

PROJECT DOCUMENTATION

FEASIBILITY BUSINESS CASE

Shell Store: Hereford technology, incubation and application centre

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Feasibility Business Case History

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Stage 0 Business Case

1. Purpose of Document

This Feasibility Business Case contains information that describes the justification for setting up and continuing the development of a detailed Business Case for the Shell Store project. The Business Case is to be submitted to the Capital Strategy Working Group/Herefordshire Enterprise Zone Capital Project Board and if accepted, a more detailed Business Case will be developed.

2. Objectives

If the Business Case is approved then the project can move into the implementation phase and deliver the following:

- Inclusion within the capital programme report proposed to council for decision
- An “authorisation to spend” decision report with revised business case will be submitted to cabinet
- The commencement of the procurement process to appoint a contractor to refurbish the Shell Store to create a technology, incubation and application centre
- Other necessary project activity

3. Background

3.1. Project Drivers and High Level Issues

The "Shell Store: Hereford technology, incubation and application centre" is a unique opportunity to create a vital asset that will deliver long-term benefits to the Herefordshire economy (growing the economy priority of the corporate plan). The incubation centre will be a catalyst to innovation and productivity driven growth by providing start-up and scale-up businesses the environment they need to maximise their potential. By providing the centre and the services, it will support Herefordshire and the Marches to develop and grow the next generation of businesses that are vital to diversify the economy whilst providing new and better jobs in emerging industries.

The technology and application centre will be a vital component of the NMiTE University whereby students will interface with businesses and attempt to solve real world engineering challenges that businesses have. This innovative collaboration with higher education differentiates the Shell Store from other centres and provides excellent opportunities fostering spin-offs from the new university as well as providing resources to businesses. Herefordshire and the Marches is one of the very few areas within the country without an incubation centre and the opportunity to create the right environment for businesses to start-up, scale-up and grow is currently lost along with the associated economic benefits.

The other significant benefit of the project is the repurposing of a gradually decaying heritage building by providing a long term viable use that is fully complementary with the Enterprise Zone objectives, the aims of the Invest Hereford Economic Vision (asset based economic development plan) and other local plans including the Marches SEP. The "Shell Store", is a historic building of a large scale that was used as a First and Second World War munitions store. The building has been redundant for many decades and its decay and vandalism has meant that there are some safety concerns and it is now an unsightly building that is not conducive to a high tech business park.

The Shell Store is on the premier "North Magazine" area of the Hereford Enterprise Zone. This high profile investment destination on the zone has been included within a list of 68 UK investment projects marketed around the world by International Trade Secretary Dr Liam Fox and his team. Given the safety concerns, and visual impact of the decaying and vandalised building on the investment potential for the North Magazine, not addressing the condition of the Shell Store is no longer an option. Given the industrial heritage of the building and its local importance, there would be significant opposition to demolishing the building. The building cannot be left as it is, there is no steady state.

3.2. High Level Metrics

The benefits of the centre cannot be articulated by simple economic development metrics alone; however these numbers forecast a significant impact. This includes, by 2031, achieving the following:

- Creation of 2137 m2 of business incubator and application net floorspace in Hereford
- Supporting 250 start-up and scale-up businesses, with a particular focus on high innovation and productivity growth.
- Create 425 jobs (by 2031).

4. Scope

4.1. Included in Scope

Activity related to developing the provision of 2137 m2 of business incubator and technology/application floorspace to Hereford – an area without dedicated business incubation space. Activity associated with the construction of a business incubator and application centre (including design approval, procurement, project management and funding reporting) and contracting with a higher education occupier and a site operator within the defined project, budget and timescale. This activity is within the scope of the decision made by the cabinet member for corporate strategy and Finance on 9 August 2017.

4.2. Not included in Scope

Development outside of the Shell Store Project redline boundary, Enterprise Zone programme related activity including, enterprise zone access/drainage infrastructure, works that would be provided to a standardised enterprise zone occupier who purchases land, land required to ensure the site remains safe prior to implementation, operation of the centre and lettings to individual businesses.

5. Stakeholders

Stakeholders consulted with throughout the development of the business case include:

- Enterprise Zone Capital works Programme Board
- Key internal stakeholders including SRO, CFO, legal, governance and finance
- Cabinet Member
- Herefordshire Enterprise Zone Board

6. Dependencies

6.1. Initiatives which depend on this project are:

This project is now on a critical path for the provision of NMITE academic space and will be critical component to enable the university to open on time. It will be some of the first space available for utilisation by NMITE so that they can fulfil their own timetables and meet their funding requirements.

6.2. This project depends on:

- There is a construction market to deliver the build within the defined cost/timescales – Professional advice indicates that there is such a market, at the price identified in the cost plan
- Internal resources will be available from legal, finance and property services to support the project

7. Benefits

7.1. Quantifiable

- Provision of 2137 m² of business incubator and application net floorspace to Hereford
- Provide employment space for approximately 31 businesses when the centre is fully occupied and application space for a HE occupier. Plus hot-desking space for start-up businesses and others
- Income generation opportunities which will fund the running costs and the capital repayments of the centre due to the LEP interest free loan and ERDF grant funding
- 250 start-up and scale-up businesses directly supported by 2031
- 425 jobs created by 2031

7.2. Non-quantifiable

- Kick-start the development of a more entrepreneurial culture with new businesses in new sectors that will greatly contribute to diversifying the local economy.
- Provide assistance is key to the creation of innovative and productive knowledge economy businesses
- Obtain a high value and quality use for a decaying building of heritage importance
- Add the development and growth of businesses that can contribute to the council through future business rates

8. Contribution to Strategic Objectives

Herefordshire Corporate Plan 2016-20:

- **Support the growth of our economy:**
 - Develop and start the implementation of a countywide Economic Masterplan: *The Shell Store incubation/application centre is a priority project within the Masterplan/Economic Vision and delivering it will contribute to the implementation of the plan.*
 - Finalise and implement plans that strengthen and diversify of the economy of Herefordshire: *The centre aims to support the creation and growth of businesses within the new economies with an aim of diversifying the economy, improving productivity and innovation.*
 - Make Herefordshire more attractive to younger age groups for a more balanced age profile, improving local access to skills training so that everyone can benefit from economic prosperity. *The centre will provide an application centre for students of NMiTE (which includes people of younger age groups) in addition to targeting young entrepreneurs.*
 - Support the development of the new university for Hereford, identifying buildings for teaching and student accommodation. *The centre will deliver against this increasingly important priority to provide an important component of the academic space and the co-location with an incubation centre that is highly innovative and has potentially many benefits to businesses, students and the university.*

9. Potential Costs and Options for Project

A number of previous options have been explored for the project and discounted. Due to the funding package from the LEP and ERDF there is little scope for significant changes to the project. The reason that the business case and financial model need to be revisited is construction inflation due to project delays in assembling the funding package. However fundamentally, the project is the same and the changes mean that the increased project costs can be addressed by the income forecast (see business plan).

Option, Shell Store Technology, incubation and application centre: The project will undertake a non-evasive refurbishment of the existing structure and create incubation and applications sub-structures

within the existing buildings footprint. This will put the building into a productive use and create wider benefits.

The refurbishment creates approximately 2,137 sqm net floorspace consisting of two components:

- a. An incubation centre providing high quality accommodation, incubation and support services to new or young enterprises.
- b. A development and access centre managed by the NMiTE University providing a central, shared laboratory, research facilities and training/conferencing space

In March 2016 the council commissioned a RIBA Stage 3 design and cost plan which identified the full project costs at just under £6.5 m. This work was necessary in order to develop and submit a bid for a contribution from the Marches European Structural and Investment Funds (ESIF) allocation (Deadline for submission that Easter 2016). Since that point the design was put on hold whilst the council built the required funding package.

The council has secured a £2m grant contribution towards the project from the Marches European Structural and Investment Funds (ESIF) in Q1 2018 allocation and a zero interest loan from the Marches LEP "Marches Investment Fund" of £2.49m was also agreed at the end of Q1 2018. The LEP funding agreement has been agreed but has yet to be signed but it is agreed in principle. The council were required to fund the remaining cost from prudential borrowing, to be repaid from income that was generated by the building.

During the two years that the funding package took to assemble, the construction market has evolved considerably. Significant investment from both public and private sector bodies put a strain on the entire supply chain. As such, a rise on both the measured work elements and main contractor management, operating and profits costs have become evident.

A review of inflation based on the latest BCIS industry data indicates that the 2016 estimate should be uplifted by 14-17% in order to align with the revised delivery programme, which assumes a mid-point of construction of 2Q2019. In summary, this simple uplift would add £1.1m to the total of the previous estimate.

Following a process of value engineering and cost review, the revised project estimate now stands at £7.31m. It should be noted that this includes an increase in the contingency budget to an industry appropriate 5%. The cost plan with more detail is attached to this document.

The consequence of this is the need to increase the borrowing requirement by £800,000 making a new prudential borrowing requirement of £2.8m to be repaid through project income. Alongside the cost plan review, the business case has been revised to take into account changes in the market since the original plan, advice from operators in the market, study visits of comparable centres and greater income opportunities from the amended designs. The operating costs have also been revised to reflect market conditions. Therefore a total annual income of £500,838 has been profiled, with operating costs of £216,590 facilitating the £271,696 of capital payments required. Further details of this and the changes are contained within the business plan.

In August 2017 the Cabinet Member for Corporate Strategy and Finance made a decision to approve the spend of £6.498m to enable the “the refurbishment and conversion of the redundant “Shell Store” building into 2,137 sqm of commercial and research floor space on the “Skylon North” site within the Hereford enterprise zone as identified in appendix 1, and at a cost of no more that £6.498m be approved”.

10. Costs and Timescales to Develop the Full Business Case

Due the developed nature and previous approval for the project and work done to date, the underpinnings of a full business case are in place, they include:

- Construction cost plan, programme and risk register
- Project business plan
- Financial appraisal and assessment
- Funding agreements from ERDF and LEP

The service area will need approximately 2-3 weeks and support from finance to complete a full business case for the project.

11. Risks of not doing the Project

11.1. The key risks of not doing the project are:

- **RISK:** Loss of external resources secured for investment within the county (including a £2m ERDF grant and a £2.49m LEP interest free loan). **RESPONSE:** Attempts could be made to reallocate to projects within the county, but there are no other suitable projects within the county within the funding timeline, therefore there is a large risk that these funds will be assigned to another project out of county.
- **RISK:** Economic risks of being one of the only counties without such an incubation centre. **RESPONSE:** Other economic investments could be made but it is difficult to identify activity that could have such an effect on stimulating start-up and scale-up businesses.
- **RISK:** The building causes safety concerns/or visual amenity impacts on the saleability of the North Magazine land to investors. **RESPONSE:** Demolition of the building could take place but this would have financial and possibly political costs. More screening, fencing and security could be undertaken but this is costly, not a long term solution and does not totally eliminate the risk.

11.2. The key project risks are:

- **RISK:** Costs of the project exceed the budget; **RESPONSE:** Undertake cost planning at key stages of the project including market testing. If at any stage, costs are projected to exceed the approved budget, report to SRO along with undertaking further business and financial case modelling to understand the likely financial impact.

- **RISK:** changes in the market conditions impact the business case; **RESPONSE:** most development schemes have an element of risk and reward in both the commissioning of work and the provision for end users. At the outset, cost planning with market testing has been undertaken, the sensitivities of the market will be monitored and reported to the project board if there is an issue. Appropriate contingency has been added to costs (including operating costs) and income has been modelled to enable some flex
- **RISK:** Construction/technical risks are experienced. **RESPONSE:** There is a separate risk log for all construction risks with an appropriate response. All major risks have been assessed and work has been undertaken to quantify. Appropriate contingency has now been added to the project.
- **RISK:** Reputational risk to the council if members, businesses and the public's expectations regarding a prudent, expeditious and appropriate delivery of the scheme are not met; **RESPONSE:** The project board will oversee defined packages of work, manage risks and make decisions at the start and end of every phase. Communication to key stakeholders will be managed with support from the communications manager.
- **RISK:** Contractual agreements for this scheme cannot be agreed within budget and within risk; **RESPONSE** Project board to closely monitor progress on these externalities and the project manager will propose alternative contractual arrangements should the intended route be unviable. Work to date on the cost plan, including soft market testing will have reduced this risk considerably.
- **RISK:** other opportunities in the area lead to changes to the scheme which impact the business case; **RESPONSE:** any changes to the scheme will be considered on the merits of their own business case.