

**Report to:** CABINET

**Date of Meeting:** 8<sup>th</sup> February 2021

**Report Title:** Churchfields Business Centre - Incubator Units

**Report By:** Peter Grace (Chief Finance Officer) and Victoria Conheady (Assistant Director Regeneration and Culture)

### **Purpose of Report**

The Council included this scheme in its Capital programme when determining its budget in February 2020 at an initial estimated cost of £3.3m (includes £800,000 of external funding).

As the project has developed a number of additional opportunities have arisen to increase the deliverables. The specification of the build has been amended to meet higher sustainability criteria, and the project scope has been amended to include works that will facilitate a second phase of investment for additional units.

The most significant change is that the scheme has been included as 'a shovel ready' project in the Town Investment Plan (TIP) submission to Government for funding as part of the Town Deal programme. The TIP identifies that investment in the town's employment and enterprise infrastructure is essential to drive economic growth. Whilst none of the funding requests from this programme can be guaranteed at this stage, the additional £750,000 'ask' for this scheme would significantly reduce the council's overall costs.

The purpose of this report is to consider whether the Council wishes to proceed with scheme and if so an increase in the Capital budget allocation would be required, which is a decision of full Council. The Council will need to determine its support for this scheme, and commit to it without certainty of whether the Town's Fund investment will be forthcoming.

### **Recommendation(s)**

1. Cabinet recommend to full Council that the scheme proceeds and that the Capital budget be increased to £4.5m (an increase of £1.2m), in the knowledge that there is a potential funding source of up to £750,000 if the Town Investment Plan is successful and the full funding ask is allocated.

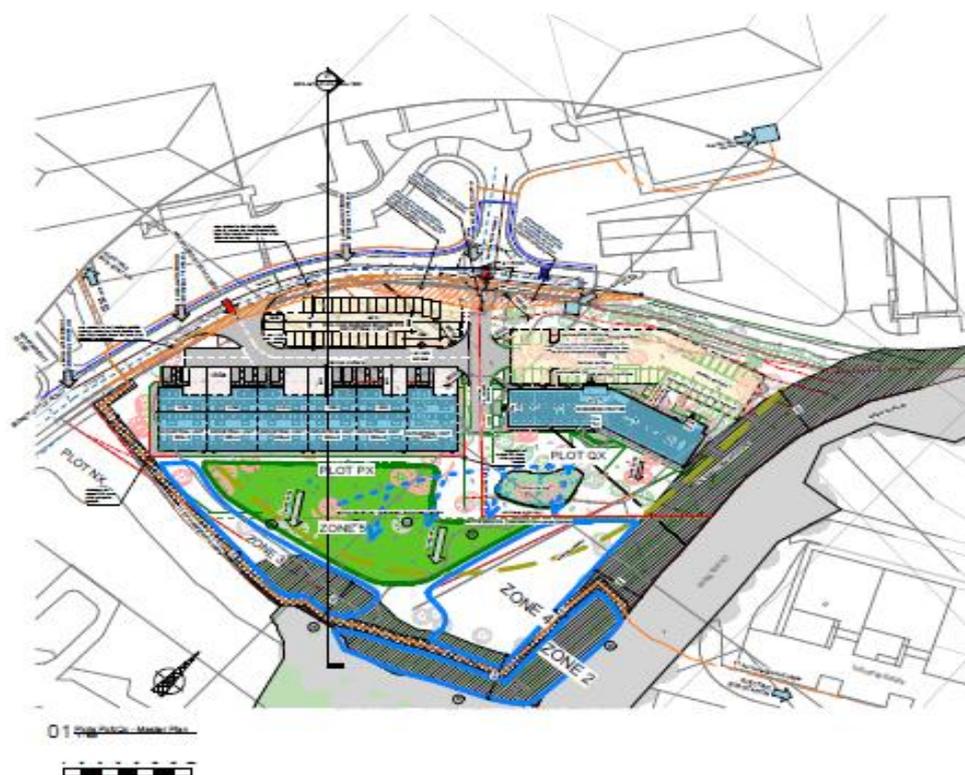
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### **Reasons for Recommendations**

The land is allocated for employment use in the Development Management Plan (DMP). Significant external funding has been obtained for a development which will increase the availability of high-quality business premises, enabling business growth, retention and churn by improving the local employment and enterprise infrastructure. Employment growth is dependent on having new industrial space available and this project supports the wider market and inward investment demands.

## Introduction

1. This is the proposed Business Centre for plot QX with 28 units totalling some 9,558 sq. ft. (887m<sup>2</sup>). The overall development cost was budgeted at £3.3m (incl fees & exc. VAT) and following a tendering exercise has a revised estimate of £4.4m the assumed rent was £12.08 psf (inclusive).
2. The Council acquired Plots PX and QX in 2016/17. The sites adjoin an existing HBC site and unlock further development potential – thus enabling a more imaginative and ambitious use of the land. The development of the other sites could also proceed should the funding bid to government in respect of the Towns Fund be successful, or subsequent funding be obtained from the Local Growth Fund for example.
3. The site plan for plots QX and PX is shown below. The incubator units are shown on the right hand side (Labelled Plot QX).



4. This scheme was projected to break even – but only doing so with the inclusion of substantial external funding. The external funding was needed due to the low rental/land values which persist in Hastings. This consisted of £500,000 secured from the Local Growth Fund (LGF) and £300,000 from Connecting Hastings and Rother Together (CHART) Programme – Community led Local Development (CLLD).
5. The conditions associated with the external funding have enhanced the specification of the building considerably, and the requirements for additional power supplies necessitate more infrastructure which can then also service the remaining as yet undeveloped plots.
6. There is a degree of urgency in determining this matter as the timescales associated with delivery of the project are tight in order to meet the external funding requirements. The tender prices will also not be held beyond the end of February 2021.

### **Town Investment Plan - intervention logic for the project**

7. Hastings is a popular location for employers, with five well-established industrial estates supported by innovation clusters and good quality business support. There is strength and depth in local manufacturing and the supply chain that these companies support.
8. Recent consultation with the sector indicates a climate of relative stability for most despite the current climate.
9. This project activity directly responds to the key challenges of jobs and enterprise growth. The proposed new builds are located in undeveloped employment land and could provide a substantial transformation to the productivity capacity of Hastings. The builds will provide a good ladder of accommodation that will encourage business clusters to form, grow and stay in Hastings. It has good links to local road networks recently built and funded by SELEP.
10. This is a 'shovel ready' project. Planning consent and a business case already exists, tenders for works have been sought and the build could be completed within 12 months of funding approval.

### **Financial Implications**

11. Tenders Received - There were 36 expressions of interest, with three tenders being received of which two were fully compliant.

Company A - £4,103,865

Company B - £4,304,543

Once existing fees are included the budgeted costs for the scheme, including fees incurred to date (£131k) and outstanding (£81k), could amount to some £4.3m. There are potential opportunities to reduce the costs and a figure of some £250,000 has been identified through a post contract evaluation – however

reductions of this magnitude may result in the project not delivering the intended outcomes and may not in practice be deliverable. These costs do not include those in respect of the solar panels and other energy saving initiatives which would be financed from the Council's existing Solar Panel capital programme (at an estimated cost of up to £200,000).

12. For budget purposes and to allow for a degree of contingency an increase in the budget of £1.2m to £4.5m is recommended in total to deliver an advanced building to the highest BREEAM standards – in this case the Excellent rating.
13. BREEAM is the Building Research Establishment (BRE) Environmental Assessment Method, first launched in the UK in 1990. It sets best practice standards for the environmental performance of buildings through design, specification, construction and operation.
14. The original estimate of £3.3m in 2019 did not take account of all the drainage issues, utility issues and the much higher specification requirements following the engagement of specialist BREEAM advisors.

An additional £1.2m, financed from borrowing, would result in additional borrowing costs for the Council of £38,077 per annum – based on an annuity loan over 50 years at 2% (currently 1.72%). Should the external funding bid of £750,000 be successful then the additional borrowing cost would reduce to some £14,279 p.a.

15. It may be expected that over time rental rates will increase and that the project would thereafter break even. Whilst the very latest economic predictions are for full recovery of the economy in 2023 this is by no means certain, and as such the Council if approving the additional costs should recognise this ongoing cost on this project. The Council does however continue to have success in increasing rentals on existing units as and when rent reviews are undertaken.
16. The scheme also provides for a potential additional long-term income stream in terms of business rates.
17. The Council's existing borrowing limits as determined by full Council would be sufficient if full Council agrees to increase the Capital programme budget. However, this would leave reduced headroom for new Capital schemes that would need to be financed from borrowing without agreement of full Council and amendment to the borrowing limits, prudential indicators and Capital Strategy.
18. The Treasury Management Strategy and Capital strategy are all subject to review and determination through the budget making process, but are likely to need revision given other major projects in the pipeline.

## Risks

19. There remain a number of risks. For example, (a) a continued economic downturn which leaves some of the units vacant, (b) the development of other sites within Hastings and Bexhill depresses the rental streams in the longer term,

(c) borrowing rates could potentially increase – albeit not expected to do so for several years.

20. There could be reputational damage, with the other funders should the Council be unable to progress the scheme, along with repayment of grant monies received to date.

### **Climate Change**

21. Whilst more expensive than first envisaged the BREEAM rating results in what would be one of the most energy efficient and sustainable buildings in Hastings. The scheme will be fitted with solar panels and additional greening/tree planting, thereby being an exemplar for future developments in our town.

### **Anti-poverty**

22. The likely post-pandemic recession will hit our town hard, mitigations need to be put in place to increase opportunities for skills, training and jobs in new growth areas of green technologies and supporting industries. This project will play a key role in future job opportunities and economic development.

### **Conclusion**

23. With base rates at a historical low there is a window of opportunity to develop such sites, and it may become increasingly harder to fund such developments in the future. Whilst public subsidy is still required now the requirement could be higher in the future.
24. As part of the Covid recovery, skills, retraining and job creation the projects are essential for the current economic need for modern businesses to thrive. This project will contribute to achieving the town’s strategic objective of providing a resilient local economy.

### **Wards Affected**

Hollington.

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### **Policy Implications**

Please identify if this report contains any implications for the following:

Equalities and Community Cohesiveness	No
Crime and Fear of Crime (Section 17)	No
Risk Management	Yes
Environmental Issues	Yes
Economic/Financial Implications	Yes
Human Rights Act	No
Organisational Consequences	No
Local People’s Views	No
Anti-Poverty	Yes

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**Additional Information**

None

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