

Business Case Assessment

Government expects an economic appraisal of a business case to be based on Green Book appraisal methods and take into account departmental specific guidance where appropriate e.g. DfT's WebTAG but where changes in land use is concerned, we would expect analysis consistent with the DCLG Appraisal Guide 2016. The DCLG Appraisal Guide states that interventions around the benefits of changes in land use should be measured using Land Value Uplift, rather than modelling based on jobs and GVA.

Project Name	Spode Church Street – Phase 2				
Reference					
State Aid (Has state aid compliance been demonstrated).	Yes				
Brief description	<p>The works involve the renovation and conversion of predominantly Grade II listed buildings which are currently in a poor state of repair.</p> <p>Under the terms of an Agreement for Lease with ACAVA, SOTCC will undertake renovation works to the exterior of the buildings and services and ACAVA will convert the interior of the buildings into artists’ studios which will then be licensed to individual ACAVA members.</p> <p>Growth Deal 3 funding of this project will restore derelict buildings to productive use, create/retain circa 32 artists/creative jobs and further reinforce previous/current SOTCC expenditure in this site, which is an SOTCC regeneration priority which will contribute to wider economic growth and productivity in the SSLEP area.</p> <p>SoTCC cabinet approval of the scheme was received 16th January 2018</p>				
Total Cost	£920,000 Excl. fit-out by others.	SSLEP request	£500000	%	54%
Net GVA/Land Value Uplift/BCR		BCR / RoI/LVU		Period (years)	1
Outputs	Output		Number		
	Renovation/conversion of listed buildings		circa 9,154 ft. ² Approx. 850 m ²		
	Number of studios to be created		12		
	number of jobs created/protected		32		

Note – Net GVA gives the value of the additional services and good produced resulting from the project (allowing for leakage, displacement and multiplier effects). The assessment focuses on the benefit cost ratio which looks at the return for investment of the publically funded investment. A BCR for transport schemes is not directly comparable to a BCR for other schemes. The DCLG Appraisal Guide states that interventions around the benefits of changes in land use should be measured using Land Value Uplift, rather than modelling based on jobs and GVA.

Strategic Case <i>The strategic case sets out the rationale for the proposal. It makes the case for change at a strategic level. It should set out the background to the proposal and explain the objective that is to be achieved.</i>	
Does the proposal support the SEP or other relevant strategy or plan?	<p>Y</p> <p>The proposed extension to the Artists' Studios will address the following LEP priorities:</p> <p>Stoke-on-Trent as a Core City. Creating the conditions for innovation and providing an attractive urban environment that will attract businesses. It is anticipated that Church St Phase 2 will become a prestigious setting within an attractive urban development that Artists and creative businesses will flock to.</p> <p>Connected County: To meet market demand for high quality employment [...] sites which are connected to the transport and communications network. Church St Phase 2 will expand on the already successful 43 ACAVA artists' studios. Spode is located just minutes away from the M6 and Stoke Railway station.</p> <p>Competitive Urban Centres Vision: The project will help to sustain economic growth in Stoke town through sustainable economic development [...] it will attract new people to invest in, live in, work in and enjoy Stoke urban centre.</p>
Does the proposal clearly state which SEP objectives (or other relevant strategy or plan) are to be delivered? (State which)	<p>Y</p> <p>See above.</p>
Is the project specifically named in the SEP or other key plan / strategy?	<p>?</p>
Does the proposal clearly state what the objective(s) is/are in "SMART" terms? (Specific, Measurable (delivery / achievement can be objectively Monitored), Achievable, Relevant and Time constrained. If not then is the objective clearly set out so that its achievement can be monitored? <i>(If it cannot be monitored the proposal cannot be judged as good value for money).</i>	<p>N</p> <p>A follow-on phase to a greater scheme. Principles of approach to the design and management of the project delivery will follow the previous model.</p>
Outputs <i>Should be based on net figures and applicants should attach additionality calculations allowing for leakage, displacement and multiplier effects.</i>	
- Are the net benefits/outputs clear?	<p>Acceptable.</p>

<ul style="list-style-type: none"> - Is there an independent professional valuation of the land? - Is the basis of the additionality calculation clear and considered appropriate? (Are benchmarks used, what evidence is provided to support the identified outputs?) - Are there genuinely unquantifiable costs and benefits associated with a proposal? If so does the proposal clearly explain why quantification cannot reasonably be made? - Other wider impacts e.g. environmental, sustainability, health and safety, competition, rural, business impact. 	<p>Not shared.</p> <p>Regeneration as a phase of a greater site.</p>
<p>Are the main barriers/constraints and dependencies clear? Are they accurately reflected in the risk assessment?</p>	<p>Y</p> <p>Legal analysis: SOTCC owns the site including the buildings and the City Council has power to dispose of land in any manner they wish (including the grant of an Agreement for Lease /Lease). The works are to be competitively tendered and there are no state aid issues as the rent agreed will be based on market rent evidenced on Church Street.</p> <p>Both SOTCC and ACAVA have equal opportunities policies and will comply with SSLEP SLA accounting requirements.</p> <p>The successful delivery of the first phase of the scheme should give confidence as to the parties' ability to successfully deliver this second phase of artist studios.</p> <p>Planning consent already exists for delivery of the majority of the external works, but this may need modification as the detailed design progresses, and listed building consent will be required in due course but this is not felt to be an obstacle Initial discussions with SOTCC's conservation officer have been reported as being very positive.</p>
<p>Are the strategic risks clear?</p>	<p>Y</p> <p>Delivery within budget and time (the latter of particular concern when dealing with existing buildings.)</p>
<p>Are there any dependencies on this project and what impacts could they have on the project?</p>	<p>Y</p> <p>The electricity supply to the greater site is to be renewed. Whilst not expected to be disruptive, it is nevertheless a risk.</p>
<p>Are there any lessons learned from previous experience in this area (across the SSLEP area and wider) and if so how are these being applied? What</p>	<p>Y</p> <p>Strong project management needs to be in place to ensure vigilance over delivery dates and deliverable</p>

best practice is being applied?	<p>outputs.</p> <p>The successful delivery of the first phase of the scheme should give confidence of the parties' ability to successfully deliver this second phase of artist studios.</p>
Has consultation taken place that supports the proposal?	<p>Y</p> <p>The proposed works are consistent with the Creative Village concept which was the subject of consultation when the council approved the overall Spode master plan in 2012.</p> <p>This established that there can be a viable future for the site, as a Creative Village. This has been branded Spode Works and will involve the retention of the buildings of greatest heritage value and their re-use for a range of uses focussed on firms from the arts and creative sector, coupled with selective demolition and new build development.</p> <p>The heart of the proposal is the development of space for artists and creative industries. This is based on models like the Custard Factory in Birmingham, Camden Lock and Trinity Buoy Wharf in London, and the Northern Quarter in Manchester. The schemes all have in common an "alternative" character. They often start off as marginal areas but as they become established, they become significant incubators of small businesses and very dense employment locations.</p> <p>The development of further artists' studios is in accordance with this master plan.</p>
Are there clear stakeholders that are supporting the project?	<p>Y/N</p> <p>summary</p>

Strategic Case Assessment Summary

High: Strong strategic fit / supports SEP/Key Strategies and accelerates job creation, business investment and site development.

- Schemes that are specifically mentioned in the SEP as strategically important and/or
- Genuinely transformational outputs at a scale to make significant impact sectorally / spatially.

Medium: Good strategic fit. Project supports growth but lead to medium scale improvements/outputs.

Low: May have strong elements but overall case is weak e.g. unclear strategic fit, projects with strategic fit but leads to small scale improvements/outputs.

Medium/High.	
The Economic Case <i>The economic case assesses the economic costs and benefits of the proposal to society as a whole, and spans the entire period covered by the proposal. Ensure that the benefits of the development have been calculated in accordance with Green Book and Departmental Guidance e.g. Land Value Uplift – DCLG Appraisal Guidance 2016, DfT WebTAG.</i>	
Project Additionality / Cost Benefit Analysis - Is the additionality and supporting documentation convincing? - Do outputs represent value for money, base on previous projects and known benchmarks as applicable?	Check additionality calculation for sense and errors (For VfM guidance see summary box below) Does GVA calculation make sense in relation to persistency (years) allowed for .
Options Analysis <i>Options analysis starts from a list of all reasonable alternatives including a <u>do nothing option</u> (the so called counter factual) or if doing nothing is not possible a do minimum option.</i>	
- Is it clear why the initial list of options has been reduced to the preferred option? - Are there any key variables which if changed would lead to a different preferred option to be selected (checking sensitivity)?	Y A site visit and examination of the on-site options gave reassurance that there is an underlying logic to the inter-linked units being chosen for this phase. The applicants have not shared an overall visionary masterplan with the LEP, but rather indicated the logic of this grouping being the next phase. It would benefit the case if the longer term vision were to be shared. Should the project not be approved, the likelihood is that the unoccupied buildings would fall into further disrepair. SOTCC has obligations in respect of Grade II listed buildings and if the buildings were to be allowed to fall into further disrepair it could be issued with repairs notices by Historic England. Additionally, the opportunity to create/retain further artists' and creatives' jobs in Spode Works would be lost.
Is the rationale for choosing the preferred option clear? If the preferred option does not represent the best value for money of the options considered are the decisive factors that influenced the decision clear and justifiable?	Reasonable justification given for choice of units assembled into this phase – combining street frontage units, links to existing converted units and creation of linked internal courtyards within the development.
Risk Management - Have all appropriate risks been considered? - Are the risk management arrangements credible, and are the risk management costs also built in?	N The Business Case is light on the risks associated with refurbishing the fabric of old buildings – the likelihood of unforeseen problems being revealed

- Does the proposal identify the major risks that could impact on the economic case and contain appropriate mitigation?	during the works and the costs associated with the restoration of these to the standards required on listed buildings is not separately rehearsed. Coupled with the relatively low £per.sq.m build figure, this is a concern.
<p>Optimism Bias</p> <p><i>Optimism bias decreases as the project firms up, risk management becomes more detailed and costs are firmed then</i></p>	
<p>- Does the proposal contain an allowance for Optimism Bias?</p> <p>- Is the level of optimism bias included sensible in relation to the stage reached in preparing the business case?</p> <p>- Has this been calculated?</p>	N
<p>Distributional Impacts</p> <p>- What % of project impacts are outside the SSLEP area and how has this figure been arrived at?</p> <p>- Does the project have different impacts on different sections of society/are there any re-distributional impacts?</p>	none

Economic Case Assessment Summary

High: Strong case across the board. High additionality. Alternate options identified / considered and preferred option logically identified. Risk management robust. Optimism bias clearly accounted for. Distributional impacts clear/which impacts will fall outside area. Land value uplift calculated and identified.

General – BCR 10% above comparator data

Transport – BCR higher than 2

Medium: Good strategic fit. Project supports growth but lead to medium scale improvements.

General – BCR is within 10% of comparator data

Transport – BCR higher than 1.5 - 2

Low: Unclear strategic fit. Projects with strategic fit but lead to small scale improvements.

General – BCR is below 10% of comparator data

Transport – lower than 1.5

Medium

The Commercial Case

The commercial case is concerned with issues of commercial feasibility and sets out to answer the question “can the proposed solution be effectively delivered through a workable commercial deal or deals?” Has Land value uplift been calculated and accounted for – who benefits from the uplift?

Is the relationship with any private sector partners that will also deliver clear?

Y

The proposal is commercially deliverable and will be undertaken by ACAVA, who have already successfully delivered the first phase of artists’ studios. This was completed in 2016 and has been very successful , almost all of the studios have now been occupied.

ACAVA is an educational charity which was established in 1983 and provides studios for over 500 artists in 20 buildings, mostly in London. ACAVA is keen to extend the studios to meet the identified

	demand for further studio space and is willing to enter into an Agreement for Lease/Lease to deliver the fit out of the second phase so in effect this phase will be a pre-let to ACAVA, therefore delivery risk is minimised.														
Does the procurement methodology make sense for the project and accord with procurement regulations? i.e. EU procurement thresholds	Y SoTCC will procure the external renovation works by means of competitive tender to ensure the most economic cost of delivery and value for money to the public purse. ACAVA will employ its own staff to deliver the fit out, most of whom will be locally-based.														
Is the procurement timetable clear (for some less advanced projects this will give indicative time frames as opposed to precise dates)?	Y <table border="1"> <tr> <td>SOTCC Approval process</td><td>Jan 2018</td></tr> <tr> <td>LEP approval process</td><td>Feb 2018</td></tr> <tr> <td>ACAVA agreement</td><td>Feb 2018</td></tr> <tr> <td>Design / planning / surveys</td><td>Feb – Aug 2018</td></tr> <tr> <td>Tender / procurement</td><td>Mar – Aug 2018</td></tr> <tr> <td>Construction</td><td>Aug- Feb 2019</td></tr> <tr> <td>Fit out</td><td>Feb – April 2019</td></tr> </table>	SOTCC Approval process	Jan 2018	LEP approval process	Feb 2018	ACAVA agreement	Feb 2018	Design / planning / surveys	Feb – Aug 2018	Tender / procurement	Mar – Aug 2018	Construction	Aug- Feb 2019	Fit out	Feb – April 2019
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Are personnel / TUPE implications fully explained and addressed?	N/a														
Are any in house costs clear and proportionate?	In-house professional fee breakdowns are not provided.														
Who will own the assets after the project is completed?	The assets remain in the ownership of SoTCC.														
Does the risk assessment adequately consider and address any procurement risks?	Y Cost growth is rehearsed as an issue.														

Commercial Case Assessment Summary

High: Strong case across the board. Procurement methodology is appropriate / robust with a full timescale. Asset ownership and management clear. Risk management effective. In house costs considered proportionate.

Medium: Overall the commercial case is well constructed and convincing. However, specific elements are not strong /require improvement.

Low: May have strong elements but overall case weak e.g. procurement methodology and timescale not clear, not clear on asset or risk management or in house costs considered disproportionate.

Medium

The Financial Case

The financial case is concerned with issues of affordability, financial viability/sustainability and sources of budget funding. It covers the lifespan of the scheme and all attributable costs.

<p>Are all the lifetime costs identified? I.e. anything obvious missing, any blank lines or provisional sums.</p>	<p>Y</p> <p>Estimated costs (based on Architects plans & schedule of works and QS costings): SOTCC gross cost – c.£690,000 (including professional fees) plus ACAVA fit out works – c. £230,000 (including fees) – total cost £920,000</p> <p>Growth Deal 3 grant funding sought – £500,000 which it is proposed should be paid direct to SOTCC for investment in the buildings. If approved, the net cost to SOTCC will reduce to c£190,000 once the grant has been taken into account. The ACAVA works contribution of £230,000 will be unaffected by the grant.</p> <p>In addition to the direct works on this project, the council is in the process of carrying out demolition and other works on the site such as providing a new electrical supply, which will involve expenditure of least £1 million. This expenditure will support this project, so overall the project is likely to involve grant of £500,000 and combined SOTCC / ACAVA match funding of at least £1.42m.</p>
<p>Have all lifetime costs and issues of financial sustainability been fully considered</p>	<p>Y</p> <p>On completion of the shell works and fit out works to be specified in the Agreement to Lease, it is proposed that a 15 year lease be granted to ACAVA which will be subject to rent reviews at five year intervals. The initial rental will be based on comparable property from a recent council development on Church Street in Stoke-on-Trent, and is likely to be circa £27,000, subject to survey to clarify the exact area of the proposed building demise.</p>
<p>Has all the matched funding been secured or is there a funding gap?</p>	<p>SOTCC has already allocated the £1 million + works to deliver demolition/new electrical supply/other works on Spode, referred to in section 5.4 of this report. This sum currently is currently reserved within SOTCC's capital programme.</p> <p>In addition, SOTCC Cabinet are being asked to commit a further £400,000 to the Spode project, £190,000 of which will be used to support this project, and the balance of £210,000 will be used to support the wider Spode regeneration programme. The SOTCC Cabinet will consider this request at their meeting on 16 January 2018.</p>

	The ACAVA funding will be provided by commercial borrowing hypothecated against future licence fee receipts from their tenants and it is understood that the principle of this funding has already been agreed with their bankers.
Is the strategy for securing the funding package reasonable and appropriate	Y Both parties have identified funding sources necessary to deliver their share of the project, and there is a high degree of confidence that, with Growth Deal 3 funding assistance of £500,000, the project can be successfully delivered in accordance with the project timetable.
Does the level of cost proposed represent value for money based on known benchmarks? i.e. cost per square metre for new build	Y Cost per square metre for the conversion works is £1117. This is a lower-medium figure for works to listed buildings. The anticipated creation/retention of circa 32 permanent jobs represents a Grant VFM calculation of £15,625 per job.
Has Land Value Uplift been calculated – has it been accounted for in the development appraisal – who gets the benefit – should SSLEP/Public Sector partners participate in uplift?	N
Is the level of contingency appropriate?	Y/N Summarise level
Will the project sponsor be seeking to recover VAT as part of the LEP funding?	Y/N
Does the proposal contain provision for dealing with the financing of any time or cost overruns?	Not rehearsed. A risk, given the nature of the buildings and their current condition.
Are there any particular cost elements that are particularly price sensitive and could impact on the project viability if there is a significant change? (Price sensitivity)	Y Building cost indices are, at the time of writing, not stable, in part due to the economic uncertainties of Brexit.
Contingent liabilities - Does the proposal explain and estimate any contingent liabilities that may result from the proposal? - Does the project sponsor adequately explain how these will be managed and any costs met?	Y/N
Monitoring and Evaluation - is there financial provision for monitoring and evaluation	Monitoring rehearsed but not separately identified in financial provisions.

Financial Case Assessment Summary

High: Strong case across the board. Costs basis strong (e.g. tenders / professionally estimated, full costs included including appropriate contingency), handling of liabilities clear, financial provision for monitoring and evaluation. Value for money against outputs clear. Lifetime costs assessed and financially viable.

Medium: Overall the case is well constructed and convincing. However, specific elements are not as strong /require improvement.

Low: May have strong elements but overall case weak e.g. procurement methodology and timescale not clear. Not clear on asset or risk management. In house costs considered disproportionate.

Medium

The Management Case

The management case is concerned with the deliverability of the proposal and is sometimes referred to as programme management or project management case. The management case must clearly set out management responsibilities, governance and reporting arrangements, if it does not then the business case is not yet complete. The Senior Responsible Owner should be identified.

Is there a delivery plan with clear & detailed milestones?

Y

SOTCC Approval process	Jan 2018
LEP approval process	Feb 2018
ACAVA agreement	Feb 2018
Design / planning / surveys	Feb – Aug 2018
Tender / procurement	Mar – Aug 2018
Construction	Aug- Feb 2019
Fit out	Feb – April 2019

The August start date for construction is possibly unrealistic due to the construction industry summer holidays. A September start would be more likely.

Are the proposed programme management arrangements and methodology sound and effective? (Complex projects should be using PRINCE2 methodology)

Y

SoTCC & ACAA personnel will project manage the scheme, as was the case with the earlier artists' studios which were successfully delivered.

SoTCC will be supported by external consultants:

- CTD, architects and
- Rider Levitt Buckall, Quantity Surveyors.

External Principal Designers will also be appointed to assess construction H&S risk.

Are risk management arrangements acceptable given the scale of the project?

- Is there an effective risk register with mitigating actions?

- Are there any risks which could have a disproportionate impact on the project?

Y

Usual development risks are rehearsed: i.e., cost overrun/delay and reduced rental income. These risks will be mitigated by producing a detailed works specification which will be competitively tendered,

	<p>and by using professional project management to ensure the project is delivered successfully. The agreed rental income will be documented in the Lease Agreement.</p> <p>A 10% contingency has been included in the overall figures.</p> <p>Given the successful delivery of the first phase of artists' studios there is no reason to doubt ACAVA's ability to deliver the second phase of studios.</p>
Has the project been given full clearance to proceed by the sponsoring organisation? (Who/ what board or committee?)	Y/N
<p>Evaluation -</p> <p>Are the evaluation proposals proportionate and acceptable? (Larger scale projects should be independently sourced)</p> <p>Do they accord with national LGF guidance issued by HMG?</p>	<p>Y</p> <p>The project has been costed via a Quantity Surveyor from RLB and will be value engineered wherever possible. The works will be competitively tendered and a contingency of 10% has been set within the budgets.</p>

Management Case Assessment Summary

High: Strong case across the board. Delivery plan, management methodology and risk management robust and clear. Clear evidence that project can be delivered within proposed timescales. Evaluation appropriate and accords with national guidelines. Full approvals.

Medium: Overall the case is well constructed and convincing. However, specific elements are not as strong /require improvement.

Low: May have strong elements but overall case weak e.g. delivery plan lacks clear dates, risk management inadequate, project lacks internal approvals.

Medium/High

Business Case Assessment Summary

Project Name	
Reference	
Programme Management Team Assessment Summary	
<p>High: Strong case across the board. Delivery plan, management methodology and risk management robust and clear. Clear evidence that project can be delivered within proposed timescales. Evaluation appropriate and accords with national guidelines. Full approvals.</p> <p>Medium: Overall the case is well constructed and convincing. However, specific elements are not as strong /require improvement.</p> <p>Low: May have strong elements but overall case weak e.g. delivery plan lacks clear dates, risk management inadequate, project lacks internal approvals.</p>	

Strategic Case	Medium/High		
Economic	Medium		
Commercial	Medium		
Financial	Medium		
Management	Medium/High		
Recommendation	<p>Recommended for approval; subject to:</p> <ol style="list-style-type: none"> 1. Submission of an overall masterplan for the distribution of proposed uses on the Spode site - indicating any additional phases which may be under consideration, and 2. Reassurance over the cost estimates in relation to works on listed buildings. 		
Assessor	John Devlin	Date	25 th January 2018
Verification	Dave Nicholls	Date	25 th January 2018

To Be Completed After APMB: Record of Decision

Chair:	Peter Davenport
Date of Meeting:	31 st January 2018
Decision:	The CDGD Assurance Programme Board recommended for approval the Spode Church Street – Phase 2 business case, SoTCC cabinet approval being given on 16 th January 2018; recommending that the SSLEP Executive release a capital grant award of £500,000

To Be Completed After Executive Group: Record of Decision

Chair:	David Frost
Date of Meeting:	15 th February 2018
Decision:	Business case approved