

## MID SUFFOLK DISTRICT COUNCIL

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| <b>TO:</b> Mid Suffolk Cabinet   | <b>REPORT NUMBER:</b> <b>MCa/23/57</b>              |
| <b>FROM:</b> Leader and Cabinet Member for Performance and Resilience - Cllr Andrew Mellen | <b>DATE OF MEETING:</b> 14/05/2024                  |
| <b>OFFICER:</b> Lee Carvell (Regeneration and Capital Projects Manager)                    | <b>KEY DECISION REF NO.</b><br><b>CAB423/CNL148</b> |

This report is open for public inspection. However, Appendices referred to within the report are not open for public inspection as they contain exempt information by virtue of which the Council are likely to exclude the public during the discussion of the agenda item to which the report relates.

The description of the exempt information under Schedule 12A of the Local Government Act 1972 (as amended) is as follows: -

1. Information relating to the financial or business affairs of any particular person (including the authority holding that information)

*The author(s) confirm(s) that the public interest in maintaining the exemption outweighs the public interest in disclosing the information*

## SKILLS & INNOVATION CENTRE ON GATEWAY 14

### 1. PURPOSE OF REPORT

- 1.1 To report to Cabinet, and onward to Council, the Freeport East Supervisory Board decision taken by it at its meeting of 19 March 2024. A total funding package of up to £16.66m was secured by Mid Suffolk District Council at that meeting, to deliver the Skills and Innovation Centre at Gateway 14 in Stowmarket. The Freeport Board strongly supported the delivery of the scheme, reflected in its agreement of a funding package equivalent to 89% of the total project delivery costs.
- 1.2 Whilst the capital delivery cost element has not changed from previous Council approvals (£18.171m), the full project delivery envelope is now increased to £18.827m as a consequence of the Council not now being able to recover £1.512m of its forward funded reserves investment from the Pot B Business Rates that Gateway 14 will generate. These 'lost opportunity' costs accrue as shown in the financial section of this report and Appendices. Mid Suffolk District Council therefore needs to consider if and how it will fund this gap of £2.167m (approximately 11% of the total delivery cost).
- 1.3 To outline the main options available to Mid Suffolk District Council to revise its funding strategy, originally agreed by Cabinet at its meeting of 05 December 2023 (Paper Maca/23/34) and Full Council at its meeting of 25 January 2024 (Paper MC/23/37). This paper recommends a preferred revised funding strategy to address the gap in funding. If approved, this will enable the project to proceed into pre-planning and technical design phase ahead of a planning application submission later

in the year. It will also enable the relevant legal and agreements on the land transfer and building development to conclude.

## **2. OPTIONS CONSIDERED**

- 2.1 **DO-NOTHING / REJECT FUNDING THE COST DEFICIT. Not Recommended.** The project will not be fully funded and cannot proceed as an approximate 11% funding gap will remain (including projected internal borrowing costs arising from use of reserves). The benefits outlined within the approved business case will not be achievable and an opportunity to bridge long-term skills gaps (including green and digital skills) will pass.
- 2.2 **TO APPROVE THE PREFERRED FUNDING STRATEGY REVISION. Recommended.** The Council will be safeguarding the delivery of the project, and its benefits to the local area and wider economy, by setting aside funding from reserves to meet the deficit arising from the Freeport East Ltd decision. This preferred option removes the need for borrowing costs and Minimum Revenue Provision (MRP) impacts on the Council's revenue budget. However, the decision made by Freeport East Ltd means that the Council will not be able to replenish its reserves fully over time, nor fund the opportunity cost of using reserves (internal borrowing costs), through the receipt of Pot B Business Rates income as originally intended. By reviewing this project within the Council's overall capital programme, funding costs are being rationalised and therefore it is also recommended that as part of the 2025/26 budget setting process the funding of the Council's entire capital programme is looked at holistically and strategically, rather than on a project by project basis. This will support achieving value for money, minimise revenue budget impacts and ensure financial sustainability going forward.
- 2.3 **TO APPROVE AN ALTERNATIVE REVISED FUNDING STRATEGY. Not Recommended.** The alternative is for the Council to borrow the additional funding needed. This is not recommended at this point given the high interest rates prevailing at the current time, as the Council will incur additional borrowing and MRP costs which will impact negatively on the overall viability of the business case, as well as the Council's revenue budget.

## **3. RECOMMENDATIONS**

### **CABINET**

- 3.1 That Cabinet approve the recommended revised funding strategy shown in Appendix A (confidential).
- 3.2 That Cabinet approve the increase of the total cost envelope for delivery of the Skills and Innovation Centre to a maximum of £18.85m, from the £18.75m previously resolved.

### **ONWARD RECOMMENDATION TO COUNCIL**

- 3.3 That Council approves:
- (a) The increase of the total cost envelope for delivery of the Skills and Innovation Centre to a maximum of £18.85m, noting that the capital cost for this project of £18.171m as included and approved in the Council's overall capital programme has not changed from the Council's earlier decision.

(b) The use of £10.9m of reserves (from the Gateway 14 Dividend Reserve and Thriving Communities Fund equally), of which £9.4m will be replenished by Pot B Business rates and the remaining £1.5m of those reserves being an investment and not being replenished through Pot B Business Rates income as originally intended.

(c) A cost to the revenue budget of £0.656m (over 30 years) – being the opportunity cost of using reserves to fund this project rather than investing the cash at prevailing interest rates and which now will no longer be funded through the receipt of Pot B Business Rates income.

3.4 That Council note that the funding of the entire capital programme, including this project, will be subject to review as part of the 2025/26 budget setting process.

### **REASON FOR DECISION**

To maximise the opportunities available to the Council to lead the development of a new unique facility which offers skills development, business support, entrepreneurship and innovation at Gateway 14 in Stowmarket. This local leadership opportunity arises from the Council's economic growth and strategic asset management functions, Gateway 14 site investment, Freeport East designation and the Council's active skills, education and innovation sector partnerships.

This proposal seeks to meet the immediate and future skills needs of employers and workers in the local and wider sub-regional area and to address persistent skills gaps which will support transition towards a higher wage economy. It will provide bespoke services to address gaps in provision and add value to the regional economy with a particular focus on, but not limited to, growth of green skills, digital skills, environmental innovation and support for supply chains in the green economy.

The proposal meets many Council, local partnership and government outcomes but also creates the conditions to stimulate some new and exciting partnerships which enhance opportunities for local communities and provides a regionally significant centre in Stowmarket and within the Freeport area.

## **4. KEY INFORMATION**

4.1 Mid Suffolk District Council resolved at its Full Council meeting of 25 January 2024 to add the delivery of the Skills and Innovation Centre on Gateway 14 to its capital programme. It agreed to an upper delivery cost envelope of £18.75m for this project, subject to the satisfactory completion of relevant funding, legal, due diligence and related activities as outlined and resolved via Cabinet Report mica/23/34. An upper project ceiling of £18.85m is now projected given the Council will be incurring additional costs linked to its increased use of reserves, which will still be less than if the Council had to borrow externally. That element will not be recoverable from Pot B business rates generated at Gateway 14. It is proposed that this will over time be recovered from the revenue cashflows forecast to be generated from the operation of the Skills and Innovation Centre.

4.2 The projected operational and ongoing revenue expenditure and income forecasts for running the Skills and Innovation Centre, considered at Full Business Case stage, remain largely unaffected by the funding gap. That modelling projected a cost neutral operation and without a reliance on Council subsidy from the revenue budget. Relevant risks, which will remain live, were also considered as part of that

governance approval stage. Information obtained since then provided by Jaynic (as Gateway 14 Ltd's development manager) and also an approved supplier of hybrid green roof systems indicates a modest annual maintenance cost for the roof system which is unlikely to make any significant impact on the forecast operational cashflows.

## **ABOUT THE SKILLS AND INNOVATION CENTRE**

- 4.3 This project is for the delivery and operation of a new-build circa 35,000 square feet (approximate, equivalent to 3,251m<sup>2</sup>) Skills and Innovation Centre on the Gateway 14 / Freeport East site. The centre would be set within the designated innovation cluster area of the site masterplan, comprising approximately 85,000 square feet (7,897m<sup>2</sup>) in total.
- 4.4 The Full Business Case was approved by Mid Suffolk District Council on 25 January 2024 and backed by Freeport East based upon the 'added value' of a skills development (including green skills and digital skills) and education component co-located with businesses and innovation. To this extent it is a non-traditional innovation or enterprise centre format and is attempting to support the reduction of long-term skills gaps, local employer skills shortages and improve lower levels of productivity and attainment. Appendix C outlines the projected updated social value benefits to the locality and wider region from delivering a Skills and Innovation Centre. This shows significant benefits and a Net Present Social Value (i.e. the public benefit value remaining after costs are deducted) of £12.559m.
- 4.5 The building will have enhanced sustainability features as an exemplar development which will have strong identity and presence for skills development, innovation and business - benefitting Gateway 14 and Freeport East in addition to the Council and its communities and delivery partners. It is designed to achieve BREEAM Excellent certification with its specification being carefully considered through its physical form, spaces and flow. This will maximise the operational uses which in turn build the collaborations, shared learning environment and innovation which will make the centre a success.
- 4.6 The Council is preparing to independently source an operator for the centre utilising its usual public procurement processes. The earlier this is done the better as it will support the marketing, fit-out and transitioning of the spaces on a practical level. Work is underway to scope a brief to secure an optimal operator, in dialogue with other key stakeholders. This will enable the Council to progress quickly from the point at which the project is fully funded and green-lighted for progression.

## **5. LINKS TO THE MID SUFFOLK PLAN**

- 5.1 The Mid Suffolk Plan (2023-2027) sets out the priorities of the Council in helping to create thriving and resilient communities in the district. The Skills and Innovation Centre delivers broad economic, social, community and environmental benefits as set out within the approved Full Business Case. It is a forward-looking intervention to face the challenges of the future and grasp an opportunity to improve the lives of people in Mid Suffolk. It supports the Council vision of the district being a great place to live, a great place to work, a great place to do business and a great place to visit.
- 5.2 There are a range of cross-cutting strategic priorities, both corporate and wider, which align with this project, including (in no particular order of weighting):
  - Freeport East – as a key strand of the skills and innovation submission to government and support meeting the net zero ambitions of the Freeport area

- Joint Economic Recovery Plan / economic evidence base refresh – Skills, Innovation and Business Support themes
- G14 Board Business Plan, ambitions and KPIs for site including those around environmental sustainability and innovation
- Climate Action Plan / net zero carbon transition by 2030
- Strategic Asset Management Plan 2020-2025 (SAMP)
- Place Regeneration and Investment in Stowmarket
- Joint Local Plan and Local Industrial Strategy – including A14 Growth Corridor
- Business Rates Base Growth for District and Mid-Term Financial Strategy

5.3 The scheme is not being developed for purely commercial purposes but to meet wider social and economic value. If the right format can be established and found to be viable, it is an enabling investment and platform for improving life chances and outcomes for local people. It can help businesses and enterprises to survive, be resilient and grow and for connections and networks to grow organically - raising the profile of the G14 and Freeport sites and district as a home and destination for higher skills, innovation and success.

## 6. FINANCIAL IMPLICATIONS

6.1 The principles of this funding proposal for the project are based upon:

- The fact that the scheme is not financially viable on a commercial basis and cannot progress without public sector funding in the form of the upfront seed fund capital grant from government, and the use of Council resources as well as the use of Pot B Business Rates income generated from the Gateway 14 site over the medium term.
- The overall value for money of the project is significantly improved by using reserve funding upfront as it removes the need for external borrowing and the consequential financing costs. This is particularly appropriate in the current economic climate when interest rates are at a high level.
- The Centre must be financially sustainable in its day-to-day operations without requiring long-term Council subsidy financed from the Council's revenue budget.

6.2 Council agreed in January 2024 a cost envelope of £18.75m for the project, broken down as:

| Original Costs (£m)  |                 | Original Funding (£m)   |                 |
|--|-----------------|---|-----------------|
| Capital Build Costs  | £18.171m        | Seed Capital Govt Grant   | £6.00m          |
| Revenue Budget Costs<br>(opportunity costs of using reserves instead of cash investment to gain interest income) | £0.575m         | Council Reserves forward funded to be <u>fully</u> replenished by use of Pot B Business Rates generated by Gateway 14 | £10.956m        |
|  |                 | RCCO (Revenue Contribution to Capital Outlay) <u>fully</u> recovered from Pot B Business Rates                        | £1.215m         |
|  |                 | Internal Borrowing Costs ( <u>fully</u> recovered from Pot B Business Rates)  | £0.575m         |
| <b>TOTAL</b>   | <b>£18.746m</b> | <b>TOTAL</b>  | <b>£18.746m</b> |

6.3 Freeport East Ltd however has limited the total amount of Pot B business rates income allocated this project to £10.66m instead of the £12.75m requested. This

means there is a shortfall in financing the capital needed of £1.512m and that no funding has been allocated to cover the revenue costs arising from the Council using its reserves to fund the project. If the Council wishes the project to proceed it has two funding options, namely:

**Option One:** Continue to use reserves to fund the total capital costs of the project but in the knowledge that £1.512m of reserves will not be replenished by Pot B Business Rates, as originally envisaged, and the consequential opportunity cost of not obtaining interest income from investing those reserves will now need to be met from the Council's revenue budget. The total cost to the Council's revenue budget of this option (over 30 years) is £656k.

**Option Two:** Continue to use reserves to fund the capital costs as above but fund the capital gap (the amount of reserves that will not be replenished from Pot B Business Rates income) from borrowing. The consequential cost to the Council's revenue budget of this option (over 30 years) is £3.668m and comprises of financing charges (interest and MRP costs) as well as the opportunity cost of not obtaining interest income from investing the reserves.

- 6.4 For clarification the capital budget for this project of £18.171m as included and approved in the Council's overall capital programme has not changed from the Council's earlier decision.
- 6.5 Further, alongside building to BREEAM 'Excellent' standards, a hybrid green roof (solar PV integrated with sedum vegetation) will be installed at the Centre and this is already accounted for within the capital project costs outlined within this report.

## **7. LEGAL IMPLICATIONS**

- 7.1 There are no specific additional legal implications arising from this report. The substantive project legal implications were outlined in the previous Full Business Case governance gateway stage reporting.
- 7.2 Councils have the powers to acquire land and property for the purposes of -
  - (a) any of their functions under LGA 1972 or any other enactment, or
  - (b) the benefit, improvement or development of their area.
- 7.3 All land at the Gateway 14 site is owned by Gateway 14 Ltd a private limited company, of which 100% of the shares are owned by Mid Suffolk District Council. Gateway 14 Ltd has appointed Jaynic as its development manager for delivering the site. The Council does not envisage that a market-rate transaction creates any subsidy control issues but this will be carefully monitored and reviewed with legal input as progress is made, including the procurement route and transaction agreement diligence.
- 7.4 The Council has taken external legal advice regarding the procurement implications of the proposed transaction. The Public Contracts Regulations 2015 remain in force in the UK until the Procurement Act 2023 comes into force, anticipated in autumn 2024.
- 7.5 There is a need to review all structures to ensure that future operation of the Skills and Innovation Centre is managed in accordance with a set of agreed outcomes and principles. Given the building is likely to have a range of partners sharing space,

careful consideration is required regarding longer-term management, legal and operational structures.

## 8. RISK MANAGEMENT

- 8.1 There are no additional risks arising from this specific report over and above the Full Business Case (FBC) as reported to Cabinet and Council at FBC gateway approval stage.

## 9. CONSULTATIONS

- 9.1 As reported at previous governance gateway approval stage for Full Business Case.

## 10. EQUALITY ANALYSIS

- 10.1 An EQIA initial screening was completed to determine whether the policy has any relevance for equality and if there is any impact on one or more of the nine protected characteristics as defined by the Equality Act 2010. The screening identified that a full impact assessment was not required.

## 11. ENVIRONMENTAL IMPLICATIONS

- 11.1 As reported at previous governance gateway approval stage for Full Business Case.

- 11.2 The building is being designed to be as sustainable as possible within its cost parameters. This will help deliver against the ambitions held by the Council, partners, the tenants and users and the local community. The Council want the emphasis of the Skills and Innovation Centre to be on developing the green economy and green skills. This includes skills in the low carbon and environmental goods and services sectors, but also more general skills to help all organisations use natural resources efficiently and sustainably and to be resilient to climate change.

- 11.3 Gateway 14 Ltd has a clear business goal to maximise sustainable construction opportunities and explore low carbon heat and energy/water sources on the site. Ambitions for the building are for exemplar level construction, embodiment of carbon and considerate construction in support of the Council's emerging Climate Resilience Plan and Gateway 14 sustainability strategy. BREEAM 'Excellent' is the minimum standard for the innovation cluster (Plot 3000 units) on the Gateway 14 site. BREEAM 'Excellent' would broadly represent performance equivalent to the top 10% of UK new non-domestic buildings. This development will deliver significant energy and carbon savings in comparison to a traditional building design. BREEAM Excellent rated buildings on average reduce carbon emissions by 33%.

## 12. APPENDICES

|    | Title   | Location |
|----|---|----------|
| A. | Revised Recommended Funding Strategy<br>RECOMMENDED – <b>CONFIDENTIAL</b>         | Attached |
| B. | Alternative Funding Strategy (Borrowing) NOT<br>RECOMMENDED – <b>CONFIDENTIAL</b> | Attached |
| C. | Social Value Impact summary (February 2024<br>update)                             | Attached |

### 13. BACKGROUND DOCUMENTS

Cabinet Report 05/12/2023 (MCa/23/34 [LINK](#))

Council Report 25/01/2024 (MC/23/37 [LINK](#))