

Meeting Executive
Portfolio Area Regeneration
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TOWNS FUND BUSINESS CASE – STEVENAGE ENTERPRISE CENTRE

KEY DECISION

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1 PURPOSE

- 1.1 Stevenage was successfully awarded £37.5m of funding through the Government's Towns Fund programme. Full business cases must be developed and approved by 24th March 2022 for each of the projects that comprise the Stevenage Towns Fund programme. The Council, as Accountable Body, must provide final sign-off for each of the business cases, in accordance with the Towns Fund Stage 2 Guidance. Full Council has delegated approval of each of the business cases to the Council's Executive committee.
- 1.2 This report relates to the Stevenage Enterprise Centre project, which involves the delivery of a new Enterprise Centre in the heart of the town centre with space for labs, workshops, co-working, hot desks and meeting rooms through the use of digital creativity and technology to harness the creation and development of high value growth businesses in the life sciences sectors. This will provide a major boost for the town in consolidating

a position within the UK Innovation Corridor by encouraging science-based entrepreneurs to start up new ventures, assure their survival and growth and expand the base of emerging high-value and high growth industries in the area. This will also revitalise an existing town centre asset, and provide a platform for the delivery of community engagement and involvement in the facility.

2 RECOMMENDATIONS

That Executive:

- 2.1 Note the feedback from the Stevenage Development Board.
- 2.2 Approve the Stevenage Enterprise Centre business case and delegate authority to Strategic Director (TP) to submit the project summary to the Department for Levelling Up, Communities and Housing Towns Fund team on behalf of the Council (acting as Accountable Body).
- 2.3 Note that due to ongoing commercial discussions, this project will be subject to an updated business plan to be approved by Executive prior to drawdown of funding.

3 BACKGROUND

- 3.1 In September 2019 the Government invited 101 towns to develop proposals and bid for funding for a Town Deal, as part of the £3.6 billion Towns Fund. Stevenage was identified as one of the 101 eligible towns. Background relating to this process, the development of the Stevenage Town Investment Plan (STIP), and the approval process for the business cases is contained within Appendix A. The breakdown of funding is identified below:

Project	Total (£)
Stevenage Enterprise Centre	4,000,000
Gunnels Wood Road Infrastructure Improvements	1,000,000
Station Gateway Enabling Works	6,500,000
Marshgate Biotech	1,750,000
Stevenage Innovation & Technology Centre	5,000,000
National New Towns Heritage Centre	2,000,000
Stevenage Sports & Leisure Hub	10,000,000
Cycling Connectivity and Arts & Heritage Trail	3,500,000
Town Centre Diversification & Garden Square	3,750,000
Total	37,500,000

- 3.2 All business cases relating to the Stevenage Town Investment Plan are required to be approved by the Accountable body before 24th March 2022. To recap, business cases must include:
- The evidence for the intervention using rigorous analysis of quality data and the application of best practice.
 - An assessment of value for money, including showing how different types of projects will be compared and assessed.
 - A clear economic rationale, justifying the use of public funds in addition to how a proposed project is expected to contribute to strategic objectives.
 - Clearly defined inputs, activities, outputs and anticipated outcomes.
 - Appropriate consideration of deliverability and risk along with appropriate mitigating action.
 - Whilst there is no minimum value for money threshold set for Towns Fund projects, in order to follow best practice, all business cases must contain robust value for money assessments.
 - Business cases should address, in a proportionate manner, the five cases set out in the HM Treasury Green Book.

Stevenage Enterprise Centre summary (£4,000,000)

- 3.3 Full information on the project can be found in Appendices B & C.
- 3.4 The project will involve the development of the Stevenage Enterprise Centre project comprising 57,000 sqft incubator, office and meeting space in Stevenage Town Centre focused on supporting young and start up life science businesses, capitalising on the opportunity that having an established life science and cell & gene cluster presents.
- 3.5 The Enterprise Centre can be used to provide a soft-landing for world class technology based businesses investing in Stevenage adding further momentum to the town's growing base of advanced technology activity. Longer term, the growth of successful technology and innovation based businesses can be expected to create further demand for commercial space in the town and, as with the recent Co-Space and Autolus developments, help position Stevenage Town Centre as a commercial location of regional significance. The project will also accelerate the diversification of the town centre, which is in significant need of regeneration, at the same time generating greater demand for the products and services of the retail, hospitality and business services based in the town centre.
- 3.6 This project remains consistent with the aims and objectives of the STIP. Since the submission, and with the emergence of the Marshgate project and wider life science interest in the Town Centre, a potential developer (Reef) has been exploring an opportunity with a sector-focus on life science. Whilst still providing facilities that are open for all, a life-science focus to complement the wider cluster is seen as an emerging opportunity with space

for labs, workshops, co-work/hot desks and meeting rooms through the use of digital creativity and technology, including community space. There is also an opportunity to provide space that could be utilised by students – this will be explored as the project progresses.

3.7 It is worth noting that this project is at an early stage; the strategic benefits of the project have been identified and there is a clear rationale and delivery mechanism, but further design development and business plan refinement will be necessary as the project develops.

3.8 Purpose and Key Elements of the Project are:

- Release of the current building within Queensway for development as a life sciences enterprise centre.
- Reef to deliver the project as lead developer, with institutional investment providing match funding, due to interest in the site.
- Bringing about the development of a 57,000 sqft enterprise centre in Stevenage Town Centre, comprising incubator and co-working space, private offices and laboratories, meeting and presentation space and specialist facilities to support life sciences innovation activity within 24 months of project inception.
- Implementation of a high-quality business support offer for start-ups and young businesses to enable their commercial needs to be thoroughly diagnosed and solutions to be provided.
- A robust business plan for the operational phase of the enterprise centre that will assure the viability of the centre, its success in stimulating world beating life sciences ventures and delivery of contracted outputs.
- The enterprise centre has been designed specifically for the needs of life sciences businesses. It will comprise 57,435 square feet, with the following an indicative space breakdown:

Uses	Total, All Floors (sqft)
Co-working Space	8203
Private Work Areas	9627
Meeting Space	2242
Laboratories	12382
DJ 7 Studios	696
Digital Laboratory	971
Break Out Area	2717
Lounge	1600
Events Area	200
Facilities	322
Storage	692

Ancillary Uses	978
Plant & IT Rooms	1861
WC/Changing	1454
Total	43945
Circulation & Other Uses	13490
Grand Total	57435

4 REASONS FOR RECOMMENDED COURSE OF ACTION AND OTHER OPTIONS

4.1 This report recommends approval of this Stevenage Towns Fund business case, which sets out a case for:

- Stevenage Enterprise Centre (£4,000,000)

4.2 Both the summary version and full version of the business case have been included as appendices to this paper. The business case provides detailed assessment of the strategic, economic, financial, commercial and management elements of the business case, with detailed consideration of the benefits, risks, outputs and outcomes of the project.

4.3 The business case under consideration has been reviewed by the officer group and Assurance Panel, which includes the Chair of the Stevenage Development Board.

4.4 To date, the Assurance Panel, which is made up of representatives from the Board and supported by Stevenage Borough Council Officers, have provided support for the business case. Key comments from the assurance panel are summarised below:

- Workshop required with legal services to understand subsidy control and arrange a strong accountable body agreement.
- This business case is at an earlier stage than others – condition for it to be reported back to Board and Accountable Body once reserved matters relating to business plan and legal considerations have been met.
- Emphasis on the market opportunity for this scheme and viability tests have been conducted which showed residential use or mixed commercial use would have issues.

4.5 The business case was presented to the Stevenage Development Board on 2nd December 2022, incorporating feedback from the Assurance Panel.

4.6 When the Heads of Terms were agreed with Government in 2021, this project did not have any conditions attached to it.

4.7 The alternative options available to the Council are:

- Not to approve the business case, or
 - Defer approval of the business case until any issues are resolved or further information is provided.
- 4.8 Based on the information presented, Officers are satisfied that the business case can be suitably controlled through conditions relating to the drawdown of funding, and no further amendments are required. It is acknowledged that the business case is a living document, which will be updated as developments progress. The other options available would have a significant detrimental impact on the success of the Towns Fund and Transforming Your Town programme, with no tangible benefits.
- 4.9 The work completed so far has identified a strong concept and proposal, but with further work required to confirm viability and match funding. If the business case is approved, Officers will continue to work with Reef to develop a detailed delivery programme for the project, embed the governance proposals, and develop an updated business plan and operating model over the next 6-12 months.

5 IMPLICATIONS

Financial Implications

- 5.1 In relation to the Stevenage Enterprise Centre business case, this project has been allocated £4m of Towns Fund monies. Delivery of the project is commercially challenging as the building is currently in third-party ownership, but the developer is continuing to progress updated appraisals as the design evolves.
- 5.2 In considering the overall financial risks of match-funding cumulatively to those already approved. Across tranche 1, 2, and 3, the Council is exposed to circa. £1.25m of capital that could revert to revenue if a capital scheme is not delivered across the Gunnels Wood Road and Station Gateway projects, and circa. £3m of direct match-funding to deliver the MSCP element of the Station Gateway project, the funding for which has been approved. In relation to the capital/revenue risk, Officers are developing a strategy to mitigate this risk as far as possible. Across Tranche 3, approximately £35m has been identified for investment in the leisure and heritage centre projects. This is being addressed through an overarching capital strategy, with work underway to develop a detailed funding strategy for the Council's regeneration ambitions.
- 5.3 It is not envisaged, at this stage, that Council match funding will be required to support the Enterprise Centre, due to the commitments made across the overall programme. Should a commercial opportunity arise, this would require capital approval in accordance with the Council's constitution.

Legal Implications

- 5.4 In relation to the Stevenage Enterprise Centre business case, the approval process previously set out at Executive and Council ("Transforming our Town Centre progress update and Towns Fund decision making") has been

followed, and the documents have been prepared in accordance with the Towns Fund Stage 2 Guidance referenced in the decision-making report. There will be further decision-making gateways required, including separate consideration of the planning application, although funding from the Council is not currently proposed.

- 5.5 As the project would be delivered by a third-party, the Council has engaged Burges Salmon to provide legal advice in relation to subsidy control. A full assessment of compliance with the legislation will be required when a final design and funding plan has been developed, but in the principle the current advice demonstrates that it would be possible for a Subsidy Control compliant scheme to be developed, subject to further assessment in the future.

Risk Implications

- 5.6 Full details of risks relating to each of the business cases can be found within the full business case.
- 5.7 The Towns Fund programme provides a significant opportunity to draw in substantial levels of funding to support the regeneration of the town. Across a range of projects, there are elements of risk, as some projects will require match funding (as set out in the business case), or require capital investment and to proceed into delivery to avoid project costs generating revenue impacts. A number of strategic risks have already been identified for this project. The key risks include:

Stevenage Enterprise Centre Project Risk Register

Risk Register L: Likelihood; I: Impact; T: Total

Ref.	Risk	Triggers	Consequences	Controls	Risk Score			Contingency	Responsible Person	Date: Added/ Updated
					L	I	T			
001	Construction labour shortages create delays	Conclusion of contracts building contractors with building for public realm and site redevelopment EU restrictions (Brexit) on contractors and independent consultants	Delays to completion of both due to recruitment difficulties for contractors and consultants, Cost overruns	Appropriate and timely Contractual arrangements	4	5	20 R	In development agreement with potential developer and with public realm contractors incorporate commitment to bring in additional temporary labour to ensure projects are completed on time.		
002	Labour shortages in freight transport and supply industries delay construction progress	Construction progress reports noting failure to progress on schedule. National shortfall in haulage capacity	Delays to completion of project due to shortages of materials and components . Cost overruns	Contractual arrangements	5	5	25 R	In development agreement with Reef and with public realm contractors incorporate commitment to build up advanced stocks of materials. Build in sufficient contingency time in delivery programme to address possible delays.		

003	Covid-19 Outbreak and possible introduction of lockdown measures	Negative changes to working practices through social distancing. Uneconomical for construction supply train to operate. Added delays due to drop in output levels through covid	The need to implement practices to ensure safety. Shortfalls in manufacturing capacity causing price inflation. Project delay by significant social distancing measures. Negative Change in payment practices.	Client, consultants, and contractors work together to agree common solutions. Innovative approaches to procurement are in place. Allow for time extension in contracts. Monitor financial resilience of supply chains.	3	4	12 O	Scenario planning to assess the impact of the closedown and reduced output levels and advise clients accordingly to ensure timely completion. Bring in additional temporary labour. Review planning conditions and seek changes where possible to enable sites to operate in shifts over longer working hours. Manage cashflow.		
004	Development of Forge Building constrained by unknown site conditions.	Physical obstructions. Physical conditions.	Need to change working methods. Revision of the design. Delays in delivering the development. Cost escalation.	Clear and appropriate description of works in technical documents. Clearly defined scope of works e.g. contractor's design obligations and buildability obligations	2	4	8 Y	Contractual provisions to manage unforeseen site conditions e.g. physical obstructions or physical conditions.		
005	Climate changes and weather conditions	Unusually harsh weather conditions. Impact of unusually harsh weather conditions on aspects of project	Bad weather retards progress of the construction programme or parts of the construction programme	Regular progress reviews. Timely communication	3	4	12 O	Build in sufficient slack in the programme to cover for unforeseen eventualities such as weather		

006	The construction cost exceeds the limit for the project or other issues arising during the design & development phase	Capital & revenue overspends. Inadequate project management. Failure to resolve conflicting priorities. Robust financial systems are not established.	Impact on capital programme. Revenue overspends. Requirements to make compensatory savings to balance budget. Increased legal fees. Reputational damage.	Client management relationship. Rigorous and well-informed project monitoring reports. Effective communication. Appointment of key personnel.	3	4	12 O	Appointment of a B&D contractor in a two-stage process with a caveat to end the contract after the first stage should the Council wish to make that decision (PCSA - Pre-Construction Service Agreement). A cost consultant will be involved from an early stage of the project to ensure contractor's proposals are realistic and within budget.		
007	Developer suffers financial distress and ceases operations	Reported delays in construction progress	Major delay to completion of project.	Terms of development agreement Regular progress reviews. Application of robust project management methodology	1	5	5 Y	Through its due diligence, SBC has reviewed Reef's commercial performance and the value of its property holdings and is assured of the robustness of its finances. SBC has other development partners such as mace who could be called upon to rescue the project in such circumstances		
008	Failure to achieve planning approval	Notification of Council decision	Major delay to completion. and project interdependencies.	Planning approval has been expedited and is well advanced. Through consultation, scope of objections well understood.	1	5	5 Y	Close cooperation with Planning.		

009	Constrained nature of the site limits both the volume of building which can be accommodated , the range of uses and how the buildings are organised on site.	Funding restricted / stopped. Poor management decisions. Failures in contractor / partnership working. Poor project management. Poor planning	Project delays/overruns. Reputational damage. Cost overruns. Public dissatisfaction. Discouragement of future partnerships. Delay, impact on service delivery.	Regular meetings with designers / contractors. Effective procurement strategy. Post contract reviews. Regular and timely meetings with planning. Robust project management.	3	3	9 Y	Close cooperation with Planning.		
010	Failure to provide and deliver adequate business support to centre clients.	Focus on construction and development may detract attention from the need to assist innovators with commercialisation of their products and services.	Many early-stage centre clients fail and other at intermediate stage have sub optimal success in penetrating their required markets, possibly leading to business failure.	Creation of an appropriately represented strategic board to define business support needs and to engage appropriate business support organisations and providers to address them.	2	5	10 Y	Set out a brief for business support for centre clients. Engage and contract with suitable business support organisations and providers who can assure the successful creation, survival and growth of dynamic technology businesses, in accordance with brief.		

5.8 The key risks and mitigation at a programme level can be summarised as follows:

Key Risks	Mitigation
Business cases and summary sheets are not signed-off / submitted in time and funding is lost	Programme and resources have been established with a dedicated programme manager and oversight from Assistant Director (Regeneration) and Strategic Director (TP) to ensure products are commissioned and programme is on track
Business cases are rejected by Accountable Body/Development Board	Early engagement with both organisations to ensure they are involved and have oversight of business case development, to ensure they are supportive of the direction of travel
Sign-off process and/or decision routes are challenged	Developed sign-off process and governance as set out in this paper in accordance with guidance and best practice
The cumulative risk of Towns Fund projects has a material impact on the Council's Medium-Term Financial Strategy	Each project will highlight the potential areas of risk (in this case, related to the approach to avoid any risks of capital claw back), and previous Towns Fund project. At this point in time the previous Towns Fund project (Gyratory) also highlighted risks of capital clawback, which also has mitigations in place
Money spent at risk not recovered and resulting in a General Fund pressure if projects don't proceed	Careful diligence of spending in early stages of the projects; not progressing to business case stage unless we are confident the project is deliverable; review of risk in entirety across the programme
Funding not sufficiently secured by accountable body, including match-funding	Towns Fund spend profile to be reflected in the Council's capital strategy, with individual projects returning to Council for future sign-off when at a suitably advanced stage to give Members the full information necessary for final budgetary sign-off
Third-parties do not deliver to timeframe or budget, and/or don't follow relevant procurement guidelines	All projects being delivered by a third-party to have a funding agreement in place with the Accountable Body
Business cases called-in and potentially challenged by BEIS/DLUHC	Utilising business case template provided through the Town's Fund resource; representative from BEIS to attend Development Board meetings and have

	sight of business cases at an early stage.
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Policy Implications

- 5.9 The development will contribute to the delivery of regeneration within the town centre and will help to deliver key objectives of the Council's Sustainable Transport strategy, Future "Town, Future Transport" (adopted 2019) and will also help to deliver on the Council's commitment to reducing carbon emissions as stated in the Climate Change Strategy (adopted 2020) through low-carbon developments.

Planning Implications

- 5.10 Planning permission will be required for the development.

Environmental Implications

- 5.11 A core value of embedded within the framework for appraising these projects is focussed on ensuring due consideration to Environment, and where possible support the reduction of impact of Regeneration on the Environment.
- 5.12 There is a significant focus on utilising brownfield sites and spaces to their maximum potential through the Stevenage Town Investment Plan, and a clear drive to focus on sustainable travel options, through both public and active transport initiatives.
- 5.13 Better land use planning is a key concept for mitigating emissions and allowing people to make the behavioural changes required to reduce their carbon footprints in the long run. Improved buildings will improve the environment, not detract from it.

Climate Change Implications

- 5.14 The project presents an opportunity to make a positive contribution to the Town's climate emergency and net zero ambitions, by utilising space in a multi-purpose building which is designed to limit the use of new resources through both the construction and operation phases. Stevenage has a recognised legacy as a green and diverse environment, and the new asset has an opportunity to promote this through its displays.

Equalities and Diversity Implications

- 5.15 No specific equalities and diversity implications for this tranche of business cases.

APPENDICES

- A Background to the Town Investment Plan development and business case requirements
- B Stevenage Enterprise Centre business case summary
- C Stevenage Enterprise Centre full business case