Stoke-on-Trent & Staffordshire Enterprise Partnership

City Deal and Growth Deal Programme Board

Business Case Proforma

1. **Project title and proposing organisation(s)**
   Project title: Churnet Works small business units (adjacent to Sainsbury's)
   Proposing organisation: Staffordshire Moorlands District Council

2. **Decision date**
   November 2017

3. **Decision summary: Recommendation etc.**
   Recommendation:
   1. That £500,000 grant be offered to support Churnet Works small business units project.

4. **Is the decision exempt from being publically reported by the LEP (if so please specify the reasons why)**
   Yes – as commercial confidentiality required.

5. **Options appraisal**
   The site has been empty since adjacent development received planning approval in April 2011. It has been previously considered by two separate investors for housing but was unviable due to land contamination and build/sale ratio. The site has also been considered as Ascent Housing site with public sector financial intervention and this has also been ruled out due to the reasons above.

   The Options are therefore:

   Do nothing: Site has potential to come forward as site for up to 10 dwellings. However, the cost of construction for both housing and commercial use continues to be substantially above valuation due to low sale/rental values. The site is not best suited for residential development of small number of homes as it is surrounded by retail and commercial developments. This means that site is likely to remain vacant, as per previous 6 years. Ziran Land Ltd have indicated that they would not undertake a commercial speculative development.
   NOT RECOMMENDED

   Do Minimum: This would involve SMDC buying the land from developer and seek to develop it at later date. As apparent from the development appraisal, the development costs are very high and values generated for such development are considerably low in Leek. In addition, the Council has no expertise in constructing such units. This will mean delay in timescales and higher pressure on Council's resources.
   NOT RECOMMENDED

Deliver Preferred Option Project: This would involve SMDC purchasing completed empty single storey steel frame building with eight units built by specialist contractor on behalf of developer. Scheme would fully comply with latest building regulations and it will incorporate external hard landscaping and car parking. The scheme can be delivered in 14 months following agreement to purchase and planning approval. There is better value for money to be achieved by the developer building the units while being on site for the rest of the development. A joint and comprehensive development will require a single planning application and one-off procurement of contractor which will help keep the cost down.
RECOMMENDED

Reduced LEP grant: The ask for LEP grant is to bridge the gap between the development cost and development value. The recommendation currently represents the minimum required to acquire a fully built development and any reduction in grant offer would mean that the project could not progress.
NOT RECOMMENDED

Disbenefits if scheme does not progress: Leek is currently experiencing quite a significant level of business stagnation and business migration due to lack of available accommodation. The recently published AMR has demonstrated that 0.035ha (237 sq mts) of employment space has been delivered in Leek since 2014. This has resulted in both growing businesses leaving the district and also the LEP area. If the project were not to progress, then there is potential for this to be further exacerbated.
In addition, the project represents the final element to complete the larger regeneration of the former churnet works and as such, has the potential to increase land valuation across the whole regeneration site once units are fully occupied. If the scheme were not to go progress this land will remain empty and as such could become target for illegal dumping or anti-social behaviour, which could also deter take-up/footfall to retail and hotel units. Clearly, there will be cost implications with regard to the overall full scheme if this project were not to progress as service access infrastructure will have to borne solely by other elements. At this point the developer has not provided quantifiable information on financial impact to wider scheme if this element were not to go forward, but the LEP grant request should be seen in the broader context of enabling the entire scheme.

Background:

Pre-application consultation is currently advanced with Ziran Land Ltd, a private developer who is seeking to submit a planning application by 31st October 2017 (with a decision in February 2018). The full scheme includes a 60-bed Travelodge; fast food outlet and accommodation for 4 larger comparison retail units (totalling 1858m^2 /20,000 sqft). A balance of 0.4ha of land for other development remains.

Ziran Land Ltd have offered to secure planning approval for this 0.4ha site and to simultaneously build a small scale commercial development on this remaining plot on behalf of the Council. The commercial development would comprise of 735 m2 (7,910sqft) of ground floor accommodation + 268m^2 (2,880 sqft) for potential mezzanine extension if required, for 8 business units with 20 car parking spaces on 0.4ha site.

The full scheme development will create 130-170 new jobs including: 60 bed hotel (15-30 jobs); 20,000sqft retail (95-120 jobs). The commercial development element will generate 20 additional jobs and provide new accommodation for 8 growing/new businesses.

The proposal would complete the brownfield redevelopment of 9.8Ha of underused/primarily redundant employment land at Churnet works which first commenced in 2012 and will form final piece of jigsaw required to fully complete redevelopment of a large regeneration opportunity site (see Annexe 1)

Land value uplift calculation

BE Group were instructed by Staffordshire Moorlands District Council to prepare valuation options for the development site and concluded that Based on the current financial appraisal, the land does not show a positive value.

Local value calculation undertaken by developer determines site value of completed scheme to be £140,000 for 0.4ha site, which equates to £350,000 per hectare valuation (£142,000 per acre). BE group have confirmed this end value as reasonable.

Value uplift m^2 would therefore equate to £35 per m^2

This compares to DCLG estimated range for West Midlands of £12-£40 for brownfield uplift for business parks (Figure 19, Annexe E Appraisal guide 2016).

5.1. Strategic case

The proposal fully supports the SEP and other relevant strategies.

Stoke & Staffordshire Strategic Links
The Stoke & Staffordshire Local Economic Partnership (LEP) through the Strategic Employment Plan (SEP) has identified key priorities for the LEP area including the development of competitive urban centres. Leek is the main town in the Moorlands and acts as a focus for a wider area and this preferred option will deliver a new employment site to support employment start up and growth.
Furthermore, the B1 units will be of a structure and type favoured by priority sectors including agri-tech; engineering (capitalising on supply chain opportunities emerging from global businesses) and manufacturing.
The preferred option also has a clear strategic fit with SEP refresh 2017 in that it meets **objective 3 (Competitive urban centres)** which aims to support "the right mix of places that are attractive as a destination to live, work and visit, underpinned by the right infrastructure."

In addition, this project will deliver against Stoke & Staffordshire's LEP Economic Growth Strategic Priorities 2017 in that it will contribute towards:

- Aim 7: deliver and enable the delivery of employment sites across S&S, giving consideration to the portfolio of sites to maximise suitability for a range of businesses types and sectors that are we are aiming to develop, grow and attract.
- Aim 8: To create a greater number of higher paid jobs in all parts of S&S, a sufficient supply and range of suitable commercial accommodation and serviced employment land needs to be available
- Aim 9: Ensure that we have premises ready and available, across all use classes, so that we can take advantage of future inward investment opportunities
- Aim 10: Alongside wider overall aims such as generating more high-value jobs, carefully consider the types of business premises that we are encouraging and directly developing in S&S in order to ensure that developments are having a positive impact on local government finances and providing a revenue stream to fund other priorities (e.g. unlocking difficult sites).

Local Strategic Priorities
The project is specifically named in two key plan/strategies including.

Staffordshire Moorlands District Council Corporate Priorities 2015-2019:

- Aim 3 - To help create a strong economy by supporting further regeneration of towns and villages.
- Aim 2 - To meet the council's financial challenges and provide value for money

Staffordshire Moorlands District Councils adopted Core Strategy (2014)
Specifically: Policy SS5a (Leek Area Strategy) which states "*The Council and its partners will seek to consolidate the role of Leek as the principal service centre and a market town and support its regeneration. This will be achieved through the following actions:*

Create employment growth and increase the diversity of employment opportunities to meet existing and future needs by:
providing opportunities for new enterprises and businesses by allocating employment sites with good access to the A520 and A53. Sites for new employment development will be identified and phased through the Site Allocations DPD within the following broad locations and in the following priority order depending on the need for sites to be brought forward:

- *Within the urban area*
- ***Churnet Works***
- *Cornhill (EM1)*
- *Leekbrook Industrial Estate (EM2)*

SMART Objectives
The preferred option has clear and concise spending objectives and outcomes.
Specific: it will deliver 1,003m2 (10,800sqft) of new business accommodation (726m2/7,920sft ground floor accommodation, plus 268m2/2,880sqft mezzanines) and 20 car parking spaces for SMEs.
Measurable: The proposals are measurable in that will deliver a specific floorspace for B1/B2 uses on 0.4ha site. The outcomes can be objectively assessed to determine level of floorspace achieved and amount of business accommodation generated. An end valuation of completed works will be undertaken, (if required by LEP contact), to accurately measure land value uplift achieved through project completion.
Achievable: As the construction will be delivered as part of a wider contract (for commercial and retail units) the speed of delivery of the floorspace, land value uplift and associated economic benefits is significantly faster than if the Council were to purchase the land and develop proposals and procure in a more traditional manner. This gives assurance to the LEP over delivery timescale and floorspace outputs. The preferred proposal is to purchase a fully built development, which means that money is committed on legal completion/exchange and this means that it is in the developers interest to complete construction to timescale.
Relevant: The 8 units and specification relate directly the key demand for micro business expansion and identified gap in provision (1-5000 sqft units) as evidenced by recently Harris Lamb Commercial Property Market Intelligence report (March 2017). This also complies with evidence obtained from Make It Stoke & Staffordshire investment team and SMDC interaction.
Time constrained: The project will be completed within 14 months of planning approval (determination Feb 2018 with project completion by April 2019).

Outputs

(i)Net benefits: 1,003m2 (10,800sqft) of new business accommodation (726m2/7,920sft ground floor accommodation, plus 268m2/2,880sqft mezzanines) and 20 car parking spaces for SMEs.
This will generate 8 small business units which will generate grow on space for up to 8 micro/small businesses and generate between 20 new jobs over monitoring period (3 years).
The land value uplift will be £35m^2

(ii)Independent Valuation: BE group have undertaken an independent professional valuation of the development and reviewed both the construction cost estimates, market rental income assessment and end valuation. The end valuation of the site is based on a rental value of £5.50/sq ft and a yield of 9 per cent. This produces a capital value for the completed scheme of £575,000, which BE group consider to be the market value on completion.

(iii)Additionality: The LEP grant is fully additional and is required to ensure proposal can be delivered. This is because:

- The project will not duplicate provision from the private sector as it is not economically viable for the private investment sector.
- The project will not duplicate self-construction from the commercial sector utilising other grant sources as micro-small businesses do have access to sufficient levels of match funding and could not access loan finance for construction which would outweigh market valuation if re-sold.
- The land is unlikely to be developed without LEP support and has remained vacant for 6 years due to viability gap.
- The cost of construction works at £1.16m - and therefore the LEP grant requested represents the difference between the amount that SMDC is able to borrow to invest in the development, including an additional amount over and above commercial end valuation and the cost of delivery.

(iv)Unquantifiable costs justification: There are no unquantifiable costs associated with the proposal.

(v)Wider Impacts

a) The preferred option scheme is a physically quite small and in the context of LGF funding represents a very small grant request but the scheme will form part of portfolio of development across the whole LEP geography.
b) This will support wider social-economic impacts in that it will support employment opportunities within ward of Leek North, which in latest index of Multiple Deprivation (IMD) this area was ranked 7,957 out of 32,844 in England, where 1 was the most deprived and 32,844 the least. The site is within the second most deprived ward within the Moorlands (after Biddulph East) and in the 2016 Staffordshire County Council profile of the area, has been identified as having one of the largest number of workless households within children under the age of four. Therefore while the preferred option is likely to directly create only 20 additional jobs in the initial period, this combined with retail opportunities and hotel positions (110-150), means that the LEP funding will help support the completion of the development which will directly benefit some of the most deprived people within the rural north Staffordshire geography.
c) The proposals will consolidate & complete a major regeneration site of 9.8Ha of underused/primarily redundant employment brownfield land in Leek town centre boundary first commenced in 2012 and will form final piece of jigsaw required to fully complete redevelopment of a large regeneration opportunity site. The environmental impact of the full completion of this large town centre regeneration site is important to the town's wider economy and helps support commercial confidence which will be invaluable to attract future investment in other locations.

(vi)Main Barriers: The principle barrier to development is availability of funding the viability gap due to abnormal costs of contamination and access road. If LEP grant funding is awarded, then the Council will enter into a formal agreement to purchase completed scheme.

(vii)Strategic risks are:

	Impact (3-1 rank)	Probability (3-1)	Overall
Planning application delayed Mitigation: • Even if delayed timescale would still fall within LEP financial year	Medium (2)	Low (1)	2
Reduced grant offer and funding gap remains. Mitigation: • Fixed price offer so no increase in price of delivery	High (3)	Low (1)	3
Lower job outcomes than anticipated Mitigation: • Total level of proposed development is defined and agreed and not likely to change. • Accommodation outputs and land value uplift unaffected	Low (1)	Medium(2)	2

(viii)Dependencies: The principal dependency is the planning application has not yet been determined. The developer has engaged with Council through pre-application discussion to agree the approach and principles of the development over last 10 months. They are now ready to submit the application by the end of October. Although there is no presumption of grant award, the pre-application discussions carried out so far have ironed out most details. There is a 13 week statutory determination period.

Other key dependency is funding. Without a funding package being in place, Council will not enter into any contractual agreement with the developer. And the developer will not start work on site without the contract being in place.

(ix)Lessons Learnt: The project will be managed and reported in accordance with the established Staffordshire Moorlands and High Peak Alliance project management methodology, which incorporates Treasury Green Book and Prince2 methodology
The team is already in place and has the experience and expertise to undertake this project. All members are experienced Prince 2 qualified project managers; with expertise in delivering a large scale externally funded projects. This experience has been gained through working on projects as part of the High Peak Borough Council and Staffordshire Moorlands District Council strategic Alliance, as well as through previous work experience of officers. Key projects delivered include ERDF business premises; town centre/heritage re-development for commercial use and infrastructure works.

(x)Consultation: The proposals have not been subject to widespread community consultation as they are commercially sensitive. However in 2016, the Council undertook business and community consultation on the need for new business accommodation within Leek and this identified strong support for use of brownfield land for development; strong support for proposals which will create new jobs and demand from small businesses for new grow-on accommodation, particularly from engineering, manufacturing and agri-supply chain businesses. There will be consultation through the planning application process with the statutory consultees as well as general public.

(xi) Stakeholders: Staffordshire Moorlands Chamber of Commerce, as the principle business forum, are in support of the proposals.

The proposal has been discussed with the County Council through the District Deal governance arrangement who are also in support of the project.

5.2. Economic case

Project Additionality/Cost Benefit Analysis

(i)Project Additionality: The project will not duplicate provision from the private sector as there is widespread market failure in the commercial property investment market in rural areas, as investors fail to specifically recognise the high levels of occupancy and returns on high quality accommodation within the rural context (preferring to focus on high value returns on residential development). Without the leadership of the public sector and investment from public funding, the lack of suitable accommodation will continue to stymie SME growth in rural areas. The preferred way forward, would thus support and contribute to economic growth within the SSLEP are but also has a clear zero- deadweight as it will not happen without LEP and Council funding.

In the context of this site, and in common with other small commercial scheme development, the cost of the construction is higher than the rental return required to permit a fully commercially led development. This has been validated by BE group review of construction costs.

The LEP funding is providing gap funding in support of the project but also has wider enabling implications as if the project were not to progress and land were left vacant with negligible management, it will deter take-up/footfall to retail and hotel units. Clearly, there will be cost implications with regard to the overall viability of full scheme as service access infrastructure will have to borne solely by other elements. However, at this point the developer has not provided quantifiable information on financial impact to wider scheme if this element were not to go forward.

(ii) Value for money/known benchmarks: The project will deliver value for money outcomes of:

- Land value uplift £35 per m^2
  This compares to DCLG estimated range for West Midlands of £12-£40 for brownfield uplift for business parks (Figure 19, Annexe E Appraisal guide 2016).
- Floorspace: 1sqm:£498
  This compares to approved Leek Mill Quarter (London Mill) LGF award as benchmark comparison 1sqm workshop for every £701
- Jobs 1:£25,000
  This compares to approved Leek Mill Quarter (London Mill) LGF award of 1 job to £14,035. Light manufacturing units have a lower density employment rate per m^2 than creative industry workspace and therefore job outputs are likely to be proportionally lower. The full scheme development will generate 130-170 new

jobs including 60 bed hotel (15-30 jobs); 20,000sqft retail (95-120 jobs) plus the B1/2 element (20 jobs) – and there if these wider job outcomes are considered, the LEP grant would represent a rate of 1 Job: £2,941-£3,846.

It should be noted that project represents value for money and certainty of delivery as:

- Certainty of delivery and short term delivery timescales
- No staff time, technical studies or consultancy fees are required
- Economies of scale for access into site have been achieved through simultaneous development (and evidenced by BE group review)
- Value for money achieved through a joint planning application and contractors.
- Reduced legal costs and associated timescales, as only one piece of contract agreement to negotiate on.

Options Analysis

(i)Preferred option selection: This proposal is a response to an opportunity site, rather than a Council owned asset which has been through an options analysis in accordance with Treasury Green Book methodology.

Despite this, the Council is aware of a long list of options which have been considered by both the private sector (residential development); fully affordable housing development led by Ascent (a joint venture between the council and Your Housing Group); high density housing; retail and employment use.

The initial preference from the private sector was for high density housing and on this basis a planning application was submitted and approved 58 apartments and 28 dwellings approved in 2014. This scheme was unable to progress in part because of contamination costs of land for residential uses, and housing market sales assessment on value/demand for this type of property. Subsequent private sector/Social housing provider analysis of site for housing has not resulted in any proposals coming forward and there is no interested residential party.

The preferred option should be seen in its context of wider regeneration which will include hotel and retail use. The rationale for choosing the preferred option/proposal is:

- Land has been vacant for 6 years and is unlikely to come forward without intervention
- Lack of supply of alternative modern commercial accommodation within Leek – there are currently no modern small B2 business units between 1,000-5,000 sqft available to lease within Leek. The only commercial accommodation is either older mill buildings with no vehicular access/parking or FLT access or; significantly larger premises which are unsuitable for micro/small business use; or sites being redeveloped for residential use.
- Business relocation out of Leek due to lack of suitable accommodation (for example Fitness First in 2017);
- Business stagnation due to lack of suitable accommodation (for example Hancock engineering communications with SMDC/local MP in 2017)
- No alternative site within Leek which can be easily developed
- Certainty of delivery

(ii)Risk Management: Appropriate risks to project delivery have been identified and are appropriate to scheme.
Risk management arrangements are in place through Staffordshire Moorlands Alliance project monitoring arrangements. It should be noted that his scheme is significantly lower risk for both the Council and LEP as the preferred option would be purchase of a completed fully built development. This means that the finance, construction and delivery schedule risks remain with private sector until completion of works and agreed handover.

(iii)Optimism Bias: In financial terms, the project does not include an allowance for optimism bias, as a fixed price for purchase of the completed scheme has been offered and delivery timescales are for short term delivery. It is therefore not appropriate to use methodologies set out for optimism bias in same way as for a traditionally procured and built scheme.

(iv)Distributional Impacts: The preferred option scheme of 8000 sq ft is a small development and in the context of LGF funding represents a low level of grant request but the scheme will form part of portfolio of development across the whole LEP geography. As indicated in strategic case (wider impacts) this project will support wider social-economic impacts in that it will support employment opportunities within most of most deprived wards
The project is based in Leek and will cater for local, Leek based businesses. It is unlikely to have any impact outside of LEP area due to overall scale of development and that likely business take-up will be driven by local business base.
The nature of the units (B1/B2) is that there are likely to be occupied by manufacturing, engineering or agri-supply chain companies – which will provide job opportunities pre-dominantly for male employees, apprentices (potentially linked to Buxton & Leek College engineering provision) and more deprived wards due to proximity of employment growth.

5.3. Commercial case

The full development including Hotel and four larger retail units is fully commercially viable and requires no public sector intervention. The remaining element – to deliver 8 small business units with associated hard landscaping and car parking – requires LEP support to be viable.

The preferred option has been assessed by council's appointed consultants BE Group including market value of completed project, market rates achievable and occupancy levels and construction costs. The Council's finance team has carried out a financial appraisal to consider the cost of borrowing by the Council required to deliver scheme.

This has determined that at match funding level, a realistic rental income level average of £5.50psft net (applying a 90% occupancy factor) the preferred option is commercially viable up to £575,000 and would generate sufficient returns to support cost of borrowing and delivery to this amount.

This business case is therefore requesting grant funding contribution to support viability gap as without LEP and SMDC support the proposed solution cannot be effectively delivered through a workable commercial deal.

The land value uplift has been calculated at £35m^2 and Staffordshire Moorlands District Council will be principle beneficiary of this uplift. However, this uplift should be understood in the context of the level of borrowing that the District Council will undertake to match fund the development and the medium term deficit against the realisation of any benefit (over 50 years).

(i)Private sector relationship: The preferred option is not procured via a traditional route, as the proposal is to purchase a fully built development from Ziran Land Ltd who will be undertaking wider scheme re-development of churnet works.
The private sector will receive a developers profit of 15% on construction costs, but this is still below BE groups independent assessment of construction costs if the Council were to purchase land and procure construction in traditional manner.
The relationship will be a simple legal transaction of exchange of contracts and completion on occupation.

(ii)Procurement methodology: The proposal is to purchase as a fixed price, completed scheme. The funding is therefore not purchasing work, goods or services but an asset.which falls under the exclusions from procurement regulations (10 Public Contract Regulations 2015) exclusion for the for the acquisition or rental, by whatever financial means, of land, existing buildings or other immovable property, or which concern interests in or rights over any of them (Part 10.1 (a).

(iii) Procurement timetable – n/a – purchase of completed development in April 2019.
(iv) Personnel/tupe implications – n/a
(v) In house costs clear/proportionate – n/a. The Council will cover legal costs associated with purchase from revenue resources and on-going management and maintenance costs will be the responsibility of the Council as landowner and covered by rental income.
(vi)Ownership on completion – Staffordshire Moorlands District Council
(vii)Procurement risk assessment – n/a

5.4. Financial case

(i)Preferred Option

<u>Expenditure</u>		
Purchase Price	£1,161,017	*See Annexe A
Legal costs	£ 0	
Stamp duty (non residential)	£ 47,550	
Overheads/project monitoring	£ 0	
Total Project cost	**£1,208,467**	

<u>Income</u>	
SMDC	£ 708,567
LEP grant request	£ 500,000
Total Project income	**£1,208,467**

(ii)Lifetime costs (per annum)
<u>Annual income</u>
Net income per annum based on £5.50 per sqft rental income less maintenance

cost at 10% pa and applying 90% occupancy factor- £35,195

Annual expenditure
SMDC cost of borrowing - £ 31,886*
Management costs including advertising/letting legal costs, any costs associated with void periods funded from balance. Any net income used to reduce loan period.

*Borrowing costs to SMDC based on £708,567, with MRP (assume over 50 years @ £14,171 pa) and 2.5% average interest (£17,714) - £31,886.

(iii) Match funding – Staffordshire Moorlands District Council
(iv) Funding gap – n/a (assuming LEP contribution of £0.5m
(v) Construction cost vfm - BE group have undertaken an independent review of construction costs and price to determine if there was scope to additionally reduce asking price (previous price offer was £1.3m). They have commented that "normal construction costs for small industrial units, are in the region of £85.00/sqft
(vi)Land value uplift calculation Local value calculation undertaken by developer determines completed site value to be £140,000 for 0.4ha site, which equates to £350k per ha valuation (£142k per acre). This valuation has been reviewed by BE group who have confirmed that this rate is an accurate reflection of market value for commercial land in Staffordshire Moorlands.
Value uplift m2 would therefore equate to £35 per m^2 This compares to DCLG estimated range for West Midlands of £12-£40 for brownfield uplift for business parks (Figure 19, Annexe E Appraisal guide 2016).
(vii) Contingency – No contingency is included as funding is used to purchase fixed price completed building on exchange
(viii) VAT – n/a Stamp duly included within costings and is non-recoverable.
(ix)Financing costs – included within lifetime costs and covered by rental income
(x)Cost sensitivity – Fixed price offered, only variable is change in Stamp duty but due to timescale this is unlikely to change.
(xi)Contingent liabilities – The Council will be liable for on-going maintenance and upgrading of all unoccupied properties and for maintaining service road and verges within site boundaries. These costs will be covered by rental income.
(xii) Monitoring – Any costs associated with monitoring will be sourced from the Councils revenue budgets.

5.5. Management case

(i)Delivery Plan – see section 11

(ii)Project management: The team is already in place and has the experience and expertise to undertake this project. All members are experienced Prince 2 qualified project managers; with expertise in delivering a large scale externally funded projects. This experience has been gained through working on projects as part of the High Peak Borough Council and Staffordshire Moorlands District Council strategic Alliance, as well as through previous work experience of officers.

Project Structure and Roles	
Project Executive	Dai Larner (Executive Director SMDC)
Senior User	Paul Hare (Asset Manager, SMDC)

Senior Supplier	Pranali Parikh (Regeneration Manager, SMDC)
Project Manager	Helen Pakpahan (Senior Regeneration Officer – SMDC)
Project Support team	Project Monitoring (Helen Pakpahan) Planning (Ben Haywood – Development Service manager – SMDC) Legal (Paul Rushworth – Legal Manager SMDC) Finance (Claire Hazeldene – Finance & Procurement Manager- SMDC) Property & Asset/condition approval purchase (Jo Higgins, Property Services Principle- SMDC) Lettings & property management (Katy Webster – Property services – SMDC)

(iii) Risk Management – see section 8

(iv) Approval to proceed: Staffordshire Moorlands District Council Cabinet in August 2017 granted delegated the authority to Director of Place in consultation with Director of Finance to negotiate the heads of terms of acquisition with the developer, subject to financial appraisal, planning approval, demand analysis, due diligence and legal advice. Formal approval to agree purchase can only take place once LEP grant decision outcome has been approved. The next Cabinet decision date is 5th December 2017.
Cabinet will be updated on progress and outcome of asset inspection prior to financial exchange and completion.

(v)Evaluation – Internal monitoring of occupation levels and job growth is proposed but additional evaluation can be undertaken subject to LEP contract requirements.

5.6. Resource and VFM analysis

(i)Status of the funding: In 2013, Staffordshire Moorlands District Council Cabinet approved the business case for use of prudential borrowing to invest in business or commercial accommodation to support investment growth across the district. In August 2017, Cabinet approved authority to Director of Place in consultation with Director of Finance to negotiate the heads of terms of acquisition with the develop utilising this funding source. Formal approval to agree purchase can only take place once LEP grant decision outcome has been approved. The next Cabinet decision date is 5th December 2017.

(ii)Return on investment: Return to SMDC is low due to high construction costs and low expected rental returns. Both Staffordshire Moorlands District Council and Staffordshire County Council will receive a return on business growth achieved through retention of rates and there is also a return on investment gained from business multiplier effect. The principal reason for undertaking the project is to support business and job growth.

(iii)Skills –Staffordshire Moorlands District Council has an adopted Employment and Skills charter which will apply to whole site development. This will include developer/end user agreement on an appropriate Employment and Skills Plan, engagement with JCP and local apprenticeship providers and sector skills academy development. The Council has a track record of delivering these outcomes in similar developments for example, Premier Inn, Waitrose etc.

6. Consultation process

The proposals have not been subject to widespread community consultation as they are commercially sensitive. However in 2016, the Council undertook business and community consultation on the need for new business accommodation within Leek and this identified strong support for use of brownfield land for development; strong support for proposals which will create new jobs and demand from small businesses for new grow-on accommodation, particularly from engineering, manufacturing and agri-supply chain businesses.

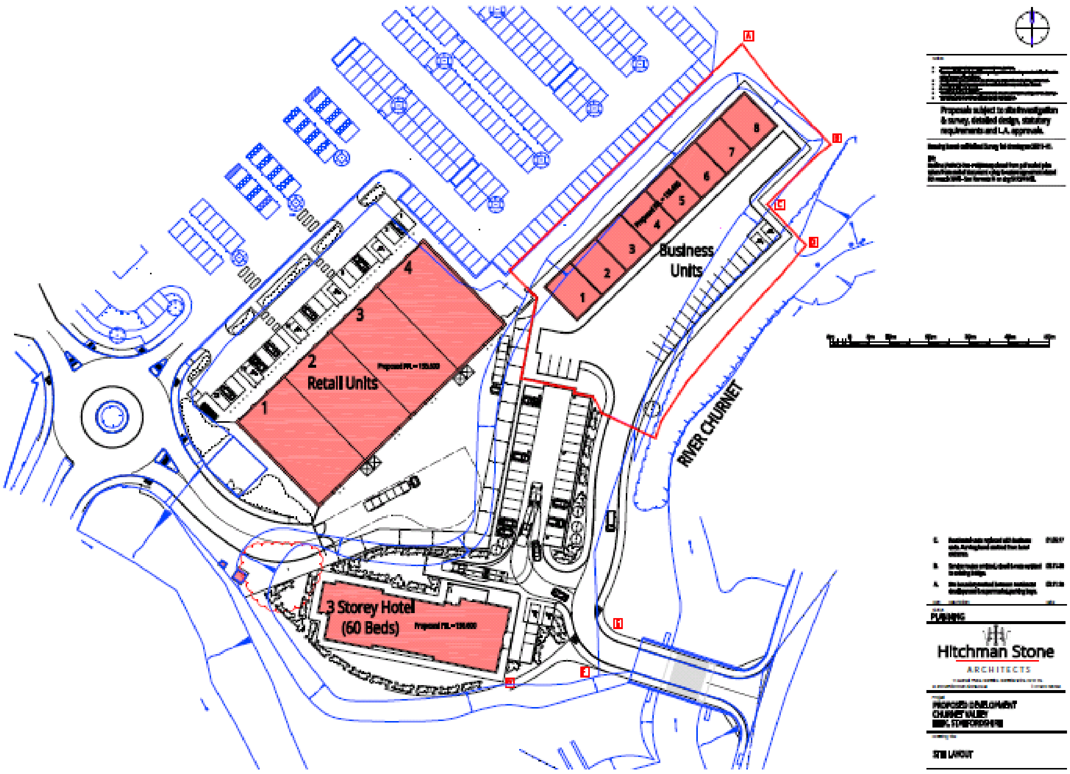
Harris Lamb Commercial Intelligence report has identified shortage of 1,000-5,000sqft units in Staffordshire Moorlands and this re-enforces 2015 Cornhill Masterplan demand analysis assessment undertaken by Thomas Lister. The size of the units has therefore been calculated to specifically meet identified demand following consultation and will not duplicate alterative provision (including larger units at Churnet Works and other industrial units). It should be noted that internal walls can be removed and specification adjusted to meet emerging demand both in short and longer term.

Cushman Wakefield are appointed by the Council to specifically consult with the local businesses in order to establish the level of demand and specification (size, type and finish level) required for the business units in Leek. This report is due in by end of October.

7. Location of proposal

Location of development (incorporating hotel and retail units)

Red line area of proposed 0.4ha business unit purchase and full development.



8. Risk analysis

	Impact (3-1 rank)	Probability (3-1)	Overall
Planning application delayed Mitigation: • Even if delayed timescale would still fall within LEP financial year	Medium (2)	Low (1)	2
Construction period delay Mitigation: • Fixed price offer so no increase in price of delivery • Developers interest to complete works to time to realise investment return. Timescale estimate from developer includes optimism bias (6 weeks)	low (3)	Low (1)	2
Construction below standard Mitigation: • Fixed price offer on completion of works to agreed standard as per planning permission. Inspection of works prior to financial completion and handover • Snagging period applies to all new build properties.	Medium (2)	Low (1)	2
Low demand due to market changes Mitigation: • Marketing of property during construction • SMDC already own 31 units within Leek and has details of interested parties • Lifetime net income above costs to cover void periods	Medium (2)	Medium(2)	4

9. Legal analysis

(i) Land ownership- Moorlands Leek LLP (this company is a JV company between Avenbury and Ziran Land) have an exchanged Development Agreement with Sainsburys for the majority of the site and solicitors instructed on an agreed transaction for the balance. Full due diligence will be carried out as part of the legal process.

(ii) State Aid – The proposal is to purchase an asset at market price at a competitive market rate. If the business case is successful and LEP award funding to support the proposal, the Council will seek additional state aid compliance advice

The small businesses who will occupy the end units will do so on a commercial basis and no rent subsidy is proposed. If any rental reduction is introduced at a later point, the council is aware of its obligations under the de minimus regulations and would ensure full compliance with all appropriate regulations with this regard.

(iii) Equal Opportunities Policy As Accountable Body, the Council operates an Equalities and Diversity Policy, which was approved by SMDC Cabinet on 20th January 2015. Full details are available at http://hpbc.alliance-online.org/equality-and-diversity

(iv) Compliance with SSLEP SLA As Accountable Body, the Council will comply with all terms and conditions set out in grant offer contract.

10. Delivery

One of the key strengths of this proposal is certainty of delivery. The application will be submitted by 31st October 2017 with determination due in February 2018. There will be a formal agreement with the developer to purchase with agreed handover date.

(i)Benefits Realisation: Proposals are measurable in that will deliver a specific floorspace for B1/B2 uses on 0.4ha site. The outcomes can be objectively assessed to determine level of floorspace achieved and amount of business accommodation generated. An end valuation of completed works will be undertaken, (if required by LEP contact), to accurately measure land value uplift achieved through project completion.

11. Timetable

An indicative programme is attached (annexe 2). This is subject to grant award notification by December 2017.

The programme assumes the planning application is submitted by the end of October with a 4 month period to determination and a 6 week Judicial Review period thereafter. The detailed design and construction process will commence upon receiving the Planning Committee Recommendation for Approval.

At this stage we estimate the overall construction period will be in the order of approximately 6 months, thus giving an estimated completion for the development in early 2019, but we anticipate being able to improve on this timing.

Action	Timescale
Planning permission for commercial units submitted	31st October 2017
LEP confirmation of funding	2th December 2017
SMDC Cabinet – notification of LEP outcome and approval to purchase (subject to grant offer)	5th December 2017
SMDC agreement in principle to purchase	20th December 2017
Planning determination	February 2018
Discharge of pre-commencement conditions	June 2019
Construction (start on site)	Sept 2018
Construction completion	March 2019
Condition inspection and exchange contracts (10% payment)	April 2019
Financial completion (90% payment & stamp duty fees liable)	April 2018
Void period (during letting contract agreements)	May – July 2019
Benefit realisation commence	July 2019

12. Author

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Supporting documentation available from Staffordshire Moorlands District Council
Confirmation that the business case has been developed in accordance with Green Book and DCLG Guidance.

Signed

Helen Pakpahan
Senior Regeneration Officer
Staffordshire Moorlands District Council

Date: 16th October 2017

Signed

Dai Larner
Executive Director
Staffordshire Moorlands District Council

Date: 16th October 2017

Annexe A: Additional Information

(i)Background information of wider site area

Churnet works small business unit project would complete the brownfield redevelopment of 9.8Ha of underused/primarily redundant employment land at Churnet works which first commenced in 2012 and will form final piece of jigsaw required to fully complete redevelopment of a large regeneration opportunity site.

2012: Development retail (Sainsbury's - of 3,716sqm (net sales); 6,834 (GEA) and 2,875sqm (gross bulky goods retail)) + petrol station75m^2 and 5,954 m^2 employment (B1 units) on 4.6HA + 1.54ha as area open space/flood alleviation works

2014: 564sqm public house on 0.5HA site.

2017: Remaining 2HA currently being considered by Ziran Land Ltd who are in pre-app discussion with SMDC for a hotel/retail scheme

(ii) Developer's offer (heads of terms)

(iii) Development Appraisal

(iv) Valuation report by BE Group

(v) Programme for delivery

(vi) Building Specification

(vii) Cabinet report August 2017

(viii) Cushman Wakefield report- pending

(ix) planning application submission confirmation- pending