need may not be realised and the units will not be filled.
Project creep and unforeseen ground / land conditions.	Feasibility work identifies factors which result in redesign or delay in development – sufficient contingencies provided for in the contract
Suitable contractors not appointed	Suitable contractors appointed

Build contractor liquidates during build process	This will cause development delays while new contractors are appointed and the project would not be delivered on time.
Project contingencies	We have allowed for construction / design development and design contingency totalling £320,000 and other contingencies (to meet BREEAM standard etc) £360,000.

## Subsidy Control

Reading the guidance (section copied below) we consider that the Town Fund grant will not need to be reported under subsidy control.

<https://www.gov.uk/government/publications/complying-with-the-uks-international-obligations-on-subsidy-control-guidance-for-public-authorities/technical-guidance-on-the-uks-international-subsidy-control-commitments>

The key considerations are as follows: **Are you giving a subsidy and if so, what international obligations apply?**

*In general terms, and for the purposes of our international commitments, a subsidy is a measure which:*

- *is given by a public authority. This can be at any level – central, devolved, regional or local government or a public body;*
- *makes a contribution (this could be a financial or an in-kind contribution) to an enterprise, conferring an economic advantage that is not available on market terms. Examples of a contribution are grants, loans at below market rate, or a loan guarantee at below market rate or allowing a company to use publicly owned office space rent free. An enterprise is anyone who puts goods or services on a market. An enterprise could be a government department or a charity if they are acting commercially; and*
- *affects international trade. This can be trade with any World Trade Organisation member or, more specifically, between the UK and a country with whom it has a Free Trade Agreement. For example, if the subsidy is going towards a good or a service which is traded between the UK and the EU this could affect trade between the EU and the UK. Please note that you are not being asked whether the subsidy could harm trade but merely whether there could be some sort of effect. Subsidies to truly local companies or a small tourist attraction are unlikely to be caught as this is unlikely to affect international trade.*

All of these tests must be met for a measure to be a subsidy. If the measure meets the definition of a subsidy, then we are asked to consider which international obligations apply. Not all measures will be subsidies that are in scope of international agreements.

We do not the subsidy offered to the local authority to build the Churchfield Business Centre for small SMEs will affect international trade. The guidance states '*subsidies to truly local companies or a small tourist attraction are unlikely to be caught as this is unlikely to affect international trade*'.

**COMMERCIAL CASE**

**Churchfield Business Centre**

# COMMERCIAL CASE

## SUMMARY OF COMMERCIAL CASE

The project was identified as a fast-track project in January 2021 as part of the TIP 1 submission. Since then, it has been proceeding at pace to ensure deliverability / build asap. The risks to the Churchfield Business Centre development have been greatly reduced with planning consent being granted in August 2021; the works being tendered for and the construction price agreed; HBC Cabinet approval of the project; and a start date agreed with the contactors (November 21). The delays with Town Fund approval process have meant the project has been developed with risk to the council. However, if the business case is approved this risk is removed.

HBC is committed to excellent programme management and project control systems. This project will be managed using the corporate standard version of MSP and PRINCE2 lite by the Project Management consultant. This will include the use of a Project Plan (Microsoft Project or equiv.), Risk and Issue Logs which will be maintained by the project team.

## INTRODUCTION

### COMMERCIAL DELIVERABILITY

The structure of the commercial model for this project is as follows:

Co-founders: MHCLG/HBC

Accountable Body: HBC

Sponsor: HBC

Funding and Delivery Client: HBC

Detailed design and Delivery Management: HBC and appointed consultant design team

Operator: HBC (Estate Officer and Economic Development Officer)

End user: Business tenants

The project will be led by our Estates Service Team with the work allocated to the Estates Manager and Principal Estates Surveyor to project manage and organise the delivery of the works, both of whom have been working on the development of the Churchfield Business Centre project for the past 18 months. The team is supported by the Design Team whose role will also be to project manage the build phase of the work.

In addition, our Estates Team will also be supported by our Building Surveyors to address any technical issues which may arise during the build phase. The council Regeneration Team will oversee compliance with all Town Fund reporting and monitoring requirements.

In total there are 4 groups of staff team (3x HBC Internal team and 1 Consultant Design Team) involved in overseeing the delivery of the project. This represents a multi skilled experienced team. Within these teams, staffing support can be re-organised to respond to any human resource challenges.

As part of the build phase for this project, we have used the JCT Intermediate Building Contract (IC) 2016. This type of contract allows for the council and it's design team to provide for detailed contract provisions, with drawings and a specification, work schedules or bills of quantities to define adequately the quantity and quality of the work. It also allows for a contract administrator and quantity surveyor to administer the conditions.

- The project risk register is provided by Allan Consultancy (Project Management and Architects) in Appendix 3
- A Construction Contract Programme Management is shown in Appendix 4



## Summary risks and mitigations

Risk Element 1 <i>page.]</i>	Identified risk	Likelihood	Impact	Mitigation
<b>Funding</b>	Viability gap for development of site	M	H	A source of viability gap funding has been identified via the Town Fund. If it is not possible to access gap funding, the programme will not be financially viable to maintain for its intended economic and social purpose. Rents and lease arrangements will have to be reviewed – to long-term commitments (as opposed to easy in and easy out policy).
<b>Planning</b>	Planning permission for site refused	L	H	The development now has full planning application. The site is identified within the Hastings Local Plan 2014 for a development of this type.
<b>Project overruns</b>	The development may take longer than anticipated.	L	M	Dedicated and experienced project manager and architect will work with contractors to minimise risk. Should the project then overrun, the project can be adapted to reduce impact (e.g., completing a percentage of units for occupation).
<b>Demand</b>	Lack of demand for units results in them not being filled	L	L	The projections in the income and expenditure forecast show a conservative estimate of 40% occupancy in year 1, rising to 60% in year 2; 75% in year 3; 80% in year 4 and 90% in year 5. Based on current occupancy levels of the council and Hastings Business Operations current business centre spaces, it is unlikely that occupancy could fall below the 90% level.
<b>Site Development</b>	Feasibility work identifies factors which result in a need to redesign or delay development.	L	M	The most likely cause of a delay would be any additional findings of ecological related issues. Topographical & ecology surveys have now been carried out and nothing significant which would lead us to anticipate a delay was found.
<b>Procurement</b>	Unable to find a suitable contractor through the public procurement process.	L	M	A construction contractor has been procured for the work.

If the funding is approved and the development proceeds, **all the commercial and development risks rest with Hastings Borough Council**. The council has a strong commercial property management team which is able let and manage the property effectively for the long-term. The additional objective of this proposal is to generate income for the council.

## PROCUREMENT STRATEGY

The council adopted the traditional procurement approach to the construction of the incubator units. This is where the council accepts that design work will generally be separate from construction, consultants are appointed for design and cost control, and the contractor is responsible for carrying out the build

works. In addition, the consultant will also provide project management expertise and support the council's project team as required.



Hastings Borough Council commissioned Allen Construction Consultancy Ltd to lead on the development plans, designs and costs through to technical design construction and handover in accordance with RIBA stages 0-7. This is a multi-disciplinary team and appointed to provide the following professional services and disciplines:

- Building / Landscape Architect,
- Project Manager
- Structural Engineer,
- Structural and Building Surveyor,
- Mechanical & Electrical Services Engineer,
- Quantity Surveyor / Cost Consultant,
- Construction Design Management (CDM)

This team has developed the project to RIBA stage 4 and works for the build phase tendered separately. Subject to funding the contactors are due to go on site in November 2021.

The commissioning of all tenders was managed by the East Sussex Procurement Hub (ESPH) which provides the procurement service for the council. The procurement was undertaken as an open tender compliant with the Public Contract Regulations 2015.

There are no competition issues within the supply chain. All tenders for construction and design work were issued via a competitive open tender process using the SE Shared Services Portal – <https://www.sesharedservices.org.uk/esourcing> (please see 4.1 above). The tenders will also be advertised on Contracts Finder - <https://www.gov.uk/contracts-finder>. The tender process was set up using a full OJEU compliant procedure. It will also be in compliance with Hastings Financial Operating Procedures and Public Contracts Regulations 2015.

In tendering for architects to design the above incubator units, 130 Suppliers registered an interest with 17 submitting a bid. The tender was awarded to the Most Economical Advantageous Tenderer based on 60% Quality 40% Cost. Quality was evaluated against the following criteria: Project Team; Programme; Client Objectives; Service Standards and Social Value. Evaluating against both quality and cost ensures value for money.

The build phase has been tendered for and a construction price agreed with a preferred tenderer.



Social Value criteria was used as one of the criteria to assess tenders. Generally, organisations are asked to outline all the community benefits they propose to offer and how they will access local supply chains and support the local economy and community. These are currently being discussed with the selected contractor. Discussions include recruitment of apprentices; business support training for small

sub-contractors; local supply of materials; recruitment of local labour (TTWA) % and payment of living wage to all workers over 25.

Westridge Construction, awarded construction for the development, is also an exemplary construction training provider committed to working with East Sussex College Group and local employment support organisations to create opportunities for local people to access employment. See attached link to their trading page: [Training / Westridge Construction Ltd](#)

# **MANAGEMENT CASE**

## **Churchfield Business Centre**

# MANAGEMENT CASE

## SUMMARY OF MANAGEMENT CASE

The council has delivered a substantial number of major capital projects in recent years. This includes the new factory for BD Foods, refurbishment of 5 factory units at Theaklen Drive, development of Castleham Business Centre, Stirling Rd, and development of the Stade Open Space.

Hasting Council Cabinet has overall governance and has given approval of the project and permission to deliver under delegated powers of authority. Cabinet is the projects' scrutiny body and provides overall governance of the council. Cabinet gave full project approval at the scheduled meeting in January 2020.

In the long term the project will generate revenue for the local authority which can be used to support and improve day to day council services to its residents.

The council manages over 300 tenanted commercial assets. Locally the council is seen as a good reputable landlord offering well maintained properties. We have a dedicated Estate Management and Building Maintenance team (staff of 7) overseeing our tenanted asset portfolio. They include qualified and experienced estates and building surveyors, technical staff and administration support. We also have an Economic Development team which is able to offer business support advice together with Locate East Sussex. As a large landlord, we are also able to offer growth solutions and pathways with other properties in our portfolio

## INTRODUCTION

Hastings Borough Council has delivered a variety of capital projects over the last five years. They have often been externally funded to meet the specific requirements of the funders. Examples of such projects include:

2019 – BD Foods Factory Unit – additional space for a large food processing manufacture based in Hasting – £2.2m

2019 – Coastal Communities Fund – building of the Source Park, renovation of White Rock Fountain

2016 – The Stade – rebuilding of the coach park to provide for an Art Gallery (Hastings Contemporary); a cafe (Stade Eat); and a Community Hall. Programme value - £6.4m

Management of various government funding streams (capital and revenue): CHART programme £7m; Coastal Communities Fund 1; 2 and 4 - £5.5m total etc – please check.

### Delivering large Capital Projects

The council has delivered a substantial number of major capital projects in recent years. This includes the new factory for BD Foods, refurbishment of 5 factory units at Theaklen Drive, development of Castleham Business Centre, Stirling Rd, and development of the Stade Open Space, Hastings Museum and Source Park. We are experienced in development, procurement, and construction delivery, often leading but working in partnership with other investors or organisations. Each project has a named dedicated officer, with a wider support team including our building surveyor and planning officer.

### Managing our commercial portfolio

Locally the council is seen as a good reputable landlord offering well maintained properties. The council manages over 300 tenanted assets. We have a dedicated Estate Management and Building Maintenance team (staff of 7) overseeing our tenanted asset portfolio. They include qualified and

experienced estates and building surveyors, technical staff and administration support. We also have an Economic Development team which is able to offer business support advice together with Locate East Sussex. As a large landlord, we are also able to offer growth solutions and pathways with other properties in our portfolio.

Hastings Borough Council is considered a sound investment when aiming to secure a loan and is likely to achieve favourable loan amounts and terms over and above those available to private developers or other organisations.

## PROJECT ORGANISATION AND GOVERNANCE

**The Project Sponsor** is the council's assistant financial director and is responsible for sign off of section 151, LGF application, council match funding, Public Works Loan Board application and is the lead officer in charge of physical assets including Churchfields Business Unit.

**The Senior Responsible Officer** is the council's Estates Manager. She is the lead officer for the project within the council which includes oversight and delivery of the project. The role includes the management of the programmes physical and financial reporting, ensuring compliance with relevant State Aid regulations and identification of opportunities for greater strategic work and added value.

**Cabinet** has overall governance and has given approval of the project and permission to deliver under delegated powers of authority. Cabinet is the projects' scrutiny body and provides overall governance of the council. Cabinet gave full project approval at the scheduled meeting in January 2020.

**Corporate Management Group (CMG)** is the senior staff governance and scrutiny body. The group meet monthly and receives progress reports from the Project Delivery Officer and Senior Responsible Officer. It will give approval of the project and project decisions using its delegated powers of authority and is responsible for scrutiny of project activity.

**Project Delivery Officer** is the council's estate officer responsible for managing physical and financial delivery of the project and procurement of project specific goods and services. The Estates Officer will also manage project contractors, oversee the marketing and tenanting of the completed incubation units and provide accurate progress reports to the Senior Responsible Officer, Cabinet and CMG.

**Contractors** are procured through the council's standard procurement practices via the East Sussex Procurement Hub (ESPH). Contractors are responsible for the delivery of goods, services and actions and report directly to the Project Delivery Officer.

**Post development Delivery** is the joint responsibility of the council's Estate Officer and Economic Development Manager. They will manage the day to day function of the completed incubation units and provide support for the tenant businesses. They will advertise and promote tenancies within the premises and identify suitable training, support and move-on opportunities.

The project will be overseen by a multi-disciplinary team which is to include the following professional services and disciplines:

- Building / Landscape Architect (Design Consultant)
- Project Manager/Project Delivery Officer (HBC Estates Manager)
- Structural Engineer (Design Consultant)
- Structural and Building Surveyor (Design Consultant and HBC Building Surveyors)
- Mechanical & Electrical Services Engineer (Design Consultant and Construction Company)
- Quantity Surveyor / Cost Consultant (Design Consultant and Construction Company)
- Construction Design Management (CDM – Design Consultant)

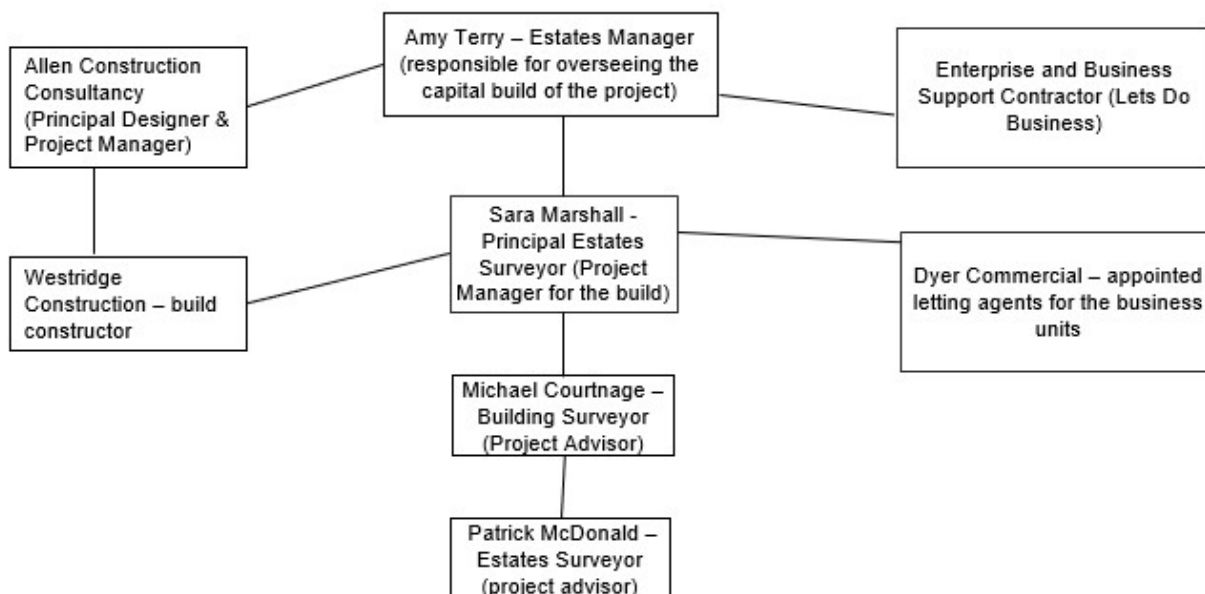
Hastings Borough Council is directly funding over 70% of the budget for this project and the council has a well-established Financial Operating Procedure in relation to any project over runs, delays and addressing unforeseen risks. This is not only at Director level, for approval for any increases in budgets but also a new HBC Cabinet approval is necessary if the budget exceeds 15% or up to £50,000 of its original estimate.

The project manager together with the design consultant is expected to make day to day operational decisions in order to ensure project delivery. Any issues or risks that arise which might impact on the successful delivery of the project will be reported on the monthly project report for consideration by the whole project team and a decision taken by the project sponsor, identified in the Governance structure below.

If the project manager and the Council are requesting a change to the project which impacts on outcomes, outputs, delivery timetable of the project to that specified in the Business Case application, we will submit a change management request for consideration by the Town Programme Management Board. The council is aware that where a significant change is proposed it is required to seek approval by MHCLG before implementing the change.

Operational management chart of construction project

Churchfields Business Centre Project Management Chart



HBC is committed to excellent programme management and project control systems. This project will be managed using the corporate standard version of MSP and PRINCE2 lite. This will include the use of a Project Plan (Microsoft Project), Communications Plan, Risk and Issue Logs which will be maintained by the project team.

It is regulated by International Financial Standards as well as the CIPFA code so all financial policies are in accordance with these standards and reviewed regularly to ensure the latest updates are included as part of that. This will cover all areas of financial management and ensures that all relevant staff are appropriately trained. Peter Grace as the council’s assistant financial director and section 151 officer (and this project sponsor) is ultimately responsible for these. HBC produce a Corporate Plan which incorporates corporate governance and best practise.

We have to comply with many audit and financial regulations, one of which is that we have a tied hierarchical approver system. By having a layered approval structure, the amount and type of approval that can be given will depend on the level of seniority within the organisation. This is controlled by a finance systems administrator who monitors and maintains the finance systems.

Checks and processes will be carried out within the project team with monitoring and compliance supported by the monitoring team and internal audit within the finance team. The checks will also monitor underperformance and subsequent implications as well as checking for errors in KPIs.

Evidence of appropriate procurement process and state aid will be assessed as part of the contracting process. Monitoring will continue for the lifetime of the project.

## **PROGRAMME/SCHEDULE MANAGEMENT**

This development proposal is a reduced funding proposal to that originally identified in the Town Investment Plan. The original proposal identified 3 adjoining sites for development and this has now been reduced to one site, with a reduction in funding from £2.75m to £750k. The scheme approved to proceed by the Town Board in August 21, was identified as a 'fast track' project in the TIP in January 21. It has been developed at risk to the council with the assumption that the Town Fund grant application would eventually be approved and the business case substantiated much earlier. To have stopped the design and development of the scheme until full funding approval would have caused considerable delay with the delivery of the project and loss of other match funding sources also supporting the project.

As a fast-track project, the development is now almost at the beginning of the construction phase and copy of the draft build schedule is shown above: Commercial Deliverability – Development of Business Centre.

It is expected the development will be completed by end of summer 22.

A Construction Programme Management GANTT Chart is provided in Appendix 4

## **RISK AND PROJECT MANAGEMENT**

To manage risks the Project Manager will report to the Project Board on a regular basis and by exception as required. The Project Manager will report directly to the Project Sponsor who also sits on the Corporate Management Group and will make final decisions regarding the risk management.



Overall Governance Structure for the project:

<p><b>Project Sponsor</b></p>	<p><b>Peter Grace, Assistant Director Financial Services, Hastings Borough Council</b>  <b>Simon Jones, Chief Accountant, Deputy Section 151 Officer, Hastings Borough Council</b>  <b>Role and responsibilities</b></p> <ul style="list-style-type: none"> <li>• Section 151 officer</li> <li>• Sign off - LGF application</li> <li>• Sign off - council match funding</li> <li>• Sign off - application to Public Works Loan Board</li> <li>• <u>Lead officer in charge of physical assets including Sidney Little Road</u></li> </ul>
<p><b>Senior Responsible Officer</b></p>	<p><b>Pranesh Datta, Economic Development Manager, Hastings Borough Council</b>  <b>Role and responsibilities</b></p> <ul style="list-style-type: none"> <li>• Lead officer for LGF project within the council</li> <li>• Oversight of the project and project delivery officer</li> <li>• Management of the programme's physical and financial reporting</li> <li>• Ensuring compliance with relevant State Aid regulations</li> <li>• Identification of opportunities for greater strategic working and value added.</li> </ul>
<p><b>Cabinet</b></p>	<p><b>Overall Governance</b>  <b>Roles and responsibilities</b></p> <ul style="list-style-type: none"> <li>• Approval of project and permission to deliver under delegated powers of authority</li> <li>• Project scrutiny body</li> <li>• Overall governance of the council</li> </ul>
<p><b>Corporate Management Group (CMG)</b></p>	<p><b>Senior staff governance and scrutiny body</b>  <b>Roles and responsibilities</b></p> <ul style="list-style-type: none"> <li>• Receives progress reports from project delivery officer and senior responsible officer</li> <li>• Approval of project and project decisions using delegated powers of authority</li> <li>• Scrutiny of project activity</li> </ul>
<p><b>Project Delivery Officer</b></p>	<p><b>Amy Terry, Estates Manager, Hastings Borough Council</b>  <b>Roles and responsibilities</b></p> <ul style="list-style-type: none"> <li>• Manage physical and financial delivery of projects</li> <li>• Procurement of project specific goods and services</li> <li>• Manage project contractors</li> <li>• Oversee marketing and tenanting of completed units</li> <li>• Provide accurate progress reports the senior responsible officer, Cabinet and CMG</li> </ul>
<p><b>Contractors</b></p>	<p><b>Contractors procured through standard procurement practices</b>  <b>Roles and responsibilities</b></p> <ul style="list-style-type: none"> <li>• Delivery of goods, services and actions</li> <li>• Report directly to project delivery officer</li> </ul>
<p><b>Post Development Delivery</b></p>	<p><b>Sara Marshall, Estates Officer (EO), Hastings Borough Council</b>  <b>Roles and responsibilities</b></p> <ul style="list-style-type: none"> <li>• Day to day management of completed units (EO)</li> <li>• Provides support for tenant businesses (EO / EDO)</li> <li>• Advertise and promote tenancies within the premises (EO / EDO)</li> <li>• Identify suitable training, support and move-on opportunities to prevent 'log-jamming' in incubator spaces (EO / EDO)</li> </ul>

Please also refer to the Project Risk Register Appendix 3.

As stated, the day to day contract management for now the construction phase of the work will be managed by council's estates management team. In addition, the following steps will be taken to ensure effective contract management and delivery of the results expected from the programme.

- As part of the design and project management procurement process the consultants has signed the RIBA Standard Professional Services Contract 2018 (Architectural Services) contract. This contract provides comprehensive contract terms and is suitable where the Architect undertakes a commission using a traditional form of procurement.
- As part of the build phase for this project, we have used the JCT Intermediate Building Contract (IC) 2016. This type of contract allows for the council and it's design team to provide for detailed contract provisions, with drawings and a specification, work schedules or bills of quantities to define adequately the quantity and quality of the work. It also allows for a contract administrator and quantity surveyor to administer the conditions.
- For both contracts, a clear work specification will be issued prior to appointment which will detail the scope of the work required. When procuring the contractor to build the scheme there was clear indication of the quality required when considering the final output. All contractors are required to attend regular meetings with the project team to provide an update on progress with the work programmes.
- Changes to the contract: If the contractor/consultant needs to make any changes to the programme, they will be required to formally submit the details of the change and any implications in terms of programme or budget to the project manager via email. The project manager will then consider the change being requested and will respond in writing setting out whether the change has been agreed and if there are any alternative solutions to the issue identified which may reduce the impact on the project.
- There are also clear timelines and KPIs which the consultants and build contractor will be required to meet. If these are not being met the supplier will be required to attend a meeting with the project team to explain their failure to comply with the requirements of their appointment. If a solution cannot be found, consideration will be given to terminating the contract and re-appointing from the framework.

## **STAKEHOLDER ENGAGEMENT**

The key stakeholders are internal, predominantly the council's Income Generation Board with day to day support from the Estates Team. Other teams include Economic Development within the Regeneration and Culture department as well as local inward investment partner Locate East Sussex. Market research for the scheme has also been conducted by external consultants Dyer & Hobbis who are one of the largest commercial agents in the area.

External stake holders include ESCC (providing LGF funding); CHART Local Action Group (CLLLD EU Funded Project); Let's Do Business (local business support provider); Manufacturing Group (consultees for the project during conception); Locate East Sussex (inward investment advice providers).

Internal management of stakeholders is coordinated by the councils Corporate Management Group and the Economic Development Team. It maintains regular meetings with Locate East Sussex, Let Do Business and other partners in the area. The council's Commercial Estates team manage the relationship with established and potential clients with the support of its commercial agents.

## **BENEFITS, MONITORING AND EVALUATION**

Key benefits for overall success of the project is listed below. These will be regularly reported on by our Estates Team to the Town Fund Programme Management Team as required by MHCLG.

<b>Benefit</b>	<b>Timescale</b>	<b>Measured</b>	<b>Risks</b>	<b>Critical Success Factors</b>
Town Fund will allow the council to keep the lease charges competitive for a longer period, helping tenant businesses to flourish in their early phase of development.	Proposed first increase in rent 23/24	Tenancy occupancy rate Comparison with competitors lease charges Business expansions	Unsuitable and unattractive lease and charges Strong competition	90% Occupancy Rate by year 3
Hastings Borough Council is considered a desirable landlord and this assists the business to attract investment when aiming to secure a loan, at a possibly favourable term over and above those available to other organisations.	In perpetuity from 2021	Tenanted businesses able to invest and expand  Tenant feedback on council as landlord	Support from council as landlord is reduced due to organisation and financial constraints  Lease charges need to increase making landlord less desirable	Entry and Exit Survey of businesses occupying the units
The grant will help the council to create momentum towards developing two further sites in the area in the future including a 35,000 <sup>sqft</sup> factory and varying size of light industrial units with a total area of 11,797 <sup>sqft</sup>	Following completion of development phase in 2022	Occupancy rate and future demand on phase one.  Market intelligence supporting demand for phase 2 requirements	Demand for extra buildings doesn't materialise  External competition	Proceeding with development with 3 years of completion.

<b>Inputs</b>	<b>Outputs</b>	<b>Outcomes</b>	<b>Impact</b>
Project delivery resources for capital build  Construction team	Total 9558sqf (887m <sup>2</sup> ) space Made up of x4 322 <sup>sqft</sup> (30m <sup>2</sup> units) and x24 344 <sup>sqft</sup> (32m <sup>2</sup> units) Fully accessible 32 parking spaces (approx. 1 per unit, plus visitor parking) Solar panel array on roof (may reduce energy costs for tenants) Security; Waste; Heating and Hot Water; Fire Safety System; Ground Maintenance; Access/signposting to business support	General B Class Use Space (offices, small industrial use and research) Likely 0 – 5 employees per unit (dependent on the nature of the business)  Development Phase 14 Design and Construction Jobs (year 1 and 2)  Number of Business Units Created 28	Commercial/em employment floor space completed and utilised will be monitored through occupancy.  Additional increased space brought forward by this intervention (such as phase 2) will be recorded.

	Shell unit with electric points, heating, telephony/broadband points Individual kitchenette in each unit.	Business Units – to be let on an ‘easy in easy out’ lease basis with one month’s notice	
Estates services letting and management	To support c.52 Full-Time Equivalent (FTE) jobs at the site with the creation of 29 new jobs over a 10-year period. Businesses will be establishing with some succeeding and moving on and others continuing to need support or closing. The building will continue to offer opportunities to new entrepreneurs over the next 20-30 years	Jobs created Building occupancy rate Rental income achieved Number of businesses that move on to larger spaces	Jobs created or safeguarded will be monitored through the regular assessment and reporting on tenant occupancy and move on.

This project aligns with the council corporate priorities and therefore will be subject to regular review, particularly given the level of financial commitment that is to be made by the local authority.

Overall project evaluation can be expected to be undertaken on a 5-year cycle or when there are key decisions to be made e.g. the council’s income generation strategy, financial position which will consider opportunities around phase 2 of the works.

**Environmental Impact**

The environment impact has been assessed as part of attempting to achieve the BREEAM standard for the for the project. This not only considered during the design process but also during the construction phase – including minimising waste; impact on local habitat; and use of sustainable material supply sources. Meeting these objectives enable the development to score sufficient ‘points’ to achieve an ‘excellent BREEAM standard’.

**Equality Impact Screening:**

The building itself will be fully compliant with the Equalities Act ensuring it meets the highest accessibility standards. Business support will be provided by the council’s economic development team, Let’s Do Business and Locate East Sussex. This will ensure incubation units are made available to as many people as possible. In addition, full EqIA will be undertaken by the Town Fund Programme Management Team following re- prioritised project approval by MHCLG. Its findings will inform the council’s next steps regarding any changes to the project.

An equalities screening assessment has been complete and is attached (**Appendix 5**). Actions arising from this will be considered by the Estates Team – particularly on how to market the business units to achieve a better gender and BAME community balance.