

Marches Enterprise Joint Committee 14 June 2017
Supplementary Paper to Marches Investment Fund (MIF) – Allocations

Shell Store Incubation Centre, Hereford Enterprise Zone

Recommendation: That £2,493,801 of MIF be approved subject to the agreement of terms and conditions with the project applicant.

Project Summary:

1.0 The Shell Store facility will consist of two linked components, being;

- i) An Incubation Centre providing high quality accommodation to new or fledging SME enterprises within the advanced engineering, scientific research, digital technology sectors and their associated supply chains. Providing space for up to 25 enterprises, in addition to a 12 workstation hot-desking area, the Centre would also provide support services including professional advice in areas such as intellectual property, access to finance, recruitment and business planning.
- ii) The Development Application Centre (DAC) providing a central shared laboratory/workshop, research facilities, training and conferencing space to foster and higher education and technology business collaborations. Occupied by the University, it will provide access to professional, technical and research support, facilitating the development of new product ideas.

1.1 The Shell Centre has also been established as identifying a robust package of outputs, with the only output being claimed by ERDF being the floor area of the building.

*Core Outputs	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	Total
Public sector leverage	4 million						4 million
Jobs created		59	74	88	94	111	426
Local Strategic Outputs							
Additional GVA generated		3.28	3.39	4.32	5.33	6.44	22.76
Businesses supported		47	50	55	50	55	257
Others (Set against ERDF Funds allocated to the scheme):-							
sq.m floorspace renovated		4,080					4,080

*These outputs have been adjusted down to account for optimism bias in accordance with DCLG Green Book Appraisal Guidance.

1.2 Herefordshire Council is the applicant and delivery organisation for the scheme. Total capital costs for delivery of the Shell Store are £6,493,801. £2,493,801 is sought from the Marches MIF with the balance being secured through the ERDF Programme and Herefordshire Council prudential borrowing facility.

Project Assessment:

2.0 This project completed a Full Business Case appraisal in 2016 whereby funding was sought under the Local Growth Fund by way of grant to facilitate delivery of the

scheme. The basis for investment available for the current application to Marches Investment Fund (MIF) is only by way of recoverable grant. The applicant has therefore provided supplementary headline project cashflows, identifying repayment of the MIF and Council loan. Thomas Lister has been commissioned as Independent Technical Advisor (ITE) by the Marches Local Enterprise Partnership (LEP) to undertake a due diligence assessment of the Shell Store Incubation Centre for the purposes of assessing the deliverability, viability, value for money and ability to repay grant awarded to the project, should this be approved.

2.1 Deliverability: The project is considered to be deliverable following assessment which included consideration of the following:

- Land Ownership – the land is in the ownership of the Council. No third party land is involved. There is a limited risk in being able to invest the site into the development, which has already secured approval in this regard.
- Planning permission – situated on the Enterprise Zone, the local development order in place grants the principal of planning permission to projects within the zone with a total 4-week turnaround period for details. The scheme wholly supports the objectives of the Enterprise Zone, there is limited risk identified in finalising details.
- Track record of delivery organisation – the Council, working with Skylon Park, has successfully facilitated the disposal of significant areas of land and new development on the zone, and has a demonstrable track record in structuring disposals in this regard. An appropriately qualified and experienced professional team is in place, with detailed scheme proposals which have been costed to an extent that the scheme can be competitively tendered to procure a contractor.
- Funding – All funding has been provisionally secured and therefore, the funding of last resort is the MIF. The ability of the project being able to proceed is therefore dependent upon funding being secured from MIF.

2.2 Viability: The project is considered to be viable based upon an assessment of the detailed cash flows provided and the key assumptions underpinning these, which included details of operating costs & finance costs, occupancy level assumptions (supported by evidence from other projects and independent chartered surveyors) & revenues generated. It is considered that the project will have sufficient income to repay both the Council's loan and the repayable grant from MIF.

2.3 Value for Money: The project is considered to provide *very good* value for money following assessment which included consideration of the following:

- £4 million public sector leverage equates to a ratio of 1.6:1, which reflects the contribution from ERDF AND THE Council. Public sector leverage is an ancillary output created by this project which is publicly funded in its entirety; however as circa 72% of funding is repayable, this leverage is deemed good value for money.
- 444 jobs created - £5,616 per job, is below standard benchmarks for costs per job of £22,000 per job. Jobs created are a primary output for this project and are excellent value for money.
- GVA Generated – this generates a significant impact over a period of 5 years, which will be in addition to GVA generated by the investment on businesses

established on the EZ thus far. This output is therefore deemed to be very good value for money.

- Businesses supported – 257 businesses are supported, equating to a cost of £9,704 per business, which is deemed excellent value for money.
- MIF investment is therefore justified in context with the strategic importance of this project, package of outputs delivered, including ERDF match funding and potential catalytic impacts the project will have in sustaining start up and fledgling companies on the EZ in the wider Herefordshire area. Given that MIF investment will also be repayable, the project represents very good value for money.

Conclusions

- 3.0 The due diligence assessment undertaken for the Shell Store project has taken into account the June 2016 detailed appraisal of the scheme as well as later updated work on project costs and revised cashflows. The assessment undertaken in June 2017 has concentrated on a number of key areas, reflecting the revised funding package which now includes a recyclable grant element. The project is considered to be deliverable and viable, providing value for money and the ability to repay the recyclable grant awarded to the scheme.
- 3.1 It is therefore recommended that an award of £2,493,801 be made to the project, subject to terms and conditions to be finalised by the LEP Director, working with the project promoter.