

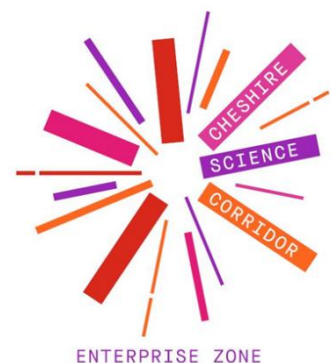
# Cheshire Science Corridor Investment Programme: Business Case Appraisal

**Vortex Business Park, Newbridge  
Road, Ellesmere Port**

**DRAFT REPORT**

CESHIRE & WARRINGTON  
LOCAL ENTERPRISE PARTNERSHIP

November 2021



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# 1.0 Introduction and Project Summary

## Introduction

- 1.1 The overarching Development and Investment Strategy for the Cheshire Science Corridor sets out the vision, objectives and investment priorities for the Enterprise Zone. In order to maximize the scale of the Business Rate Retention re-investment pot, the focus of investment in the early years (0-5 years) will be on projects that unlock and accelerate the delivery of new floorspace and will attract high quality occupiers and which deliver the following outcomes:
  - Facilitates additional business rate retention
  - Supports job creation
  - Increases economic growth
  - Facilitates business start ups
  - Supports business expansion
  - Attracts private sector investment
- 1.2 Towards this aim, landowner and developer stakeholders with projects which can contribute to the aspirations of the Development and Investment Strategy and their own site specific Development Plans have been invited to work alongside the Growth Director to develop and submit a Business Case for investment.
- 1.3 This paper provides an external technical review of the Business Case submitted by Vortex Business Park Limited (VBP) in respect of the **speculative development of 9 industrial units across 6 buildings totalling (21,004 sq m) 226,082 sq ft at Newbridge Road (branded Vortex Business Park) in Ellesmere Port**, within the Enterprise Zone.
- 1.4 The Business Case and this technical review are aligned and with the principles of the Government's 'Green Book' five case appraisal approach and structured accordingly to determine:
  - Strategic Case – The case for change and fit with strategic objectives
  - Economic Case – The outcomes of investment and value for money
  - Commercial Case – Capability to deliver
  - Financial Case – Justification of cost to EZ and other stakeholder commitments
  - Management Case – Programme and risk management
- 1.5 This paper will conclude with a recommendation as to the 'reasonableness' of the EZ investment ask against the objectives of the Investment Programme and in respect of each of the five appraisal cases. It will raise any points around negotiation and conditions should the LEP be minded to approve the investment request. The Business Case and this paper will then be assessed by the EZ Board to determine the project's suitability for funding and scale of funding to be offered, if any.

## Project Overview

- 1.6 The Business Case is seeking £3.8 million of grant funds from the EZ Retained Business Rate Investment Support Fund (BISF) to deliver a £25.1 million project to bring forward the delivery of 21,004 sq m (226,082 sq ft) of industrial space across 9 units to be known as Vortex Business Park at Newbridge Road in Ellesmere Port. The Business Case is seeking a grant request on the basis of a gap in financial viability.
- 1.7 The intervention proposed by the Business Case is in response to an identified market need for new high quality industrial employment space of this scale in Ellesmere Port against a backdrop of limited development viability and increasingly constrained supply.
- 1.8 The applicant, Vortex Business Park Limited, is a newly formed company backed with funding from Gaerwen Properties Limited, a regional landowner and property investor which owns and developed Helix Business Park on an adjacent site supported by £669,000 of BISF grant. The applicant has secured an agreement with Cheshire West and Chester Council (CWAC) to acquire the site on a 250 year leasehold upon the granting of planning consent with an option to purchase the freehold when half the development is delivered.

**Figure 1.1 Site and Proposal for Vortex Business Park**



Source: Vortex Business Park Ltd

## 2.0 Appraisal of Project

### Strategic Case

- 2.1 The Strategic Case seeks to test the justification for public sector intervention and fit with strategic objectives at the local and wider scale.

Please describe in detail how this project contributes to the LEP's strategic objectives (Q1.2)	SATISFACTORY
<p>The Business Case considers the proposed project to contribute directly to the LEP's strategic objectives as set out within key strategies as follows:</p> <ul style="list-style-type: none"><li data-bbox="268 636 1430 927">▪ <b>Cheshire &amp; Warrington Strategic Economic Plan (2017)</b> – The SEP aims to grow (by 2040) the CWLEP economy by £50 billion p.a. in GVA and create 120,000 net additional jobs. This project has the potential to contribute c.£72m in net additional GVA and create 423 (TBC) net additional jobs. Whilst not mentioned by the applicant, a strategic theme of the SEP is upgrading infrastructure and by providing new high quality industrial accommodation - this project will help achieve a key objective of this theme i.e. providing readily available employment sites that meet the needs of key economic sectors, attract inward investment and new investment by indigenous businesses.</li><li data-bbox="268 952 1430 1205">▪ <b>Cheshire and Warrington LEP Local Industrial Strategy (February 2019)</b> – The project will contribute to “A Foundation of Productivity, Business Environment and Place” via constructing quality industrial units, creating quality new additional jobs and generating an increased productivity/GVA in the Cheshire and Warrington area. Therefore, the Local Industrial Strategy (LIS) priorities of “Raise Productivity”; “Increase Business Resilience”; and “increase earning power of our residents’ would be assisted via the successful delivery of the proposed project.</li><li data-bbox="268 1229 1430 1442">▪ <b>Cheshire and Warrington Recovery Plan (2021/22)</b> – The Plan clearly states that it will deliver a ‘Sustainable Recovery’ and a ‘Growing Economy’ in response to the covid-19 pandemic. Vortex Business Park will contribute to these objectives by delivering quality industrial units providing sustainable additional new jobs, including targeting the low carbon energy sector supply chain, to provide for the growth that will arise from the Government backed North West HyNet facility at Stanlow.</li></ul> <p>The response also details how the scheme will contribute to the <b>Cheshire Science Corridor Enterprise Zone Development and Investment Strategy</b> as follows:</p> <ul style="list-style-type: none"><li data-bbox="268 1563 1430 1666">▪ <b>Vision</b> – The delivery of new high quality industrial premises will support the Cheshire Science Corridor’s Vision to be “<i>an internationally renowned science and technology cluster</i>” and “<i>a major driver of future business growth in the sub-region</i>”.</li><li data-bbox="268 1691 1430 1906">▪ <b>Delivery Target</b> – The project is seeking to build upon the 5 new occupiers and additional jobs created at the previous Helix Business Park scheme by providing further high quality industrial accommodation to attract up to nine new businesses and the associated jobs to the Ellesmere Port, which will support the EZ’s key strategic objective to attract 500 businesses and create almost 20,000 jobs over its 25-year life. significant numbers of new jobs being created.</li></ul>	

<b>Which of the LEP's target sectors will this project be aimed at? (Q1.3)</b>	<b>SATISFACTORY</b>
<p>The LEP's target sectors are established within the Local Industrial Strategy and includes Life Sciences, Energy and High Value Manufacturing (primary priorities) followed by Logistics and Financial Business services (secondary priorities).</p> <p>VBP has a focus on attracting businesses from the Advanced Manufacturing, Environmental Technologies, Low Carbon Energy sector supply chain, Logistics/Distribution and Automotive sectors thus demonstrating alignment with a number of the LEP's target sectors.</p> <p>The Business Case argues that companies from these sectors tend to favour new or modern buildings which are designed to meet their occupational requirements and project a positive image to their customers and suppliers. The proposed scheme will therefore meet the demands of these target sectors. The attraction of Cook Compression and Thyson Technology to Helix Business Park are used to demonstrate the attractiveness of such development in this location to businesses in the target High Value Manufacturing sector.</p>	

<b>Which other local and national strategies will the project contribute to and how? (Q1.4)</b>	<b>SATISFACTORY</b>
<p>The Business Case demonstrates fit with other relevant local and national strategies as follows:</p> <ul style="list-style-type: none"> <li>▪ <b>UK Government Net Zero Strategy- Build Back Greener (October 2021)</b> – The site is in proximity to the HyNet development that has secured phase 1 Government funding. HyNet, alongside the growth of 'Green Hydrogen' and Nuclear sectors are strategic priorities that will require high quality space such as that proposed at VBP to service them.</li> <li>▪ <b>UK Government Build Back Better - Our Plan for Growth - Levelling Up (March 2021)</b> – The VBP project will provide the quality industrial units required to facilitate and enable job creation within both the North West and Low Carbon Energy sector – both of which are recognised as key economic growth targets within the Plan for Growth..</li> <li>▪ <b>National Industrial Strategy (2017)</b> – Contributes to the 'Foundations' of 'Business Environment' and 'Place' through the provision of modern business space that allows SMEs to grow and tackling regional disparities in productivity and economic performance.</li> <li>▪ <b>Northern Powerhouse Strategy (November 2016)</b> – Supports the Enterprise and Innovation objective by providing new industrial space for businesses in the knowledge intensive sectors (including Advanced Manufacturing &amp; Automotive) to develop innovative ideas and help the area's economy grow.</li> <li>▪ <b>Mersey Dee Alliance (MDA) Growth Prospectus (2017), Investment Programme (2020) and Plan Ahead (to 2040)</b> – Supports the delivery of key priorities within the MDA programme including low carbon and clean growth, labour market and skills through the provision of suitable business space creating additional new jobs and facilitating sustainable skills development.</li> <li>▪ <b>Ellesmere Port Strategic Regeneration Framework (SRF)</b> – The project supports the key objective of delivering employment growth in key development zones including the Eastern Employment Zone within which the Newbridge Road development area is located.</li> </ul>	

What is the market need for the scheme? (Q1.5)	SATISFACTORY
<p>The applicant has submitted an external Market Demand Assessment by regional property agent Legat Owen to evidence the market need and demand case for industrial development of the type and scale proposed in this location.</p> <p>The agent's analysis of the supply and demand for industrial space across the local Ellesmere Port and wider sub-regional market illustrates strong occupier demand and enquiries for space in both the 5,000-30,000 sq ft range emanating from small to medium sized companies looking for grow on space and also larger national companies who are seeking units in excess of 100,000 sq ft+ units. The proposed VBP scheme is aligned to this demand profile and includes a number of units that can be combined if required to respond to occupier requirements.</p> <p>Despite the success of Helix Business Park that was fully let within 4 months of completion and provided a similar scale of space, thus demonstrating the demand for space, there has been very limited speculative development to serve SMEs. As a result, there is now a relative shortage of modern industrial space available, particularly in the 10,000 sq ft range, meaning occupiers are forced to consider outside of Ellesmere Port to meet their requirements. There are a small number of competing schemes coming forward within the 75,000 to 150,000 sq ft range in Ellesmere Port. Vortex will help support this demand for larger floorspace through the provision of a 115,000 sq ft unit.</p> <p>There is a justified case for a speculative approach to development that will meet currently unmet market demand and assist in the future growth of the economy in Ellesmere Port. A development appraisal has been submitted with the Business Case evidencing a gap in financial viability and therefore the market need for funding support.</p>	

Why does your scheme require EZ investment? (Q1.6)	SATISFACTORY
<p>In the absence of public sector funding the proposed speculative development would not progress as the scheme has been demonstrated to be commercially unviable. This represents a 'negative externality' market failure in which a lack of viability results in a disincentive for private capital/borrowed finance to be invested in the provision of speculative commercial space.</p> <p>The rationale for EZ intervention and investment is established as follows:</p> <ul style="list-style-type: none"> <li>▪ <b>Viability</b> – Build costs have increased at a rapid rate and despite improvements to rents and yields, speculative commercial development remains unviable. EZ funding will fill the cost viability gap and enable the project to progress to delivery. A development appraisal has been submitted to evidence this position and scale of EZ ask.</li> <li>▪ <b>External Factors</b> - continued fragility of the development and construction market due to the challenging external environment, primarily due to the Brexit impact and the ongoing pandemic means developers are unwilling to risk investment.</li> <li>▪ <b>Funding risk</b> – Developing on a speculative basis has additional cost implications e.g. additional finance costs during void and potentially extended incentive periods. Funders and investors consider this a 'risk' and are only willing to build speculatively in prime locations. Gaerwen Properties previously speculatively delivered Phase 2 of Helix Business Park, albeit with EZ grant support.</li> </ul>	

- **Positive externalities** – the project would result in supply chain developments, increased competitiveness and regeneration benefits and strengthening the local economic base. However, these benefits will not be fully taken into account by the market and as such are unlikely to stimulate investment in the project, in the absence of intervention from the public sector.

## Economic Case

2.2 The Economic Case considers the anticipated quantitative and qualitative outcomes of investment against objectives and tests value for money.

Summary of the direct and indirect quantitative outputs that the project is expected to generate by financial year (Q2.1)	SATISFACTORY	
<p>The Business Case sets out a number of anticipated economic outputs as a result of the proposed scheme, all of which respond directly to the aspirations of EZ investment in the short-term and are considered in more detail in the questions below. The applicant's estimates compared to ours are as follows:</p>		
Output	Applicant Estimate	Cushman & Wakefield
New industrial space	21,004 sqm (226,087 sq ft)	21,004 sqm (226,087 sq ft)
Brownfield land reclaimed	4.452 hectares	4.452 hectares
New businesses accommodated	9	9
Business Rate retention (see Q7)	£382,000 p.a.	£382,000 p.a.
Tenant jobs created (gross)	583	733
Tenant jobs created (net) (see Q2.6)	423	531
Temporary construction jobs supported	14	207
GVA per annum (net)	£72 million (net)	£91.2 million (net)

What are the estimated number of direct jobs that will be created by the project? (Q2.2)	SATISFACTORY	
<p>The applicant has provided an estimate of <b>583 direct gross jobs</b> to be created as a result of the Vortex Business Park scheme. This is based upon employment density assumptions established within HCA Employment Density Guidance (2015) of 1FTE per 36 sq m (388 sq ft) of floorspace for Industrial and Manufacturing use.</p> <p>This is a reasonable assumption, although we would also apply a higher rate of 1FTE per 129 sq ft (12 sqm) to the office elements of the business park (2,690 sqm/28,955 sq ft) which equates to 224 jobs and increases the total direct gross job outputs to 733.</p> <p>In terms of cost per job, on a net basis value for money from the EZ ask of £3.8 million is estimated at c.£9,000 per job based on the applicant's assessment for industrial and manufacturing uses decreasing to £7,200 per job on our assessment of mixed office and industrial uses – representing very good value against public sector spend benchmarks.</p>		



<b>What are the estimated number of indirect jobs, including construction jobs, that will be created by the project? (Q2.3)</b>	<b>SATISFACTORY</b>
<p>An estimate of construction jobs created is based upon an assumption of £150,000 of construction expenditure per employee benchmark and 1 FTE equivalent to 10 person years of employment. Based on a construction cost of £20.7m this equates to 138 person years of employment or 13.8 FTE jobs (say 14) for the 1 year construction programme of the scheme. The source of the calculation ratios is not identified.</p> <p>We would agree with the applicant's estimate for construction jobs based on an HCA labour coefficient ratio of 10 jobs per £1 million annual construction spend for private industrial development. This equates to an estimate of 207 FTE temporary construction jobs of one year in duration based on the £20.7 million construction estimate for the full scheme within the development appraisal – a much higher assumption.</p>	

<b>Please provide an estimate of the impact of your project in growth of Gross Value Added (Q2.4)</b>	<b>SATISFACTORY</b>
<p>A GVA estimate of £72 million per annum is identified and based on the Cheshire and Warrington Annual GVA per FTE in the manufacturing sector of £171,756 applied to the 423 net direct job estimate (Source: Cheshire and Warrington Local Industrial Strategy Evidence and Insight Summary March 2019).</p> <p>This provides an appropriate measure of GVA in this case but we would apply the estimate to our higher net direct job assumption (531 jobs) which increases the GVA output to £91.2m per annum.</p>	

<b>Indicate the wider social, environmental and temporary benefits that the project will generate (Q2.5)</b>	<b>SATISFACTORY</b>
<p>The applicant's response clearly identifies the project's potential to deliver a range of valid and reasonable wider benefits including:</p> <ul style="list-style-type: none"> <li>▪ Apprenticeship/work placements as part of the procurement strategy at both construction and operational phases, thus further contributing to local skills provision and development in the EZ area</li> <li>▪ Support of local relevant community events during construction</li> <li>▪ Investment in a Construction Environmental Management Plan and a Bio-Diversity Net Gain Assessment to mitigate the ecological impacts of development, including through the off-site solution to loss of habitat, in particular through the creation of a new newt pond</li> </ul> <p>Other benefits which could have been considered include:</p> <ul style="list-style-type: none"> <li>▪ Enhanced profile of Ellesmere Port as a location for development and investment, making future projects more viable, likely to be delivered, and therefore enabling delivery with significantly reduced or no public intervention.</li> <li>▪ Fostering innovation within the target automotive, environmental technologies and advanced manufacturing sectors through increased entrepreneurial activity</li> <li>▪ Local suppliers during the construction phase and to the new business occupiers</li> </ul>	

Demonstrate the additionality of the project (Q2.6)	SATISFACTORY
<p>The response to Q2.6 sets out the applicant's additionality impact assumptions which have been applied to the 583 gross direct jobs estimate which reduces the output to 423 net tenant jobs. The assumptions are based on HCA Additionality Guidance for regeneration through physical infrastructure at the sub-regional level together with other information considered by the applicant and are considered reasonable in respect of this case:</p> <ul style="list-style-type: none"> <li>▪ <b>Deadweight</b> – 0% as without EZ intervention the scheme would not progress due to lack of viability. This position has heightened in light of construction cost increases.</li> <li>▪ <b>Displacement</b> – 25% based on current reported demand for industrial units by existing businesses in target sectors within Cheshire &amp; Warrington requiring larger and/or modern high quality accommodation - as demonstrated by the companies occupying the Helix units.</li> <li>▪ <b>Leakage</b> –25% given that the majority of jobs are anticipated to be taken up by Cheshire and Warrington residents, but recognising geographical positioning with pull from wider Merseyside and North Wales (MDA area)</li> <li>▪ <b>Substitution</b> – Not relevant in this case</li> <li>▪ <b>Multiplier Effects</b> - Assumed at 1.29 of indirect/induced employment effects based on HCA composite multiplier for industrial and manufacturing developments at the sub-regional level.</li> </ul> <p>Applying the above additionality assumptions to the direct jobs estimate results in a net job figure of 423 FTE. Applying the same additionality assumptions to our higher gross direct job calculation of 733 jobs equates to a net figure of 531 jobs.</p> <p>No consideration has been given as to whether the scale of funding request could be reduced by delivering a smaller quantum of building space, or a lower quality build to reduce costs. However, such options will likely be less efficient in terms of construction costs on a £ per sq ft basis and would not provide the high quality scheme aspired to meet market demand and raise the profile of employment premises in Ellesmere Port.</p>	

## Commercial Case

- 2.3 The Commercial Case assesses the capability of the applicant to deliver the project as proposed within the Business Case and in line with regulatory requirements.

Clear delivery strategy in place and key stakeholders identified (Q3.1)	SATISFACTORY
<p>A clear and appropriate delivery strategy appears to be in place with the proposed project being managed by VBP Limited who will retain overall responsibility for the organisation and management of the scheme including appointment of the delivery team, contractor procurement and subsequent marketing and letting. The scheme will be delivered by a contractor via a JCT Design &amp; Build Form of Building Contract following a formal single stage competitive tender process.</p> <p>The applicant has a team of specialist advisors already established including project management, planning, architecture, M&amp;E, ecology, civils, legal, transport and grant funding. Experience local agents Legat Owen will lead on the marketing and letting. Avid Property Consultants are to act as project manager overseeing the building contract and are understood to be chairing regular progress meetings and preparing reports to track and review the design, site quality, cost control and development programme. No mention is made of some other key public sector stakeholders such as the Council and LEP.</p>	

<b>Demonstrate capacity, capability, systems and expertise to deliver (Q3.2)</b>	<b>SATISFACTORY</b>
<p>Vortex Business Park Limited is a new company established specifically to deliver this project and as such has no demonstratable experience or capability to deliver. However, the company, team and personnel that sit behind VBP Ltd have a wealth of experience in the delivery and management of new industrial development, including on an adjacent site.</p> <p>Gaerwen Properties Limited is an established (2012) and pro-active sub-regional commercial investor and developer. The company purchased the adjacent Helix Phase I development and successfully undertook the development, construction and full letting of the Phase II scheme (with EZ grant support) and now has amassed a portfolio of c.550,000sq ft of predominantly industrial space, thus demonstrating the capability and expertise to deliver, let and operate the VBP project..</p> <p>The professional experience of Alec Pickering, the Director and driving force behind Gaerwen Properties Limited and Vortex Business Park Limited, who will lead this project, is set out. The experience, capability and capacity of the wider project team is also identified. Most are already well known and respected within the market and understood to have supported the previous Helix development scheme.</p>	

<b>How will the project be procured? (Q3.3)</b>	<b>SATISFACTORY</b>
<p>The construction element of the project will be procured via a single stage competitive tender process. An objectively scored Pre-Qualification Questionnaire (PQQ) will be issued to a 'long list' of suitable contractors to enable the shortlisting of those to progress to main tender which will include an Employer's Requirements pack of information to allow pricing.</p> <p>Avid Property Consulting (Project Management, Employers Agent and Quantity Surveying) will manage the process including compliance checks and the preparation of a comprehensive Tender Adjudication Report recommending the appointment of the most suitable contractor. The above approach to procurement is considered robust, acceptable and standard for such projects.</p>	

<b>How will you ensure value for money? (Q3.4)</b>	<b>SATISFACTORY</b>
<p>The applicant points out that EZ funding will generate a number of economic benefits that would not occur without the public spend and implementation of the project, therefore generating value for money beyond the delivery of new employment floorspace. The project is expected to leverage private investment of £21.3m. Additional benefits include a significant increase in spending in the local economy arising directly from the generation of business rate income; the employment of local people during construction and by the tenant companies; and a boost to local supply chains.</p> <p>The project is expected to create 423 net direct jobs and 14 construction jobs and as part of the tender process, prospective contractors will be asked to consider creating at least one apprenticeship as part of the contract. In terms of net cost per job, value for money from the EZ ask (£3.8m) is estimated at c.£9,000 per job based on the applicant's assessment for industrial and manufacturing uses decreasing to £7,200 per job on our assessment of mixed office and industrial uses – representing very good value against public sector spend benchmarks.</p> <p>A robust procurement and delivery process will also ensure that the project is delivered on time and in budget through project managers Avid Property Consultants thus maintaining value for money.</p>	

<p>The project complies with necessary regulations with regard to:</p> <ul style="list-style-type: none"> <li>i) State Aid/Subsidy Control</li> <li>ii) Legals</li> <li>iii) Planning or Other Consents</li> <li>iv) Other (inc. Ownership)</li> </ul>	<p><b>SATISFACTORY</b></p>
<p><b>State Aid/Subsidy Control</b> – VBP Ltd consider themselves to be eligible as a recipient of aid under the Regional Investment Aid Scheme (RIA) within the General Block Exemption Regulations (GBER). The project comprises an initial investment in land and buildings that will be created and maintained for at least 5 years within an Assisted Area. The grant request of £3.8 million equates to c.18% of total Regional Investment Aid Eligible Costs (costs excluding developers profit) so does not exceed the maximum aid intensity of 30% (Article 14) and VBP Ltd will make a financial private sector contribution to the project that exceeds 25%. However, no formal legal opinion of State Aid/Subsidy Control compliance has been provided to evidence this position. We would recommend due diligence on behalf of the LEP should they be minded to approve.</p> <p><b>Legal/Ownership</b> – VBP Ltd is stated to have an agreement with existing land owners Cheshire West and Chester Council to enter into a lease on receipt of planning consent, and the ability to acquire the land for a predetermined sum upon completion of a minimum of 2 of the 4 phases of the development. We have not had sight of the Agreement but would recommend this as a condition of funding.</p> <p><b>Planning Consent</b> – A detailed planning application was submitted and registered on 11<sup>th</sup> October 2021 with a decision expected in January 2022. The site is designated as an ‘employment site’ in the Local Plan which is supportive of employment development and a precedent for industrial development has been established at adjoining sites thus minimising planning risk. Regardless, planning consent should be a condition of any funding offer.</p>	

## Financial Case

- 2.4 The Financial Case provides a critique of the costs and revenues identified within the development appraisal to test the justification of the scale of ‘ask’ for Enterprise Zone investment.

<p>Summary of anticipated project costs, revenue and funding sources supported by a full development appraisal (Q4.1)</p>	<p><b>SATISFACTORY</b></p>
<p>A development appraisal prepared by Legat Owen has been submitted with the Business Case to evidence the costs, values and viability gap associated with the Vortex Business Park project. The appraisal illustrates a negative residual land value or ‘gap’ between indicated net development value and total development costs of £3.812 million which is equivalent to the EZ ‘ask’.</p> <p>A high level Cost Review Report undertaken by Avid Property Consultants based on an outline specification by C4 Consulting has been provided to evidence the construction costs for the project. Whilst they provide a good level of detail, they have not been tested with our in-house QS to determine reasonability but are likely to have been robustly compiled given design stage. In the absence of tendered costs, the cost estimate is considered robust given it has been compiled by a professional organisation with experience of the previous phase of development. Land acquisition costs total £1.48m within the development appraisal. This has not been evidenced via the agreement with CWAC.</p>	

In terms of the values, evidence of the assumed rental level is provided via the Legat Owen Market Demand Assessment and supported by achieved lettings at Helix Business Park (£5.50 psf) but reflecting improved market conditions and current rental levels at competing schemes, although these schemes are not identified. Legat Owen also provide the yield assumption of 6.5% based on transactional evidence from the Helix scheme (7.5%) but reflective of improved market conditions and the likely nature of occupiers that are unlikely to be AAA status in terms of covenant and the lease term of smaller occupiers. Cushman & Wakefield consider these assumptions to be reasonable.

**Breakdown of project funding sources by funder/year (Q4.2)**

**SATISFACTORY**

The breakdown of funding by year indicates a similar distribution of public and private sector spend within the first year of development. This is reasonable given the relatively short development programme.

Funding Source	Year 1	Year 2	Year 3	Year 4	Year 5	Future Years	Total
Private sector funding		19.958	1.377				21.335
Other Public Sector							
EZ Investment		3.565	0.247				3.812
<b>Total Project Funding</b>		<b>23.523</b>	<b>1.624</b>				<b>25.147</b>

**Supporting information and evidence of cost/value assumptions and confirmation of any matched funding (Q4.3)**

**UNSATISFACTORY**

A review of the cost and value assumptions and evidence is set out in Q4.1 and considered reasonable.

Match funding of £21.3m is required to complete the proposed development. It is stated within the Business Case that Alec Pickering, Director of Vortex Business Park Limited, and the Pickering family members will be providing a proportion c.£13m of the development funding required by way of a Directors loan. The remaining funds will be obtained through either bank project finance, the Evergreen fund via the LEP, or a combination of both.

We have not had firm confirmation of the Pickering Family contribution, nor evidence of the ability to fund. We would also expect the remainder of the required funding to be as a minimum identified if not confirmed and secured at this stage in the process.

**Estimation of the annual Business Rate Revenue that will be generated by the scheme (Q4.4)**

**SATISFACTORY**

**Annual Retention Estimate**

The applicant estimates an annual Business Rate Retention rate of £382,000 per annum. A full schedule of the Rates estimate by individual unit, floorspace use and appropriate multiplier has been provided by Legat Owen to evidence this figure.

Whilst it is not stated what comparables Legat Owen has used to inform the base rate assumption used within the calculation, a review of the 2017 Ratings List from the Valuation Office Agency identifies the same Rateable Value base rates of £38.00 per sq m for warehousing and £45.60 per sq m for offices at the adjacent New Bridge Court scheme have been applied. The correct 2021/22 National Non-Domestic Rate Multiplier of 49.9p and 50.7p has been applied dependent upon unit/business size (a rateable value above/below £51,000).

We would agree with the applicant's business rate retention estimate of £382,000 per annum but would note that any void rate free periods will impact upon the annual retention pot within the first year and this figure assumes no rate mitigation measures are imposed.

The proposed scheme will result in the generation of new employment floorspace to the EZ and as such the Business Rates generated will be truly additional to the LEP. However, the estimation of Business Rates is complex and the new premises will be subject to valuation and entry to the Ratings List. Therefore, it is strongly recommended that the achieved business rates are monitored throughout the lifetime of the project.

#### **EZ Lifetime Retention and Repayment Estimate**

No estimate of lifetime retention has been provided. On the basis of the annual rate retention estimate of £382,000, the potential return over the lifetime of the project relative to the development programme (assuming occupancy on completion in January 2023) would suggest a total of £6.876 million over the remaining 18 years of the EZ. This assumes full occupancy throughout this period.

On this basis, and assuming continuous full occupancy, the full repayment of the £3.812 million EZ investment ask would take an estimated 10 years. This is at the lower end of the pay-back period compared to some of the other EZ investment projects witnessed to date and may therefore represent more of a risk to investment or a less 'good value' project.

#### **Explain why funding is necessary and at minimum cost to the Enterprise Zone (Q4.5)**

**SATISFACTORY**

A development appraisal has been provided to evidence the existence and scale of the viability gap for which EZ funding is sought (£3.812m).

On the value side, the assumptions have been informed by local agents Legal Owen and incorporates a rental value of £6.50 and £7.00 per sq ft and rent free period of 3 or 6 months dependent upon unit size, together with a yield of 6.5%. on the assumption of a 5 year certain term. Each of these assumptions has been backed up and justified based on local market evidence, including at Helix Business Park, and provided within a Market Assessment by Legat Owen.

On the costings side, the cost of land at £1.57m is understood to have been agreed with CWAC but has not been evidenced. Construction costs have been evidenced via a Cost Review by Avid Property Consultants and developer profit excluded given VBP's intention to hold the asset. A finance interest rate of 6% represents commercial terms. A 6% contingency on construction costs is assumed. It is understood that the construction works will be subject to a competitive tendering process. If the selected contractor offers a lower cost, this should be reflected in reduction of EZ funding requested.

Overall the cost and value assumptions set out within the development appraisal appear reasonable suggesting that the resulting viability gap represents the minimum cost to the EZ. However, it is recommended that the LEP consider an overage agreement as a condition of funding to ensure that they benefit from any improvement in the viability position. The applicant proposes that overage is calculated when all the industrial units are let at 50% of the completed value of the building over

and above a Base Value agreed as part of the appraisal capped at the amount of BISF grant received.

Whilst not raised by the applicant, the retention of Business Rates could also be considered to represent a 'return' on EZ investment but is not anticipated to generate a 'surplus' until year 10 assuming full occupancy (see question 4.4).

**Alternative funding sources have been considered and reasonably discounted (Q4.6)**

**SATISFACTORY**

ERDF Evergreen loan funding is being considered but may no longer be available given timescales of the project which must complete by December 2022.

No other alternative sources of funding or delivery appear to have been considered or discounted such as institutional private funding or a put option.

**Confirmation of sufficient capability to meet financial liabilities of EZ support (Q4.7)**

**UNSATISFACTORY**

The Business Case reports that the Pickering family has sufficient resources available across the various businesses to fund approximately £13m of the development costs. However, we have not had sight of accounts or balance sheet to substantiate their financial capacity to support the project. This is an area of concern to delivery of the scheme.

In the event that fixed priced tendered costs exceed pre-tendered estimates, it is understood a value engineering exercise will be undertaken to reduce costs in line with budget. A construction contingency of 5% is included within the project costs and it is stated that any further cost overruns beyond the contingency allowance, will lay with the contractor.

## Management Case

- 2.5 The Management Case reviews the proposed project programme including in light of identified constraints and approach to risk management and mitigation.

**What is the current status of the project? (Q5.1)**

**SATISFACTORY**

Detailed building designs have been produced and a detailed planning application has been submitted (September 2021) with a positive decision anticipated in January 2022. Further design details are stated to be progressing in advance of the contractor procurement process which is anticipated to commence in November 2021 and align with the planning process.

It is unclear if any further internal approvals are required, including for example in respect of financing.

<b>Identification of deliverable project programme, key milestones and timescales (Q5.2 and 5.3)</b>	<b>SATISFACTORY</b>
<p>A separate project programme Gantt chart has been provided that illustrates the milestone dates set out within the Business Case, but only to the point of practical completion. Based on the assumption that planning permission is granted in January 2022, the project programme indicates a start on site in March 2022 and a completion of January 2023 which represents a 10 month construction programme. Based on the market report provided by Legat Owen, it is forecast that all of the industrial units will be fully occupied within 12 months of the build completion.</p> <p>The greatest programme risk is likely to be funding approval, legal contractor procurement, receipt of detailed planning permission and discharge of any conditions. Should a funding offer be made, we would recommend a guaranteed long-stop start date for the project is agreed and progress monitored as completion will impact upon the scale and pace of the business rate retention return.</p>	

<b>How do you propose to deliver the project? (Q5.4)</b>	<b>SATISFACTORY</b>
<p>The applicant sets out a clear delivery strategy in terms of both the approach and project management structure to meet their overarching objective to ensure design and construction of the industrial units are to statutory standards and that there is cost and programme certainty.</p> <p>The professional team assembled is similar to that that managed the delivery of the previous Helix Business Park scheme on an adjacent site. VBP Ltd will hold overall responsibility for the organisation and management of the project including the appointment and management of the professional team, agents and solicitors, the procurement of an appropriate contractor for the construction works, and the subsequent marketing and letting of the completed industrial units. The experience and capability of both the internal management team and external advisors has been evidenced. A formal tender process will be undertaken via an appropriate JCT contract to secure the procurement of the most appropriate contractor to deliver the scheme.</p>	

<b>Comment on community support and/or consultation in respect of the scheme (Q5.5)</b>	<b>SATISFACTORY</b>
<p>No reference is made to any community consultation, including any statutory consultation as part of the planning process. However, it is made clear that as the site has been evidenced to be an ecologically poor disused brownfield site, no cultural or heritage landscape destruction is anticipated. Whilst not explicitly stated, it is the assumption therefore that development as proposed would not raise any stakeholder objections.</p>	

<b>Consideration of the principal risks and anticipated approach to mitigation (Q5.6)</b>	<b>SATISFACTORY</b>
<p>Five appropriate principal risks have been identified and considered with a realistic overview of their likelihood and scale of impact on delivery provided. The apportionment to risk appears balanced across VBP, the professional team and the contractor who will likely take ownership of any cost over-runs. Mitigation measures focus on due diligence to reduce risk potential rather than actions should risks occur.</p>	



The adoption of a formal and documented Risk Register incorporating regular risk identification and scheduling throughout the project is recommended to support pro-active project management and risk mitigation should EZ funding be granted.

**Confirmation that the project is deliverable with regard to any other significant constraints (Q5.7)**

**SATISFACTORY**

The applicant considers that at this stage on the project timeline, there are no significant risks or dependencies which cannot be managed/mitigated, and which would result in the project not being delivered.

Many of the key deliverability constraints appear close to being overcome in that VBP are close to having the site under contractual control, a detailed planning application has been submitted with a positive outcome expected imminently and the core management team in place. However, a contractor is yet to be appointed (programme risk) and the assumed viability gap remains the key constraint to delivery.

A register of some of the key risks have been identified and some mitigation measures considered, but a more detailed risk register and monitoring would be anticipated should funding be granted.

Overall, the project is considered deliverable. However, it is recommended that should the LEP be minded to grant funds, an overage and clawback clause is implemented if the project achieves values above expectations or is not delivered within an agreed time period.

## 3.0 Conclusions and Recommendation

- 3.1 Based on the information provided, the application for £3.812 million of EZ rate reinvestment funding to develop a speculative development of 9 industrial units across 6 buildings totalling (21,004 sq m) 226,082 sq ft at Newbridge Road (branded Vortex Business Park) in Ellesmere Port on the basis of a gap in financial viability can be summarised and concluded as follows:

### Strategic Case

- 3.2 The project can be considered to demonstrate good strategic fit with the LEP strategic objectives and target sectors; the overarching Cheshire Science Corridor Development and Investment Strategy; and a number of wider local and national strategies for economic growth through the creation of jobs and floorspace in target sectors.
- 3.3 There is a clear 'demand' for the project as evidenced within the Legat Owen Market Demand Assessment which demonstrates strong demand and enquiries for similar scale units across the sub-region alongside a shortage in available high quality supply. The 'need' and rationale for public sector support is based on a demonstrated lack of financial viability and an unwillingness of investors to fund speculative development in light of the financial and other external risks associated with such an approach. Where Gaerwen Properties has previously delivered speculative development in Ellesmere Port at Helix Business Park, albeit with the benefit of EZ rate reinvestment funds, the units have fully let within 4 months of completion.

Contributes to the aspirations of the LEP strategic objectives (Q1.2)	<b>SATISFACTORY</b>
Aimed at the LEP's target sectors (Q1.3)	<b>SATISFACTORY</b>
Demonstrates clear fit with wider local and national strategies (Q1.4)	<b>SATISFACTORY</b>
Evidenced market need and demand for the project (Q1.5)	<b>SATISFACTORY</b>
Clear rationale for EZ investment (Q1.6)	<b>SATISFACTORY</b>

### Economic Case

- 3.4 A number of reasonable and quantitative project outputs including floorspace, jobs and GVA are identified and the impact of additionality considered. If anything, there may be considered to be an underestimation of quantitative outputs in terms of both direct tenant jobs which could be in the order of 730 gross or 530 net and construction jobs at 207 FTE for one year in duration.
- 3.5 The project can be demonstrated to represent good value for money on a cost per job basis relative to the EZ ask. The project can also demonstrate delivery of wider benefits in the form of opportunities for employment, construction supply chain, enhanced market profile and confidence thus strengthening the local market.

Delivery of quantitative direct and indirect outputs – floorspace, jobs, GVA (Q2.1)	<b>SATISFACTORY</b>
Estimation of direct jobs (Q2.1)	<b>SATISFACTORY</b>
Estimation of indirect jobs including construction jobs (Q2.2)	<b>SATISFACTORY</b>
Estimation of the growth of Gross Value Added (Q2.4)	<b>SATISFACTORY</b>
Delivery of wider social, environmental or other wider benefits (Q2.5)	<b>SATISFACTORY</b>
Demonstrate the additionality of the project (Q2.6)	<b>SATISFACTORY</b>

## Commercial Case

- 3.6 VBP Limited is understood to have an agreement with CWAC to lease and then acquire the site, although evidence of this has not been supplied, and the development is considered close to receiving detailed planning approval imminently, thus supporting commercial deliverability.
- 3.7 An appropriate delivery strategy appears to be in place and Gaerwen Properties who sit behind VBP Ltd and their identified team are experienced at delivering such projects. The contractor will be procured via a single stage competitive process and JCT contract. A detailed development programme has been provided and the scheme is argued to conform to State Aid/Subsidy Control rules, however no formal legal opinion has been provided to confirm compliance.

Clear delivery strategy in place and key stakeholders identified (Q3.1)	<b>SATISFACTORY</b>
Capacity, capability, systems and expertise to deliver (Q3.2) (Q11)	<b>SATISFACTORY</b>
Appropriate procurement of project (Q3.3)	<b>SATISFACTORY</b>
Demonstrate value for money (Q3.4)	<b>SATISFACTORY</b>
The project complies with necessary regulations with regard to: i) State Aid ii) Legals iii) Planning	<b>SATISFACTORY</b>

## Financial Case

- 3.8 The scale of EZ funding requested is evidenced through a development appraisal identifying a gap in viability. Evidence is provided to support the value and cost assumptions together with the identified gap which may be considered to represent the minimum cost to the LEP. The potential for some 'payback' via an overage should be considered if achieved returns exceed those anticipated and we would recommend seeking clawback if the scheme is not delivered within an agreed timescale. Further due diligence on the financial stability of VBP Ltd (and/or the Pickering Family) to meet financial liabilities is recommended in advance of any contractual agreement.
- 3.9 A Business Rate Retention Estimate of £380,000 per annum has been supplied which equates to a Business Rate repayment estimate of 10 years (based on full occupancy) or £6.87 million over the remaining 18 years of the EZ.

Anticipated costs and values are identified and evidenced (Q4.1)	<b>SATISFACTORY</b>
Breakdown of funding sources by funder/year (Q4.2)	<b>SATISFACTORY</b>
Evidence of cost/value assumptions and any matched funding (Q4.3)	<b>UNSATISFACTORY</b>
Estimation of the annual Business Rate Revenue (Q4.4)	<b>SATISFACTORY</b>
Funding demonstrated to be at minimum cost to the Enterprise Zone (Q4.5)	<b>SATISFACTORY</b>
Alternative funding sources have been considered and discounted (Q4.6)	<b>SATISFACTORY</b>
Sufficient capability to meet financial liabilities of EZ support (Q4.7)	<b>UNSATISFACTORY</b>

## Management Case

- 3.10 Whilst VBP Ltd is a newly established business for the purpose of delivering the VBP project, the team that sits behind the organisation is an established and experienced commercial property developer that has successfully delivered similar schemes elsewhere in Ellesmere Port. A number of other competent external professionals make up the wider delivery team. The building contractor is yet to be confirmed, but an appropriate procurement process is in place. A sensible risk register is set out but lacks mitigation. A detailed project programme has been provided.

Current status of the project (Q5.1)	<b>SATISFACTORY</b>
Identification of deliverable project programme and key milestones (Q5.2/5.3)	<b>SATISFACTORY</b>
Proposal to deliver the project (Q5.4)	<b>SATISFACTORY</b>
Community support/consultation for the scheme (Q5.5)	<b>SATISFACTORY</b>
Consideration of the principal risks and approach to mitigation (Q5.6)	<b>SATISFACTORY</b>
Confirmation that the project is deliverable with regard to identified constraints (Q5.7)	<b>SATISFACTORY</b>

## Recommendation

- 3.11 The Vortex Business Park project can make a good case to supporting the aspirations of the LEP and EZ strategic objectives in terms of delivering new employment floorspace, attracting businesses and creating new jobs in target sectors. The project can also demonstrate wider economic benefits and good value for money on a cost per job basis relative to national benchmarks. However, at a Business Rate repayment of 10 years the project is on the brink of good value compared to other EZ grant application projects.
- 3.12 If the LEP is minded to approve the application, some further due diligence is recommended, particularly in respect of the financial capabilities of Vortex Business Park Ltd and/or the Pickering Family that underpin it; contractor appointment, State Aid compliance and receipt of site ownership and planning permission. The negotiation of an overage agreement will also help to ensure the LEP benefits from any cost savings and/or increases in revenue as the project progresses to completion and letting.