

Agenda Item No:	8	
Committee:	Cabinet	
Date:	20 February 2020	
Report Title:	South Fens Business Park Development Proposals	

## **Cover sheet:**

### **1. Purpose / Summary**

- The purpose of this report is to seek Cabinet approval to accept a funding award from the Local Growth Fund, known as the 'Growth Deal' of £997,032 from the Cambridgeshire & Peterborough Combined Authority (CPCA) and to approve a commitment to provide a match funded contribution from the Council of no more than £1.15million towards a scheme to develop the next phase of the South Fens Enterprise Park (SFEP) in Chatteris.
- The Council intend to create an additional 900-1,000m<sup>2</sup> (9,690-10,760ft<sup>2</sup>) of 'grow on' employment space to complement its existing South Fens Business Centre and South Fens Enterprise Park.
- The commitment to provide match funding and the obligation to draw down CPCA Growth Deal funding will be subject to further cost estimate and design work to ensure project viability, together with the successful grant of Planning permission.

### **2. Key issues**

- FDC have successfully secured Growth Deal funding to expand South Fens Business Park in Chatteris. In order draw down the funding it is necessary for the Council to agree to make a 50% match funding contribution.
- The Council will also need to have secured Planning approval in order to drawdown the CPCA funding and until Planning is secured all costs incurred by FDC are at the Council's risk.
- Officers propose to adopt a project 'gateway' approach to ensure that both project viability is assured and that Planning permission is in place before reaching a stage where FDC's match funded contribution is to commit.
- In order to satisfactorily meet the 'gateway' requirements it will be necessary for FDC to appoint external expertise to coordinate and drive the project forward.

### **3. Recommendations**

- Cabinet Members are asked to consider and approve:
  - the allocation of capital resources totalling £1,150,000, to include the authorisation to potentially borrow a capital sum of £1,000,000 and the contribution of land value in the sum of £150,000;
  - the acceptance of the CPCA Growth Deal grant and authorise Officers to undertake the necessary work to satisfy the requirements of the CPCA grant agreement;

- delegated authority to the Head of Economic Growth & Assets, the Chief Executive, Corporate Director and Chief Finance Officer, in consultation with Leader of the Council and Portfolio Holder for Economic Growth to undertake all actions to satisfy the requirements of the 'gateway' proposals as set out within the report;
- Cabinet Members are further requested, subject to satisfying the requirements of the 'gateway' proposals, namely meeting viability criteria and securing Full Planning permission, to:
  - delegate authority to the Head of Economic Growth & Assets, the Chief Executive, Corporate Director and Chief Finance Officer, in consultation with Leader of the Council and Portfolio Holder for Economic Growth to proceed with development and delivery of SFEP project, including the application of FDC's match funding contribution and the drawdown of the CPCA Growth Deal grant.

<b>Wards Affected</b>	Slade Lode Ward, Chatteris
<b>Forward Plan Reference</b>	
<b>Portfolio Holder(s)</b>	Cllr Chris Boden – Leader & Finance Portfolio Holder Cllr Ian Benney –Portfolio Holder for Economic Growth
<b>Report Originator(s)</b>	Paul Medd – Chief Executive Peter Catchpole - Corporate Director and Chief Finance Officer Justin Wingfield – Head of Business & Economy
<b>Contact Officer(s)</b>	Paul Medd – Chief Executive Peter Catchpole - Corporate Director and Chief Finance Officer Justin Wingfield – Head of Business & Economy
<b>Background Paper(s)</b>	

## Report:

### **1. Purpose**

- 1.1 The purpose of this report is to seek Cabinet approval and secure delegated authority to accept a Growth Deal (Local Growth Fund) funding award of £997,032 from the Cambridgeshire & Peterborough Combined Authority (CPCA) and to commit FDC to provide a match funded contribution of no more than £1.15 million towards a scheme to develop the next phase of the South Fens Enterprise Park (SFEP) in Chatteris.
- 1.2 The commitment to provide match funding and the obligation to draw down CPCA Growth Deal funding will be subject to satisfying project 'gateways' which include preparing cost estimate and design work to ensure project viability and the satisfactory grant of Planning permission (as detailed in section 6 'Next Steps' below). It is intended, subject to Cabinet approval, that any decision to proceed with the scheme, once the 'gateway' works have been completed, will be delegated to senior Officers in consultation with the Leader (Finance Portfolio Holder) and the Portfolio Holder for Economic Growth.

### **2. Background**

- 2.1 The Council owns the SFEP in Chatteris which extends to approximately 1.98 hectares (4.90 acres), as shown edged red on the attached plan (**Appendix 1**) and is home to the South Fens Business Centre (SFBC) which opened in 2004 and provides 45 serviced offices, conference and meetings rooms. The Business Centre was funded by Fenland District Council (FDC), the East of England Development Agency (EEDA) & Cambridgeshire County Council (CCC). The second phase of the development was the completion of 4 high quality light industrial units in October 2011, again funded by the same partners. In April 2012 a third phase was completed, providing an additional 4 light industrial units which were funded by FDC & CCC.
- 2.2 As part of the overall growth strategy for the site, the South Fens Enterprise Park also includes approximately 0.72 hectares (1.80 acres) of undeveloped employment land. The area required for this phase of the development is approximately 0.40 hectares (1.00 acre) and is shown cross hatched on the attached plan.
- 2.3 The SFEP is managed by FDC and has proven to be a resounding success, helping dozens of small businesses access high quality premises and creating hundreds of jobs and supply chain opportunities. FDC has always had an aspiration to deliver further phases of development on the site and land has been prepared and set-aside with this in mind. The Council has been keen to see the earlier phases mature and monitor demand before exploring a potential further phase of development. The Council recognises that there is a gap in the local market for 'grow on' space and in the context of the Local Industrial Strategy wants to address this local market deficiency.
- 2.4 Delivery of speculative commercial development at this site and across Fenland as a whole is difficult; it is not financially viable for the private sector to develop speculative commercial space in Chatteris. This issue was acknowledged in the recent CPIER report which highlighted the market disparities across the Combined Authority area. As a result of this trend Fenland has suffered from a lack of supply of high-quality employment space which was and continues to hold back its economic growth and this is despite strong demand for the existing light industrial units which are rarely vacant, with almost no void periods.
- 2.5 The South Fens Enterprise Park is an exemplar for how public investment in commercial floor space can overcome market failure and provide much needed premises for new start-ups and small businesses. The light industrial units in particular have been a huge success averaging 100% occupancy over the last few years.

### **3. Growth Deal Funding**

- 3.1 In July 2019 the Council was invited to express an interest in preparing a funding submission to the Business Board, part of the CPCA, to secure funding from the Local Growth Fund (LGF), known as the 'Growth Deal'.
- 3.2 The Growth Deal programme in Cambridgeshire & Peterborough is worth £146.7 million and must be spent by 31 March 2021. Of this, around £96 million has already committed to projects, leaving £50 million left to allocate in the latest bidding round.
- 3.3 The Growth Deal is an open call, 'capital only' funding pot, to be invested as loan or grant in projects or programmes which will have significant impact on growth in the CPCA area with a strong and robust connection with the adopted Local Industrial Strategy (LIS).
- 3.4 The key requirements of a successful submission to the 2019 Growth Deal programme are:
- All submissions must show clear links and outputs to the Local Industrial Strategy;
  - CPCA will only provide up to 50% of the total funding required, thus requiring a 50% match fund;
  - Funds must be spent (left CPCA accounts) by 31 March 2021;
  - There is now a greater emphasis on equity share/returns to CPCA to ensure a greater spread of funding and potential for some revolving funds.
- 3.5 Having discussed potential development schemes with the Leader & Portfolio Holder for Growth, it was decided that Fenland District Council should submit an 'Expression of Interest' for the construction of additional light industrial units on part of the South Fens Enterprise Park site to provide much needed 'move on' accommodation for growing businesses. The EOI was submitted in October 2019 and was approved by the CPCA. FDC was then invited to prepare and submit a Full Application, which was submitted in December 2019.
- 3.6 The CPCA appointed an independent assessor to review all applications and Officers met with the assessor in January to discuss the application and respond to some additional questions. Having completed this process, the assessor made her recommendations to the CPCA. On 27 January 2020 the Business Board gave approval to FDC's Growth Fund application subject to certain terms and conditions being agreed and these recommendations were ratified on 29 January 2020 at CPCA Board meeting.
- 3.7 The terms of the grant will require compliance with certain terms and conditions that relate to reporting and the production of evidence of compliance and satisfactory outputs. The terms are no more onerous than many other grant awards. Of course it should be noted that there will be a requirement for some Officer time to be allocated to complying with these obligations.
- 3.8 Having been successfully allocated funding, FDC are required to consider this matter and confirm a commitment to take forward the next phase of development at SFEP.

### **4. Proposed Scheme**

- 4.1 The Council intends to develop its next phase of SFEP to provide a number of 'grow on' light industrial units to provide space for existing tenant businesses and those in the surrounding area that are struggling to find adequately sized accommodation.
- 4.2 The existing SFEP units comprise 6no. 138m<sup>2</sup> (1,486ft<sup>2</sup>) and 2no. 170m<sup>2</sup> (1,830ft<sup>2</sup>) and provide ground and first floor office accommodation, together with a large high bay warehouse. Aside from a small number of units in Wisbech, FDC does not own any larger units in the rest of the District and from initial engagement with local agents; there is

demand for larger units locally. In fact the supply of new units is generally quite limited in the District. New units of between 185-279m<sup>2</sup> (2,000–3,000ft<sup>2</sup>) are considered ideal, providing affordable space at rental levels the market is prepared to pay.

- 4.3 At this stage it is intended to provide approximately 900-1,000m<sup>2</sup> (9,690-10,760ft<sup>2</sup>) of industrial floor space, although the exact number of units (and individual sizes) that can be delivered will be firmed up during the early design and costing work. Initial high level cost estimates provided with the full LGF application confirm that it is likely that up to 5 light industrial units could be constructed, although the size and specification will be refined to ensure that the units satisfy the biggest gap in the local market. Developing 5 units would provide units of circa 180-200m<sup>2</sup> (1,940-2,150ft<sup>2</sup>), whereas developing 4 units with a similar total footprint could provide units of between 225-250m<sup>2</sup> (2,420-2,690ft<sup>2</sup>).
- 4.4 The Council no longer directly employs resources that can coordinate and manage build projects such as this. It will therefore be necessary to appoint a Quantity Surveyor to manage the scheme. It is intended that the Quantity Surveyor will establish finalised cost estimates and develop initial designs. Subject to approval of the project viability from FDC (as discussed below in section 6, the 'Next Steps'), the Quantity Surveyor will then advance the scheme through the Planning process, finally moving on to the procurement stage; undertaking the tendering exercise and appointment of contractors, overseeing project delivery and maintaining cost control.
- 4.5 FDC will retain a client side role with the Head of Economic Growth and the Economic Growth & Assets Team providing the 'intelligent client role'. It is proposed that the project will be let on a 'design & build' contract, with architectural designs following the existing SFEP aesthetic.

## **5. Financial Considerations**

- 5.1 The anticipated cost of the scheme will be just under £2 million, which will comprise funding of £997,032 from the CPCA's Growth Deal fund and a match funded contribution from FDC of £997,032. FDC have proposed that the Council's match funding will comprise capital and equivalent land value to provide its proportion of match funding.
- 5.2 The CPCA LGF funding is made on a grant basis, with no annual revenue obligations or sums repayable to the CPCA. The terms of grant require that no disposal of the property is made within 3 years of the date of practical completion.
- 5.3 It is suggested that FDC should allocate £1 million in capital to the project and the value of the land contribution be deducted from the total capital investment to create a development contingency in the region of £150,000 (a total commitment of £1.15million and a total project budget of £2.15million). If FDC's project contingency is not spent it can be reallocated elsewhere, but if it is required, it will allow 'headroom' for the project to ensure that capital is already fully identified and funded.
- 5.4 From a treasury point of view the FDC contribution could be made from new external borrowing rather than from reserves. The anticipated interest cost of borrowing £1million is estimated to be £28,500 p.a. over the 20 year term and would be payable from revenue sources.
- 5.5 Whilst the project will be jointly funded by FDC & the CPCA, a requirement within the funding agreement states that LGF funds will not be released until Planning Approval is secured. Therefore FDC will be required, at its own risk, to utilise its own funds towards any project costs until this time.
- 5.6 As discussed in paragraph 4.4 above, the proposed scheme will be subject to further work to determine both final design and estimated cost details. Whilst FDC will have to meet the initial costs up to and including the Planning stage, it also enables FDC to decide on whether it wishes to proceed and draw down the CPCA grant, should the cost of the project or the likely returns not justify further investment. Whilst it is anticipated that

this will not be the case, the overall decision remains with FDC and the recommendations ensure that these approval 'gateways' are agreed between Senior Officers & Members are the appropriate stage.

- 5.7 The scheme has been included with the updated Capital Programme that will be presented to Cabinet & Council as part of the Budget Report & MTFS update report.
- 5.8 The tables below summarise the financial aspects of the proposed development and the cost estimates are based upon current information and are subject to change.

<b>Table 1 - Project contributions</b>	
Total CPCA grant contribution (50%)	£997,032
FDC's required contribution (50%)	£997,032
<b>Total estimated project cost</b>	<b>£1,994,064</b>

<b>Table 2 - FDC's recommended investment into the project</b>		
FDC's proposed contribution	<i>(capital)</i>	£1,000,000
Project contingency	<i>(capital)</i>	£150,000
<i>FDC's proposed contribution &amp; contingency comprises:</i>		
Land value (est.)	£150,000	
Capital sum (borrowing)	£1,000,000	
Estimated cost of borrowing for FDC	<i>(revenue)</i>	£28,500 p.a.
<b>Total recommended FDC contribution</b>		<b>£1,150,000</b>

<b>Table 3- FDC's gateway costs</b>	<b>min</b>	<b>max</b>	
FDC cost to reach 'gateway 1'	£10,000	£15,000	<b>NOTE</b> These cost estimates are subject to formal quotations
FDC cost to reach 'gateway 2'	£20,000	£25,000	
FDC total cost of 'gateway' work	£30,000	£40,000	
<i>(Gateway costs are accounted within FDC's contribution - Table 2)</i>			
<b>At risk of non-recovery if the project does not proceed</b>			<b>£40,000 (max)</b>

<b>Table 4 - Property estimates</b>	<b>min</b>	<b>max</b>
Potential gross rental income	£65,000	£85,000
Potential net rental income	£52,000	£68,000
Total floor area (m2)	900	1,000
Total floor area (ft2)	9,690	10,760

## 6. Next Steps

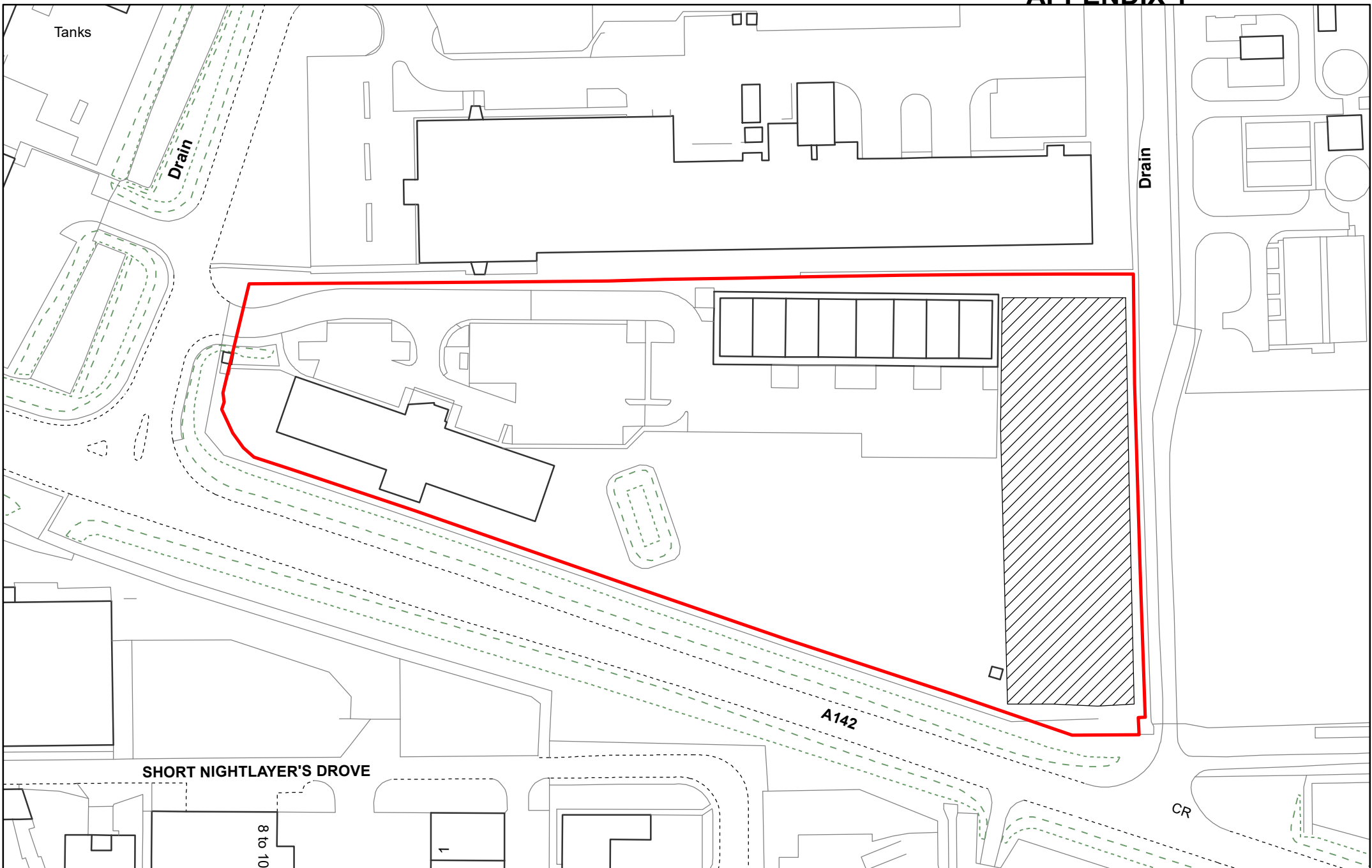
- 6.1 This report acknowledges that until a Planning approval is granted for the scheme, FDC will directly incur all costs in the preparation of this proposal and should FDC be unsuccessful with Planning or decide not to proceed following an assessment of the project viability, the costs incurred will not be recoverable.
- 6.2 In considering how best to take forward the development scheme Officers propose that FDC accepts the CPCA grant offer, noting that it is subject to satisfactory Planning approval and it is further suggested that the initial phase of work is broken down into two stages or 'gateways'.
- 6.3 Gateway 1 - The first gateway requires the appointment of a Quantity Surveyor to finalise cost estimates and initial design works, together with the commissioning of an external valuation to determine rental income and capital values from the completed scheme. Upon completion of this work Officers will report back to the Leader & Portfolio Holder for Economic Growth and in consultation will determine if the project meets sufficient viability criteria. The estimated cost of this work will be approximately £10,000-£15,000 although the exact costs will be subject to formal quotations.
- 6.4 Gateway 2 - If the project meets sufficient viability criteria, the project will proceed to the second 'gateway', whereby the Quantity Surveyor will be commissioned to undertake the necessary work to prepare and submit a Planning application, which will include commissioning and secure supporting information, data and surveys as appropriate. Upon securing Planning approval and in consultation with the Leader & Portfolio Holder for Growth, if agreement is reached the project passes the second gateway and Officers will then proceed formally draw down the CPCA grant in accordance with grant agreement. The estimated cost of this work will be approximately £20,000-£25,000, subject to formal quotations and excluding Planning fees.

## 7. Recommendations

- 7.1 This report requests that Members note the proposals and seeks Cabinet authorisation to allocate a total package of capital resources in a combination of land value and capital of up to £1.15million towards the proposed development of the next phase of the South Fens Enterprise Park.
- 7.2 Cabinet Members are asked to consider and approve:
- the allocation of capital resources totalling £1,150,000, to include the authorisation if deemed appropriate to borrow a capital sum of £1,000,000 and the contribution of land value in the sum of £150,000;
  - the acceptance of the CPCA Growth Deal grant and authorise Officers to undertake the necessary work to satisfy the requirements of the CPCA grant agreement;
  - delegated authority to the Head of Economic Growth & Assets, the Chief Executive, Corporate Director and Chief Finance Officer, in consultation with Leader of the Council and Portfolio Holder for Economic Growth to undertake all actions to satisfy the requirements of the 'gateway' proposals as set out within the report;
- 7.3 Cabinet Members are further requested, subject to satisfying the requirements of the 'gateway' proposals as set out within the report, namely meeting viability criteria and securing Full Planning permission, to:
- delegate authority to the Head of Economic Growth & Assets, the Chief Executive, Corporate Director and Chief Finance Officer, in consultation with Leader of the Council and Portfolio Holder for Economic Growth to proceed with development and

delivery of SFEP project, including the application of FDC's match funding contribution and the drawdown of the CPCA LGF grant.





Created on: 07/02/2020

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