

Report of the Deputy Chief Executive

MUSHROOM FARM – ADDITIONAL INDUSTRIAL UNITS1. Purpose of report

To provide an update of progress on the capital scheme to provide additional industrial units at Mushroom Farm and seek approval to amend the budget for the scheme.

2. Background

The 2020/21 capital programme approved by the Committee on 13 February 2020 includes General Fund schemes that are on a “reserve list” and will only be brought forward for approval once a source of funding has been identified.

Included on the “reserve list” was a scheme for £246,400 to construct 3 industrial units at Mushroom Farm in Eastwood to add to the existing seven units at the site. Further information on this scheme is set out in a report to the Jobs and Economy Committee on 5 September 2019.

A bid for funding towards this scheme was submitted to the D2N2 Local Enterprise Partnership (LEP) who stated that they would provide £124,000 towards the cost. As reported to Jobs and Economy Committee on 5 September 2019, the cost of the scheme was estimated to be £219,000 as opposed to the figure of £246,400 initially reported. This would require a contribution from the Council of £95,000 which can be met from borrowing. Following the cancellation of the meeting of this committee scheduled for 2 April 2020, the Chief Executive used her urgency powers on that date to approve the removal of the scheme from the “reserve list” and allow it to proceed with a revised budget of £219,000.

Following the successful submission of an Expression of Interest (EOI) and Full Business Case (FBC) to the LEP and their approval of £124,000 towards the cost of the scheme, a procurement exercise was undertaken. This indicated a projected cost of £270,000 for the scheme. The events that led to this are summarised in appendix 1 with further financial details in appendix 2.

The LEP have indicated that, based on the projected cost of £270,000, they would be prepared to increase their contribution towards the scheme from £124,000 to £160,000 if the Council's contribution were to increase by £15,000 from £95,000 to £110,000. As previously agreed, the cost of the Council's contribution would be financed by borrowing.

Recommendation

The Committee is asked to RESOLVE that the 2020/21 capital programme be amended such that the budget for additional industrial units at Mushroom Farm be increased from £219,000 to £270,000 with financing as set out in the report.

Background papers

Nil

APPENDIX 1**Project Summary****Background**

The Mushroom Farm scheme will see the construction of three additional light industrial (B2 use) units at the site in Eastwood surplus parking and service areas. This is intended to provide additional employment in the north of the borough as well as increased income to the Council. The existing site consists of seven 80m² units. These are all currently occupied and provide the Council with rental income in excess of £28,000 per annum with an average rent of £4,000 pa per unit.

Project Expression of Interest (EOI)

Approval to submit an EOI to the D2N2 LEP Local Growth Fund (LGF) programme for grant funding towards the project costs, was agreed by members of the Jobs and Economy committee held on the 5 September 2019.

Some pre-requisites of the EOI submission included confirmation of; site ownership, planning permission, an agreed capital co-funding contribution and ability to draw down grant funding by 31 March 2021.

Planning permission was later secured at committee on 8 October 2019 for the proposed scheme. Planning ref 19/00477/FUL.

Initial project costings were sought for the purposes of an EOI submission, at £219,000.

The Council's capital co-funding amount was to be agreed at Policy and Performance committee on 2 April 2020, through the inclusion of the Mushroom Farm Court budget from the "reserve list", into the 20/21 Capital programme. This scheme and other variations to the current capital programme were agreed by the Chief Executive under their executive powers.

Full Business Case (FBC)

Following a successful EOI in February 2020, the LEP invited the Council's submission of a FBC for consideration by the LEPs Infrastructure and Investment Board (IIB) on 16 June 2020. The FBC was submitted to the LEP on 19 May.

The FBC was developed, based on a project cost assumption of £219,000 and proposed a Council contribution of £95,000 and LGF contribution of £124,000. Some external advice was taken during commercial case development, but within that response included validation on the expected build costs, demonstrating the Council's original estimates were reasonable and accurate. The Value for Assessment was independently appraised on behalf of the LEP by Hatch Regeneris, who concluded that the expected project outputs for public investment levered, demonstrated good value for money.

First Procurement Exercise

Concurrent to the FBC development, a procurement exercise following a full 'design and build approach', was undertaken to provide absolute project cost certainty. The results of which due for inclusion to the FBC appendices in time for LEP's June IIB agenda deadline. The original Invitation to Tender (ITT) took place between 22 April and 26 May.

Unfortunately, the procurement exercise did not yield any suitable submissions from suppliers, with all offers exceeding the total project budget. The FBC was therefore formally withdrawn from the LEPs June IIB agenda. The Council agreed with the LEP to resubmit a revised FBC for the September IIB.

Retender

It is felt that the market disruption due to COVID-19 severely affected the submissions and that the higher than anticipated quotes may also be a reflection of construction sites having to operate at reduced capacity and thus efficiency. This is due to the latest site operational guidelines from the Construction Leadership Council, which must be adhered to and result in less workers allowed on any site at one time, to assist with social distancing. It is noted that the Beeston Phase 2 site, which is currently under construction is running at approximately 75% productivity for example. This alone produces the need for additional labour hours on priced work.

However, it is now accepted that the project isn't likely deliverable based on a budget of £219,000 and a retender was the best course of action, as many construction companies unable to quote previously, may now be returning from temporary close down during the first ITT period.

An open retender, with revised ITT documentation was published on Thursday 11 June 2020 and closes on Monday 13 July. It is hoped that this second procurement exercise will yield a number of compliant tender submissions and allow the Council to progress the project and resubmit a FBC for consideration at the September IIB.

On withdrawal of the FBC from the LEPs June IIB, the Council were able to broker an increase in the LEPs contribution from £124,000 to £160,000. The LEP now state that this is the maximum they are able to award, based on the value for money information previously submitted and the anticipated job outputs which the project would deliver. There is no further scope to increase the new floorspace and employment to be delivered through the project.

If the Council are in a position to appoint a preferred contractor after the second procurement exercise and the LEP agree to sponsor the project (based on the revised FBC submission), it is estimated works will begin on site in mid-October.

Without an increase to the Council's capital contribution, the total project budget now stands at £255,000. If the Council were to increase their contribution, because of the LEPs increase in capital, the return on investment remains marginally improved on that which was presented to Jobs and Economy committee in September 2019.

LGF Programme

In order for the Council to leverage any contribution for additional external funding through the LGF programme, the project must be progressed in the current construction market environment (however distressed it may be) and in the current financial year. This is to enable the 'draw down' and spend of all LGF funds by the programme deadline. Despite the impacts of COVID-19, there is no possible extension from government to the wider LGF programme beyond 31 March 2021.

APPENDIX 2

The financial information in the table below, shows the initial figures provided to the Jobs and Economy Committee in order to submit an EOI, as well as the figures based on an increased Council capital contribution and assumptions from the FBC.

Table 1 - Expenditure and Income from the three new units

	Expression of Interest	With capital contribution increased	% +/-
Total Construction Cost est.	£219,000	£270,000	+23.3%
LEP project co-funding	£124,000	£160,000	+29.0%
Council project co-funding	£95,000	£110,000	+15.8%
Repairs and Maintenance (per year)	£600	£900	
Additional Rental Income (per year)	£13,500	£16,100	
Payback period	7.3 years	7.1 years	

As can be seen above, by increasing the Council capital by £15,000 and by extension total project budget; the payback period is still slightly improved on the initial financial estimates at OBC stage. This is down to an improved rental projection following more detailed modelling during FBC development. It is also a result of the LEP increasing their capital contribution by a bigger ratio.

The project team will endeavour to deliver the project at a reduced cost such that the total project budget may not necessarily be required.

The £270,000 total project cost also includes a £10,000 contingency sum, some of which could still recovered at the end of the project. Once a supplier is appointed as the main contractor and the Council enter into a JCT Design and Build Contract, any significant increases to cost are the responsibility of the Contractor not the Council.

It should be noted that if the Council were to receive suitable tender submissions based on quality, but were slightly above the project budget; those submissions could still be considered, as a two-week period for any Value Engineering has been included into the projects programme.

This would allow the Council to further renegotiate with a 'preferred supplier' in the event their submission is above budget, but there is potential to realise cost savings, whether through agreed changes to materials, construction techniques used on site or another deviation from the unit specifications.