Appendix A - Further essential background

South Bristol Light Industrial Workspace

Summary:

This appendix provides supporting background on the submission of a Change Request to the West of England Combined Authority for an increase in grant funding of £1,874,982 for the South Bristol Light Industrial Workspace Project.

Evidence Base:

1. In July 2021 Cabinet approved a £4.797m capital budget for delivery of the South Bristol Light Industrial Workspace Project to develop 14 light industrial business units at the Council owned site: 601 Whitchurch Lane, Bristol.
2. The following funding has been secured for delivery of the project:
   a. European Regional Development Fund (ERDF) - £1.4m approved by MHCLG in March 2021
   b. West of England Combined Authority (WECA) Investment Fund – £3.297m approved by WECA Joint Committee in July 2021
   c. Bristol City Council - South Bristol Sustainable Urban Development Reserves - £100,000
3. Following reporting to Cabinet in June 2021 the construction sector has seen significant cost rises, which RICS have attributed to increased global demand of materials; the multiple and complex impacts of the pandemic, with associated logistic issues; and UK specific impacts on trade and labour availability resulting from Brexit. This has a risk score of 20 on the service risk register for the likely impact on the Council's capital programme.
4. The Council received five construction tenders for the project in January 2021. Tenders were scored against the published cost and quality criteria, including a Social Value assessment with 20% weighting. The most economically advantageous tender was in the mid-range of tenders received and is approximately £2m over the available budget, including an allowance of 12% construction contingency and other project development costs.
5. Tender submissions included the identification of potential cost savings. Those put forward by the winning tenderer had a saving value of circa £250,000. Not all savings will be suitable, but the project will target agreeing a minimum of £150,000 of savings to reduce the budget shortfall to £1.875m
6. The business case for developing new light industrial workspace within South Bristol remains strong. The June 2021 West of England Employment Land Strategic Needs Assessment (ELSNA) identified a shortage of supply in all segments of the industrial property market in Bristol, identifying that 'the size and location of available sites is a major issue, particularly regarding medium and smaller sites in accessible areas, with limited availability of modern premises to meet current demand'. Availability of existing workspace and associated jobs are concentrated in areas remote from relatively deprived areas, such as South Bristol. A strong ongoing demand for light industrial workspace within South Bristol has been confirmed through engagement

with the Bristol Property Agents Association and through receipt of twelve expressions of interest for the units by the Council's Property Services ahead of the commencement of marketing.

7. The funding shortfall for the project requires a Change Request to be submitted to WECA, which has explored options available for the project and recommended approval of a £1.875m increase in funding.
8. A copy of the change request is included overleaf, which includes analysis of identified alternative options, including do nothing options and details of the consequences if additional funding is not secured.

WECA Change Request Form April 2022 Committee

SCHEME / PROJECT NAME : South Bristol Light Industrial Workspace Project

CHANGE CATEGORY:
• ***Cost:*** *change request relating to eligible cost headings, total cost.*
DESCRIPTION AND CAUSE OF CHANGE:
Please provide a detailed description of the change(s). Received building contract tenders were between £1.2m and £3m higher than the present project budget (allowing for maintaining levels of contingency). The highest scoring tender was in the mid-range of costs received and requires an uplift of £1.9m, including allowance for 12% contingency and agreement of a targeted circa £150,000 of savings with the appointed contractor. The project will need to identify a route to address the shortfall in budget prior to being able to proceed to contract award.
Please explain the reasons necessitating the change(s) eg if there is delay to the achievement of a milestone why has this occurred. There has been a sustained period of volatility in market conditions, including material and equipment shortages and significant price inflation. Previous highlight reports forecast that these market conditions could lead to cost increases above those previously reported by the project, which have been realised in the tender returns. The previous budget was set on the RIBA Stage 3 cost plan, produced in October 2020 prior to the fluctuations in market prices which were experienced in the second half of 2021.
CONSEQUENCE OF THE CHANGE (including overall cost, spend profile, milestones, scope, benefits):
Five construction tenders were received in January 2021. Tenders were scored against the published cost and quality criteria, including a Social Value assessment with 20% weighting. The most economically advantageous tender was £5,621,023, which was in the mid-range of tenders received and is approximately £2m over the available budget, including an allowance of 12% construction contingency and other project development costs. Tender submissions included the identification of potential cost savings. Those put forward by the winning tenderer had a saving value of circa £250,000. Not all savings will be suitable, but the project will target agreeing a minimum of £150,000 of savings to reduce the budget shortfall to circa. £1.9m. There may be potential to identify other savings with the Contractor in pre-contract discussions, which if agreed will be reported back to WECA.

The below table identifies the change associated with a £5,462,023 contract value (taking account of £150k target saving). The costs in the table allow for adjustment to delivery costs, taking account of projected spend to include additional design fees, surveys and and allowance for a 12% construction phase contingency allowance. The originally approved demolition costs have been separated from construction costs to reflect that those works have already been undertaken as a separate contract.

Total Costs

Cost Heading	***Approved projected eligible expenditure***	***New projected eligible expenditure***	***Change***
Fees	£419,666	460,000	£40,334
Demolition Works	120,000	£94,182	-£25,818
Construction	3,688,000	5,462,023	£1,774,023
Contingency	£569,000	**£655,443**	£86,443
Contingency %	14.90%	12%	-2.90%
Total	**£4,796,666**	**£6,671,648**	**£1,874,982**

WECA Funded Costs

Cost Heading	***Approved amount to be claimed***	***New Amount to be claimed***	***Change since FBC***
Fees	£288,429	£356,577.00	£68,148
Demolition	£82,473	£73,007.00	-£9,466
Construction	£2,534,699	£4,233,986.00	£1,699,287
Contingency	£391,065	£508,078.00	£117,013
Contingency %	14.90%	12%	-2.90%
Total	**£3,296,666**	**£5,171,648.00**	**£1,874,982**

Updated Capital Spend Profile (£000s)

The below spend profile takes account of the above capital expenditure

Scheme cost	**20/21**	**21/22**	**22/23**	**23/24**	**Total**
Delivery Costs (£)					
Investment Fund	£97,587	£147,937	£4,434,083	£492,041	**£5,171,648**
Public Match Capital	£44,403	£67,312	£1,242,925	£145,360	**£1,500,000**
Total	**£141,990**	**£215,249**	**£5,677,008**	**£637,401**	**£6,671,648**

The following table identifies the changes to the value for money statement based on cost uplift reported above. The net quantified benefits for Jobs remained unchanged. The net GVA is uplifted due to use of updated ONS productivity data for Bristol for calculation of GVA per job created. Also the Jobs and GVA calculations over a 10 year period are included to show impact over a longer term, and to give comparability to the Hawkfield Business Park project benefits.

Item	Previously Approved	For Change Request	Change
Total project cost	£4,796,666	£6,671,648	£1,874,982
Grant sought (IF)	£3,296,666	£5,171,648	£1,874,982
Net Quantified Benefits	Jobs (5 yrs): 92 FTE Jobs (10 yrs): n/a GVA (5 yrs): £16.329 m GVA (10 yrs): n/a	Jobs (5 yrs): 92 FTE Jobs: (10 yrs): 102 FTE GVA (5 yrs): £18.438m GVA (10 yrs): £46,322	- - £2.154m -
VfM indicator	Cost per job (5 yrs): £53,018 Cost per job (10 yrs): n/a GVA per £ spent (5 yrs): £3.35 GVA per £ spent (10 yrs): n/a	Cost per job (5 yrs) : £72,518 Cost per job (10 yrs): £65,408 GVA (5 yrs) per £ spent: £2.76 GVA (10yrs) per £ spent: £6.94	£19,500 (£0.59)

Operation and Financial Viability

The business case for developing new light industrial workspace within South Bristol remains strong. The June 2021 West of England Employment Land Strategic Needs Assessment (ELSNA) identified a shortage of supply in all segments of the industrial property market in Bristol, identifying that 'the size and location of available sites is a major issue, particularly regarding medium and smaller sites in accessible areas, with limited availability of modern premises to meet current demand'. Availability of existing workspace and associated jobs are concentrated in areas remote from relatively deprived areas, such as South Bristol. A strong ongoing demand for light industrial workspace within South Bristol has been confirmed through engagement with the Bristol Property Agents Association and through receipt of twelve expressions of interest for the units by the Council's Property Services ahead of the commencement of marketing.

The Council identified in the FBC that 100% of net operational surplus over the first 15 years of operations of the business units would be utilised as a partial grant repayment to WECA. In support of this change request the Council commissioned updated commercial marketing advice to inform an updated operational cashflow model.

The model projects updated project lifetime income from rental and service charges, which are set for 5 year leasing periods and then inflation-indexed for successive 5 year terms (a 10% increase in rents has been allowed for at each 5 year review). The model allowed for 50% development of mezzanines, with associated floorspace being charged rent following the first rental review period in year 6. Three income options were modelled based on low, medium and high rental figures (based on the range identified in the commercial advice). All forecasts allow for a 10% void rate. The forecast management cost estimates were updated on the tendered letting agent rates for management of the units.

The originally approved Full Business Case was based on a projected a circa. £1.6m surplus over the 15 year term that would be paid to WECA as a partial grant repayment. The updated estimated surplus, based on changes in assumptions identified within the revised forecast is £3,294,512, which represents an increase of £1,687,991 in expected repayments.

- The £1,687,991 estimated uplift in repayments is equivalent to 90% of the £1,874,982 increase in funding sought.

- The £3,294,512 total estimated repayment figure, is equivalent to circa. 64% repayment of the total £5,171,648 funding sought.

Under the funding agreement repayments are based on the net surplus generated by the development. The income has been projected on an expected £12 per sq ft market rent for the light industrial units. This value is at the upper range of commercial advice received and therefore the change associated with securing lower rents of £10 and £11 per sq ft are detailed in the below table for comparison.

Forecast rental - £ per sq ft	*Forecast surplus*	*Increase to FBC forecast surplus*
£10	*£ £2,739,132*	*£ 1,161,258*
£11	*£ £3,045,984*	*£ 1,439,463*
£12	*£ 3,294,512*	*£ 1,687,991*

The net surplus could further be impacted (positively or negatively) by a higher or lower void rate to the 10% assumed, any bad debt and any changes in expenditure not related to the service charge, for instance business rates liabilities. During the 15-year repayment term the operational cashflow model will be updated annually based on direct information from tenancy contracts and expenditure forecasts to provide more accurate annual repayment forecasts.

ALTERNATIVE OPTIONS:

Please provide up to three alternatives that could be implemented instead of the proposed change. For each alternative, identify areas likely to be impacted by the change, and the potential benefits and adverse effects for each. State the reason(s) for rejection of each alternative option.

Option 1 - Increase WECA funding contribution by £1,874,982.

This is the main option outlined above in the main body of the change request above.

The benefit of this option is:

- there would be no changes to the scale, scope, outputs and benefits of the scheme.
- the existing partial grant repayment profile would be maintained.

Under this option no additional match funding is secured due to:

- ERDF grant funding is at the end of the programme and fully committed.
- Bristol City Council's Capital Programme does not have headroom to provide match funding due to existing commitments and limits set for prudential borrowing.

The *adverse effects for this option are the need for increased WECA funding contribution, which would reduce funding available for other initiatives.*

Option 2 – Reduction of scale of development to reduce cost increase to circa. £1.1m

For cost, the alternative option considered was reduction of scale, scope, and outputs and benefits of the scheme to allow the development to be delivered with a reduced increase to budget. .

- ***Change to Scale and Scope***

The Change would be through a circa 18.5% reduction in floor area delivered through omission of 'Block C', which has three Business Units. In this instance Block C would be replaced with an external storage compound, which would be available for remaining units to lease.

- ***Change to Cost***

It is estimated that a circa. 13% saving could be achieved, which would have a value of circa. £795,000. The 12% contingency is maintained for this option. This is forecast to reduce the cost increase to take the project forward to £1,079,711.

Change to Repayments

In the FBC the Council offered to make grant repayments to WECA, to be based on the surplus generated by the project over a 15 year-term. The reduction in the number of units and floor area would lead to a reduction in rental income:

- *The forecast repayments for Option 1 totalled* £3,294,512 *over the 15 year repayment term.*

- *The forecast repayments based on the reduced scheme, would be £2,590,114 over the 15 year repayment term.*
- *Overall selection of Option 2 would be forecast to reduce repayments to WECA by circa. £704,398 over the 15 year term.*
- *The capital saving of £795,000 minus the reduced repayments of £704,398, would only achieve a net saving of £90,602.*

- ***Change to outputs and benefits***

A comparison of the difference in key measures of the economic impact between the FBC and Option2 are detailed below. In addition a projection of the total jobs creation and Gross Value Added over a 10 year period (comparable to the adjacent Hawkfield Business Park project) has been added:

Measure	**FBC**	**Option 2**	**Difference**
new commercial floor space (use class B1C) including space available for mezzanines	$2610m^2$	2,125 m^2	485 m^2
Workspace Units / Occupiers	14	11	-3
Net additional full-time equivalent jobs (5 yrs)	92	75	-17
Net additional FTE jobs (10 yrs)	102	83	-19
Cumulative net GVA (5 years)	£16.329 m	£13.154 m	-£3.175 m
Cumulative net GVA (10 years)	£46,322 m	£37,289 m	-£9.033 m

The benefit of this option 2 is restricting the value of additional funding required. There is a small benefit of having external storage space available for businesses to let.

The *adverse effects for this option are:*

- *A significant funding increase in funding is still required with this option.*
- *Assessment will be required of whether the option could be agreed without retendering the project, which would delay the delivery programme and create a potential risk of loss of ERDF grant funding due to the need to deliver ahead of the June 2023 funding completion date.*
- *The cost saving per* m2 *does not provide best value due to the saving not reducing wider site infrastructure and fee costs.*
- *The reduction in the scale of the scheme would result in a forecast reduction of total grant repayments of £704,398, to achieve a reduction in capital expenditure of £795,000, a difference of £90,602.*
- *The reduction will negatively impact on the economic benefits deliverable (as outlined above) and amount of workspace available – the Council has already received a good level of enquiries over the units.*

Option 3 – Stop the Project

The benefit of the option would be that no additional funding would be required, and the existing allocation could be reallocated to other projects.

In this instance the Council would consider alternative uses for the site. An alternative private sector led model could be further investigated for development. Based on present trends in Bristol it would be expected interest would be largely limited to development of medium to larger scale B8 warehousing and distribution uses, which reflects increased demand for these uses through growth in online sales. Development of larger units have lower build costs and potential for higher rental returns, however these uses have lower employment density and would not meet the project objective of developing new small industrial units that meet the needs of start-up and early stage / growing local businesses in a variety of sectors. The market failure to deliver light industrial units in the area, is reflected by the last development being the Filwood Green Business Park which opened in 2015 and was wholly public sector financed (ERDF and West of England RIF - Revolving Infrastructure Fund).

The *adverse effects for this option are:*

- *A significant amount of resource (time and money) has been invested in the project; committed expenditure to date is circa. £350,000, a significant proportion of which would be abortive costs. Loss of ERDF match funding, which would be unlikely to be reallocated within the WECA area.*
- *The project is now at a delivery ready stage, meaning the economic benefits could be delivered within 12 months if additional funding is secured to take the project forward. This is in comparison to a larger number of projects, which are still in the pipeline stages of development.*
- *Stopping the project would negatively impact on the economic benefits and workspace delivered – the Council has already received a number of enquiries over the units.*
- *Any alternative approach to development would be unlikely to meet the needs of* start-up and early stage / growing local businesses in a variety of sectors.
- *Demolition works have been completed within the site, there is presently no alternative development use identified, however it is likely that the adjacent Bottle Yard Studios could utilise the area for meanwhile uses such as car parking.*

PROPOSED OPTION:

Describe the proposed option and justify why this proposed change(s) should be implemented.

It is proposed that Option 1 is approved, which is an increase in the WECA funding contribution to the scheme of £1,874,982. This option is recommended as it allows the project to be able to maintain delivery of the original objectives identified in the FBC. Approximately 90% of the additional funding sought is expected to be repaid via forecast operational surpluses generated over the 15 year operational term.

Explain the impact if the proposed change is not implemented.

If Option 1 was not approved then Option 2 or Option 3 would need to be taken forward, which would result in the adverse effects identified.

Consider any risks arising from the proposed change(s) and how will these be mitigated going forwards.

The principle ongoing risk is any further cost increases during the construction phase. The project has for this purpose allowed a 12% contingency. As the works have now been tendered, a greater proportion of risks will rest with the contractor moving into the construction Phase, including any ongoing price inflation risk, which has been allowed for in tender prices.

There would be a risk of loss of the ERDF funding if the programme was impacted by an elongated decision-making process, for this purpose the project proposes to go to BCC Cabinet and WECA Committee for approvals in April 2022.

FUTURE MITIGATION AND LEARNING POINTS:

Describe future preventative actions and learning points that will be implemented to reduce the likelihood and/or impact of the proposed or other related change(s).

The project will engage with the most economically advantageous tenderer to firm up the feasibility of adopting the proposed cost savings identified in the tender to secure greater cost certainty on achieving these ahead of entering contract. The engagement should also aid a faster mobilisation period following any approval by the WECA Committee of this change request to minimise the time impact of this change request.

Adverse market conditions from COVID and BREXIT resulted in hyper-inflation of construction costs way beyond the 2% inflation allowance made within the RIBA Stage 3 cost plan produced in October 2020. The construction cost increase has been circa 48% from the RIBA Stage 3 cost plan produced in October 2020, so has been beyond even upper thresholds of contingency that could have been allowed for. The RIBA Stage 4 cost plan had forecast increased costs associated with the volatile market conditions and in response to these it was considered that it would be most appropriate to secure fixed tender prices to provide cost certainty for any further change request.