

Cabinet Meeting on Wednesday 15 June 2022

Newcastle Enterprise Centre Extension Scheme



Cllr Mark Deaville, Cabinet Member for Commercial Matters said,

“The expansion of Newcastle Enterprise Centre would bring much-needed workshop space for local small businesses, offering them a chance to expand into purpose build units.

“It will also play a key part in the overall Knutton Masterplan, regenerating the wider area, strengthening the local community, and boosting its economic growth.

“Working closely with Newcastle Borough Council we aim to deliver a top-quality facility for small businesses, utilising the Town Deal funding. We’re pleased to be able to invest in the project to enable it to happen and get it off the ground as soon as possible.”

Report Summary:

The recently adopted SCC Economic Strategy contains the requirement for SCC to provide premises for people to grow their businesses. Furthermore, our strategy sets out the need to maximise external funding opportunities. This project is for the delivery of those principles at the Newcastle Enterprise Centre, Knutton. The Enterprise Centre has been operating for 35 years and there has been a long-held aspiration to increase the lettable workshop space, but no previous extension scheme has been cost effective. There is a constant stream of requests for workshop space at the Centre, especially of the 600ft² + size, and this scheme aims to meet that demand.

Newcastle Borough Council has recognised the socio-economic benefit of an increased lettable space at the Enterprise Centre and is offering a grant of £1.14m through the Town Deal initiative. A feasibility & costing study by Entrust of a 4,500ft² extension has been modelled financially and is considered acceptable and affordable by the SCC Financial team.

Whatever commercial activities people will be involved with in the future, they will need somewhere to do it. The Enterprise Centre Extension scheme would provide those premises, and thereby providing an income stream for the County Council, for at least the next 120 years.

Recommendations

I recommend that Cabinet:

- a. That Cabinet approves the acceptance of investment of circa £1,140,000 from the Newcastle Town Deal (Newcastle Borough Council) initiative to facilitate the delivery of an extension to Newcastle Enterprise Centre at Knutton.
- b. That Cabinet endorses the investment of up to £440,000 of SCC borrowing to facilitate the delivery of an extension to Newcastle Enterprise Centre at Knutton, noting that the borrowing costs will be repaid from the increased rental income generated on site, and will be underwritten by the Business and Enterprise revenue budget.
- c. Delegated authority is given to the Director for Economy, Infrastructure and Skills and the Director of Corporate Services to enter into relevant contractual and other arrangements pursuant to the delivery of the project.

Local Members Interest
Cllr Derrick Huckfield Keele, Knutton and Silverdale

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Recommendations of the Cabinet Member for Commercial Matters

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Report of the Director for Economy, Infrastructure and Skills

Reasons for Recommendations:

1. The County Council Strategic Plan outlines that “Everyone in Staffordshire will have access to more good jobs and share the benefits of economic growth”. This is underpinned by several priorities in which we will achieve this ambition, acknowledging these can only be achieved by working in partnership to:
 - a. Work with our partners to regenerate our town centres.
 - b. Support people to start and grow their business.
 - c. Develop those investment-ready projects that will be vital to the future of the county.
 - d. Enable people to benefit from better paid, local jobs.
 - e. Develop our A50 / A500 and A38 strategic corridors to enable businesses in Staffordshire to innovate and grow, as part of the wider West Midlands Region.

2. The County Council's emerging Economic Strategy provides further details of what we will do to achieve our ambitions for the Staffordshire economy in the coming years. With regards to supporting start-ups and step-up business with the county, the Economic Strategy outlines how, "We will ensure that we have suitable sites and premises ready and available to enable people to start and grow their business within the county, as well as continue to take advantage of future business investment opportunities. This includes the provision of incubator space and the delivery of new and expansions of existing Enterprise Centres where there is a clear case to do so."
3. The County Council has a long-established reputation for creating & effectively managing Enterprise Centres, comprising workshops, light industrial units, and offices across the county. Enterprise Centres directly contribute to these priorities by supporting people to start up and grow businesses, particularly in areas where the private sector does not create these conditions. The Centres also act as hubs of regeneration for the communities they serve, often in areas of multiple deprivation to enhance and improve local economic opportunity.
4. Following the recent successful expansion of the Cannock Chase and Silverdale Enterprise Centres where 70% of space has been let within 7 months of opening, a further opportunity has been identified for Newcastle Enterprise Centre in Knutton.
5. The workspaces are currently small-scale, low-tech, and relatively low-quality compared to the normal standard of lettable county council workspace. There has been a long-term ambition to increase the quality of the Centre, but low revenue rental receipts have curtailed all previous projects.
6. Newcastle Borough Council have been successful in securing outline approval of a Town Deal investment package from the government's Department of Levelling Up, Housing & Communities (DLUHC). Part of the overall Town Deal is the Knutton Masterplan, two core elements of which are the extension of the Enterprise Centre and the residential development of the adjacent, currently derelict, former sports centre site.
7. Within the Knutton package, the largest financial allocation has been identified for the expansion of Newcastle Enterprise Centre. £1.14m of the £3.8m allocated to Knutton is for the provision of additional workspace at the Centre. For an investment of £0.44m, we will secure the £1.14m Town Deal investment offered, unlock up to £19.6m GVA

by the end of the pay-back period and support the creation of up to 28 new jobs.

8. Newcastle Enterprise Centre has the layout of a very traditional 1930s school (from which it was converted) comprising four wings surrounding a central quadrangle. The Knutton Masterplan originally conceived, that two wings, comprising 3,700ft² of existing workshop space, would be demolished and 8,000ft² of new larger, higher-quality workshop / light industrial space would be provided. This is scheme Option 'A', a net gain of 4,300ft² of workshop space.
9. Following initial feasibility work, Option A has been found to be unaffordable with a total estimated cost of £2.62m and a payback period of circa 47 years rendering the Option A scheme unviable.
10. A value engineered Option B scheme has subsequently been developed. Initial feasibility work involves the creation of 4,500ft² of new workshop space set on adjacent land. The detailed design of Option 'B' will be progressed following the endorsement of Cabinet. The overall anticipated project cost is £1.58m with an acceptable pay-back period of 16 years
11. It is important to note that this expansion would require land from the adjacent proposed residential development site (which Newcastle Under Lyme Borough Council is considering dedicating to the project). If the Enterprise Centre extension does not go ahead, it is highly probable that the land needed would be used for residential development instead and the opportunity for the extension would be lost permanently.
12. Given the Town Deal grant allocation of £1.14m, the request is for Cabinet to accept this investment and endorse the proposed balance of funding to facilitate the delivery of the Option 'B' scheme, i.e., £440,000. Any borrowing required will be repaid, with interest, from the additional revenues generated by the scheme and/or from existing Business & Enterprise revenue budgets over a period of not more than 25 years. This is affordable as payback of the investment is estimated within 16 years.

Introduction

13. The County Council has a long-established reputation for creating and effectively managing a series of Enterprise Centres, comprising workshops, light industrial and office space across the county.
14. Our Enterprise Centres directly contribute to the County Council's ambition that everyone in Staffordshire has access to more good jobs and shares the benefits of economic growth. Moreover, they are key

interventions to achieve the priorities set out in our draft Economic Growth Strategy, in particular:

- a. Supporting start up and set up businesses – The Newcastle Enterprise Centre Extension creates more space for new start-ups and those looking to expand. In particular the proposed unit sizes will assist step up businesses, an identified gap in our current provision across the Enterprise Centre portfolio.
 - b. Town Centre/High Street Regeneration – The Newcastle Enterprise Centre development is a key component of wider planned regeneration of Knutton, an area consistently identified as amongst the most deprived locations in Staffordshire (and the UK as a whole).
 - c. Developing Investment Ready Projects – The Newcastle Enterprise Centre extension has been identified for some time but has not been able to proceed without substantial external funding. That funding is now being made possible through the Newcastle Town Deal.
15. This paper has been produced to seek endorsement of acceptance of the grant currently offered through the Newcastle Town Deal whilst acknowledging the potential for the level of grant to be reduced through the Government’s Town Deal appraisal process. Any reduction in grant offered will be reflected by a matching reduction in scheme costs. The paper also covers the further financing requirement to facilitate the development opportunity at this Centre from within the Business and Enterprise budget.
16. Knutton has been identified for this project as it is an area of socio-economic deprivation which needs employment opportunities. The area is prioritised by the Coalfields Regeneration Trust and is one of the top five locations for intervention for that organisation. Knutton is an area of multiple deprivation, with low-income levels, high levels of long-term health conditions, lower levels of academic attainment, and persistent issues with unemployment which could all be addressed through these proposals.

Newcastle Enterprise Centre

17. The opportunity for the enhancement of the Centre comes within the Knutton Masterplan. The Masterplanning prospectus states “The aim of the masterplan is to put the heart back into the centre of Knutton. This will be achieved through creating a greater sense of place and a strong gateway to the High Street; by providing facilities for the local community; and by delivering new, aspirational housing for the local centre.”.
18. The school from which the Enterprise Centre was created was of a very traditional format comprising four wings surrounding a central

quadrangle. As Option 'A' was found to be financially non-viable, a second scheme, Option 'B', has been developed involving the creation of 4,500ft² of new workshop space on adjacent land, i.e., Option 'B' would give higher net workshop area gain than Option 'A'.

19. Option 'B' has been developed and Entrust have costed this revised arrangement. The principles are for there to be predominantly 600ft² (56m²) units and a larger 1,500ft² (140m²) unit but this sub-division may change dependant on market demand.
20. There is a constant waiting list for workshop space confirming the demand. Enquiries from businesses show that the highest demand is generally for unit sizes at the top end, and beyond, of what is currently available. The proposed size of the new workshop units should therefore satisfy the currently unfulfilled demand and allowing the current tenants the opportunity of larger units so they can expand and grow their businesses. This then frees the smaller units for start-up businesses, creates a ladder of accommodation sizes and so potentially prevents the businesses from relocating out of the Borough. The consistency of waiting list also proves the private sector market failure hence underlining the important principle that the county council's facilities are additional to, not competing with, the private sector market.
21. Provision of vehicular and cycle parking will be addressed through accessing the rear of the existing southern block. This would allow that previously inaccessible area to be used for parking for the first time thus allowing release of land adjacent to the High Street for modest landscaping works to enhance the High Street.
22. A further benefit for the scheme is that units will be constructed to the current climate-change compliant building standards with the potential for the inclusion of environmental sustainability systems. This could be, for example, a solar voltaic system on the southern facing roofs, E.V. charging points or other environmentally sustainability focussed improvements to the existing buildings should the scheme funds permit. Options of this nature would be investigated as the detailed design of the scheme develops and project costs become more certain.

Knutton Masterplan Impact

23. To deliver the proposed magnitude of expansion, additional land will be required. Currently, adjacent to the site lies a derelict, former sports centre site owned by Newcastle Borough Council. Newcastle Borough Council is considering dedicating a proportion of this adjacent site for the expansion of the Enterprise Centre, with the remainder of the site to be developed for housing as part of the Knutton

masterplan. If the Enterprise Centre Extension scheme does not proceed, it is probable that the land would go for housing and the opportunity to extend the Centre would be lost permanently. Initial negotiations for the acquisition of the requisite land are being undertaken led by SCC's Commercial and Assets team.

24. If the scheme were not to proceed and the adjacent site were redeveloped for housing up to the Centre's boundary, there is the probability of a requirement for improvements to the existing Centre. Impacts could include changes to the following: CCTV, the security flood lighting, 'out-of-hours' working, the use of skips which would then be close to residential properties, acoustic amelioration, etc. Changes to any of these would have a financial impact.

Timescale

25. The only true project deadlines are those set by the DLUHC, specifically the submission of the business case for the Newcastle Town Deal by 30th June 2022 and the expenditure of all allocated monies by 31st March 2024 and completion of all related construction by 31st December 2024. A key aspect of the Newcastle Town Deal Business Plan is the need to give confidence to DLUHC of deliverability, especially of the higher priority elements with the more significant financial allocations, Knutton Enterprise Centre Extension being one such project.
26. In order to meet the Town Deal Business Plan submission date and to prove the surety of delivery, the County Council needs to be progressing the necessary governance processes. The outcome from the Entrust feasibility study has been reviewed by the Business & Enterprise team in conjunction with the SCC Accounting Services team, the outputs are covered in the Outputs & Funding section of this report. The timetable of the SCC governance began with initial review of the scheme at the E, I & S SLT on 24th February 2022.
27. There is the potential for a degree of overlap of the SCC governance and the DLUHC submission timetables depending on the proposal being accepted by Cabinet and if any further level of SCC governance approval is required. The DLUHC submission will be structured to cover this situation.

Outputs and Funding of the Project

28. The known latent demand for larger unit spaces at Knutton, together with a significant percentage of the enquiries at the recently extended Silverdale Enterprise Centre have been for units of the size proposed, giving confidence of the probability of success should this project be given approval.

29. The output from the Entrust feasibility study for Option 'B' has been financially modelled. This will undergo further refinement through the design process and associated financial review, with contingency & optimism bias elements included to try to allow for the currently volatile construction sector market.
30. Utilising this initial information, the financial structure is as follows:

Anticipated out-turn cost	£1,580,000	Outcome from Entrust' s detailed feasibility study adapted for the reduced floorspace.
Town Deal investment	£1,140,000	This has the potential to vary a little dependent upon the Government's financial allocation to Newcastle's Town Deal.
SCC investment	£440,000	Payback is projected to be Year 16 of the project's 120+ year design life.

31. Endorsement is requested for the acceptance of the Town Deal monies that will be offered through the Newcastle Town Deal. Endorsement is also requested for the investment of the requisite £440,000 of SCC funds for the delivery of the scheme.
32. Financial modelling indicates that the income generated by the new workspace will cover the debt repayments, including interest, within 16 years. Therefore, the Assistant Director Business & Enterprise has agreed to fund these debt repayments in full from within Business & Enterprise budgets. The repayment term will be between 16 & 25 years depending upon the borrowing period/repayment strategy adopted.

Value for Money

33. The VFM for the scheme needs to be seen in the context of the situation. The Enterprise Centre is one of the few centres of economic activity in Knutton. Therefore, enhancement of the floor space, and perhaps equally importantly, build quality, of the Centre will have direct positive effect on Knutton through job creation and townscape enhancement. This should then flow through to greater use of the High Street facilities and a subsidiary benefit to the High Steet townscape.
34. The 'Pay-back' period for this scheme is calculated as being 16 years based on current financial modelling.
35. The economic benefit (Gross Value Added (GVA)) is calculated using the basics of the Government's 'Blue Book' approach, i.e., giving value to the new jobs which will use the workspace created. It is envisaged

the new workshops will facilitate the creation of between 13 and 28 jobs depending on the type of businesses renting the units. The GVA will also depend on the value for each type of job being created ranging from £26,000 to £58,000 per person per annum. At Year 15, the forecast GVA ranges from £4,332,222 to £19,620,428 giving a NPV discounted Benefit Cost Ratio (BCR) range of between 2.74:1 up to 12.42:1.

36. Cabinet may also want to consider the proposed SCC investment in the context of recent and planned SCC investment into Newcastle-under-Lyme (especially in relation to the Kidsgrove and Newcastle Town Deals).

37. This amounts to in the region of £7.7m including:

- a. £400,000 for improvements at Kidsgrove Station
- b. £3.5m to address development viability at Chatterley Valley West (to be repaid using retained Enterprise Zone business rates)
- c. £3.8m of funding to improve town centre permeability (from funding secured by SCC)

Risks Identified

38. Technical. The style of workshops adopted for the Centre are functionally identical to those at the Silverdale, Lyvedale Court & Burton Enterprise Centres. They have been found to be robust, effective in both commercial & environmental terms & require little maintenance. Overall, the technical aspects of the project are considered a low risk.

39. Procedural. Planning permission will be required but the scheme is being developed as part of the Knutton Masterplan and as such will have significant community liaison. Also, the Newcastle Town Deal is being managed by Newcastle Borough Council, whom as the planning authority is supportive of the principles of the proposals, it is therefore envisaged that there should be no significant planning difficulties. With this interface, minimal external impact and with additional employment benefits generated, the risk is seen as low.

40. Scheme delivery. This will be undertaken by SCC & Entrust, the same team that successfully delivered Innovation Centre No. 5 at Keele Science Park & Lyvedale Business Centre on Lyvedale Business Park. The risk to the scheme delivery is seen as low.

41. External parties/stakeholders. As a low impact scheme within the Knutton Masterplan which supports economic growth in a way that has marginal effect on 3rd parties, the risk of reputational impact is seen as low.

42. Financial. A detailed financial study has been undertaken in conjunction with SCC Accounting Services for the project. Financial risks include unforeseen additional costs of the project, inflation on the cost of materials and labour, a reduction in future income/demand for workshop units, the value of grant funding (Newcastle Town Deal) anticipated, and timescales for defrayal of the grant funding (March 2024). All of these risks will be managed by the project delivery team as the project progresses. The project budget includes a 10% contingency sum and a 20% optimism bias. Therefore, the risk of not delivering the scheme within budget is considered to be low.
43. Financial. The 'Pay Back' period for the project is anticipated to be in Year 16 which is considered acceptable. With the anticipated rate of uptake of units and the very long design life of the structures, there is a strong expectation that the project will provide an income stream to the County Council until well into the 22nd century. Therefore, the risk of financial repayment not being achieved before the building become unfit for purpose is considered to be very low.

Conclusion

44. The overall approach for this project is to create simple, functional, robust, good-quality workshop / light industrial space which will support our aims to promote start up and step businesses of the type the local economy in the area needs. It is envisaged that this type of unit will remain in demand in the very long term thus underpinning the value of the project.
45. The use of Enterprise Centres across Staffordshire has been a particularly effective model in helping businesses to gain confidence during and recovering from the Covid 19 pandemic. The business-friendly tenancies and supportive atmosphere help start-ups and step-up businesses learn how to operate their business in a safe place where business support is readily available. Enterprise Centres are a central part of Staffordshire's Economic Strategy and additional workshop units in Knutton will remain in demand throughout their very long design life.
46. It is therefore recommended that Cabinet endorse the proposed investments set out in this paper.

Legal Implications

50. The land required for the scheme is currently owned by Newcastle Borough Council. It is recommended that the responsibility for the land acquisition is delegated to the Director of Corporate Services. Within Corporate Services, the matter would be managed by the Assistant Director for Commercial and Assets, who will follow the legal and

procedural protocol required. If necessary and/or appropriate, the acquisition decision would be undertaken by the Property Sub-Committee.

Resource and Value for Money Implications

51. The Resource & Value For Money implications of the scheme are detailed in paragraphs 28 to 32 and 33 to 37 above. The budget for the scheme is coming primarily from the Newcastle Town Deal with support from the existing Business & Enterprise budgets.
52. The wider Value For Money is also expressed above with GVA ranges from £4,332,222 to £19,620,428 giving a NPV discounted Benefit Cost Ratio (BCR) range of between 2.74:1 up to 12.42:1.

Climate Change Implications

53. The proposed building will be designed & constructed to meet the latest standards for building sustainability including the minimisation of use of energy. The possibility of adoption of further sustainability measures will be considered as the scheme design progresses.
54. The central location in the heart of the village maximises accessibility & minimises the need to migrate out of the village for work. This principle is further enhanced by the Centre being well served by public & sustainable transport.

List of Background Documents/Appendices:

- Appendix 1 – Site location
- Appendix 2 – Current Arrangement plan
- Appendix 3 – Concept Plans for Option 'B'
- Appendix 4 – Value for Money calculations

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