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| REPORT OF: | HOUSING, HEALTH AND ENGINEERING SERVICES MANAGER |
| TO: | NELSON TOWN DEAL BOARD |
| DATE: | 13th MAY 2022 |

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**ADVANCED DIGITAL SKILLS ACADEMY:
BUSINESS CASE ASSURANCE & FUNDING RECOMMENDATIONS**

PURPOSE OF REPORT

To present the Board with the independent business case appraisal report and funding recommendations for the Advanced Digital Skills Academy project.

RECOMMENDATIONS

That the Board:

1. Note the findings of the business case appraisal reports for the Advanced Digital Skills Academy project.
2. Recommend that Pendle Borough Council's Policy and Resources Committee:
 - a. Approve £2,290,000 of Towns Funding to the project, subject to the following conditions being met:
 - The implications of cost inflation and cost overruns should be carefully monitored over the coming months so that suitable mitigations can be identified at the earliest opportunity;
 - A clear process should be agreed for determining suitable mitigations, where they have the potential to impact on the scale or range of uses that can be delivered;
 - Clear milestones for the securing of relevant planning permissions for College Hub Phase 2 and Town Centre Spoke works should be set out in order for any delivery risks to be Identified at the earliest opportunity;
 - Relevant permissions and lease arrangements are in place prior to funding for the Hub Phase 2 and Town Centre Spoke works being released,
 - The receipt of independent subsidy control advice.
 - b. Delegate authority to the project appraisal sub-group of the Board to ensure these conditions are met.
 - c. Authorise the submission of the Project Summary Document to Government.
3. Delegate authority to the Chair to agree and sign the Project Summary Document prior to submission to Government.

REASONS FOR RECOMMENDATIONS

1. To inform the Board of the outcome of the Advanced Digital Skills Academy project business case appraisal.
2. To seek approval for project delivery funding from the Accountable Body and the Government and to agree the conditions which should be attached to this.
3. To enable the Chair to agree and sign the Project Summary Document on behalf of the Board.

ISSUE

Background

1. The Nelson Town Investment Plan (TIP) sought £29.9m funding to support the delivery of 8 strategic projects aimed at promoting transformational and sustainable growth within the town. In August 2021, a Heads of Terms offer was agreed for up to £25m of Towns Funding through a Town Deal. The Town Deal Board and the Accountable Body subsequently reviewed and confirmed the details of the projects to be delivered, and a Town Deal grant offer letter was received from Government in response to this in December 2021.
2. In order to 'unlock' delivery funding, all 8 strategic projects are required to produce an HM Treasury Green Book compliant business case assured in line with the Nelson Local Assurance Framework. A Project Summary Document must then be submitted to Government within 12 months of agreeing our Heads of Terms, i.e. by 5th Aug 2022.
3. In accordance with Nelson Local Assurance Framework, the Advanced Digital Skills Academy Business Case has been independently appraised by consultant's ekosgen and has also been considered by the Project Appraisal sub-group. The views and comments from the sub-group were provided to ekosgen to form part of their appraisal considerations. The final appraisal report is attached at Appendix 1 and will be presented to the Board by ekosgen at the meeting. A summary of the key points and proposed conditions are provided below.

Project Funding Recommendations and Decision Making Processes

4. The purpose of this report is to ask the Board to make funding recommendations to Pendle Borough Council as the ultimate decision making and Accountable Body for the Town Deal. Subject to their agreement, a Project Summary Document, signed by the Chair of the Board and the Council's Chief Executive or S151 officer will be submitted to Government.
5. If the Government are happy with the details of the Project Summary Document, Year 1 delivery funding will be released. Following that, payments in future years will only be made subject to satisfactory spend and progress against agreed project milestones, outputs and outcomes.

Project Assurance Overview

Project: Advanced Digital Skills Academy

Applicant: Nelson and Colne College

Towns Funding sought: £2,290,000

6. A presentation regarding the Advanced Digital Skills Academy project was given by the project lead to the Board at their meeting on 4th February.
7. The Advanced Digital Skills Academy project responds to an existing shortfall in digital skills in Lancashire and a growing demand from employers for digitally-skilled employees. It aims to integrate world-class teaching, innovation and business within a College campus setting and create a new town centre learning environment for digital skills. This will be achieved through investment in the creation of a College 'hub' and a town centre 'spoke'

8. The College Hub element involves the refurbishment of parts of the existing college estate that are currently underutilised to create over 100 new teaching spaces with access to state-of-the-art equipment. This will help to alleviate capacity constraints the College estate currently faces, facilitate the provision of new digital T-Level courses at the College and also enable better access to facilities for all learners wanting to improve their digital skills but who are not enrolled on courses with an explicit 'digital' focus. This element is comprised of two capital phases. The Phase 1 capital works at the College are committed irrespective of Town Deal funding.
9. The Town Centre Spoke element has a focus on digital skills learning pathways for adult learners. This will offer upskilling and retraining opportunities at a range of levels including foundational skills to improve employability through to more specific, higher level (Level 2/3) courses to meet the specific digital skills demands of employers. This element will provide a business hub to encourage interactions between learners and employers as well as business workspace for start-ups.
10. With the existing College campus located outside of the Town Centre, a key objective of the two project elements operating in tandem is to drive greater activity from the College to the centre of Nelson. The purpose of this is to establish a more physical link between local employers and young and adult learners as well as supporting a more vibrant Town Centre.

Strategic Case

11. The appraisal report highlights that the Advanced Digital Skills Academy aligns with the ambitions of the Town Investment Plan to improve access to skills and quality jobs, enhance digital connections and support young people. This reflects priorities set out in a range of national, sub-regional and local policy documents, including Levelling Up the United Kingdom (2022), UK Digital Strategy (2017), Pendle Economic Growth and Resilience Strategy, etc.
12. The business case demonstrates how the project both addresses key challenges and responds to core opportunities set out in the Nelson Town Investment Plan. The challenges of lower skill levels and poor earnings, limited local opportunities and poor perceptions of the town, and a lack of connectivity between the town centre and employment locations are evidenced using locally specific data and intelligence
13. The project will support the following Town Investment Plan strategic objectives:
 - **IO1:** To reinforce links between the College and the Town Centre through a physical presence to drive footfall and enhance place vitality;
 - **IO2:** To address the digital skills gap by providing access to high quality facilities and teaching environments;
 - **IO3:** To ensure that Nelson's residents have the skills they need to access higher value employment and participate in the modern economy; and
 - **IO4:** To create an innovative environment to support skills development, research and development and enterprise.
14. The strategic case outlines the limited existing digital connections and capacity to increase skill levels, and the provision of the Digital Skills Hub represents new, positive activity. Evidence from the business case demonstrates this local skills deficit and demonstrates a need to increase the provision of and capacity for digital skills.
15. It is the appraiser's view that the approach to the project is well evidenced and based on a clear rationale.

Economic Case

16. The economic case assessment complies with the place-based approach to impact assessment outlined in the HM Treasury Green Book (2020) and Towns Fund guidance.
17. The project is expected to deliver the following direct Town Deal outputs, in line with those agree in the Heads of Terms offer :

| MHCLG Reported Outputs | | | | | | |
|--|-------|-------------|-------------|-------------|-------------|-------------|
| Output Indicator | Total | 2021/2 2 | 2022/2 3 | 2023/2 4 | 2024/2 5 | 2025/2 6 |
| Amount of capacity of new or improved training or education facilities | 108 | | 108 | | | |
| Amount of floor space repurposed | 1,100 | | 1,100 | | | |
| # of learners / trainees / students enrolled at improved education and training facilities | 1,251 | | | 368 | 413 | 470 |
| # of learners enrolled in new education and training courses | 1,251 | | | 368 | 413 | 470 |
| # of learners/students/trainees gaining certificates, graduating or completing courses at new or improved training or education facilities, or attending new courses | 1,071 | | | 309 | 366 | 396 |

18. These outputs are expressed according to the Monitoring and Evaluation guidance issued by MHCLG as part of the Towns Fund. However, the prescribed outcome indicators do not take into account the main impacts and wider benefits articulated in the economic case, including:
- 200 new high-specification PCs with industry standard software that will be deployed within the Academy to support learners
 - Increased productivity among learners undertaking new digital courses
 - Increased footfall and associated increase in property values in Nelson
19. The business case also includes a narrow range of wider, non-monetised benefits which help to reinforce the case for investment. These include:
- The potential for the adult learning offer to bring economically inactive residents back into the labour force by meeting a recognised demand from employers for IT skills; and
 - The potential to stimulate innovation activities through knowledge transfer generating productivity improvements at a firm level as well as at the level of individual employees. This is facilitated by the use of the College's employer hub where employers can use the state-of-the-art equipment for training and use the space for collaboration.
20. The benefits identified as part of the project's Benefit to Cost Ratio (BCR) assessment include those relating to skills acquisition and wider land value uplift. The methodology and assumption used in the economic appraisal were deemed satisfactory by the appraiser. **The project achieves a Benefit Cost Ratio (BCR) of 2.9 which represents good value for money.**
21. High level sensitivity analysis on the BCR was undertaken by the applicant to test the impact of 3 scenario's:
- Removing the impact of wider land value uplift thereby focusing the value for money assessment solely on the benefits related to skills acquisition;
 - Halving the values for marginal productivity gain across each of the five learner categories used in the model; and

- Reducing the persistence of skills productivity uplift (across each learner category) to 3 years (compared to 5 years).
22. The analysis indicated that all scenarios can offer an appropriate return on investment (with BCR's ranging from 1.89 to 2.25) and that, overall, the project can withstand major reductions to core input assumptions whilst still offering value for money.

Financial Case

23. The total project costs are £3.252m, of which £2.29m is sought from the Towns Fund. The costs comprise £3.028 million capital (93%) and £0.224 million revenue (7%) split across the College Hub and Town Centre Spoke elements.
24. The College Hub element is currently at a more advanced stage and represents a total cost of £2.880 million (89% of the total project costs). Greater cost certainty can be attributed to this element of the project, with cost plans having been provided by the applicant relating to constituent phases of the College Hub. Tender prices for the first phase of works at the College Hub have also been received. Whilst these are over budget, the project team has confirmed that value engineering is possible without altering any of the project's intended outputs.
25. Nelson and Colne College Group's commitment to draw down additional funds from its Strategic Investment Fund in the event of cost overruns helps to mitigate inflationary risk attached to the second phase of the College Hub element and for the Town Centre Spoke element. Notwithstanding, the appraiser believes that inflationary pressures and cost overruns to these elements could pose a notable risk to the project and should be closely monitored by the Town Board. **The following funding conditions are therefore recommended:**
- **The implications of cost inflation and cost overruns should be carefully monitored over the coming months, so that suitable mitigations can be identified at the earliest opportunity.**
 - **A clear process should be agreed for determining suitable mitigations, where they have the potential to impact on the scale or range of uses that can be delivered.**

26. A profile of Towns Fund expenditure for the project is shown below:

| | 21/22 | 22/23 | 23/24 | 24/25 | 25/26 | |
|--------------|--------|-------------------|-----------------|----------------|--------|-------------------|
| | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Total |
| Revenue | - | £42,000 | £59,000 | £54,000 | - | £155,000 |
| Capital | - | £1,387,500 | £712,300 | £35,200 | - | £2,135,000 |
| Total | - | £1,429,500 | £771,300 | £89,200 | - | £2,290,000 |

27. Match funding will be provided by Nelson and Colne College Group (0.482m) and the Dept for Education (0.48m) and these sources of funding are secured. In the event that Town Fund monies are not secured then NCCG has made a commitment to cashflow the early construction works at the College Hub Phase 1, drawing down a greater amount from (c.£0.725 million) from its Strategic Investment Fund to be combined with existing committed DfE match funding.
28. The key source of uncertainty is the cost of the Town Centre Spoke element which is at a far earlier stage of development. The applicant has sought to mitigate this uncertainty by committing to drawing down the Town Deal funding allocation for this element in accordance with clear delivery milestones.

Commercial Case

29. Clear procurement arrangements are set out for the College Hub element with main contractor tender prices having already been secured for the first phase of works. A timeline for the procurement of the second phase of works is in place. The town centre 'spoke' element of the scheme is currently subject to lease agreement with the Council and as such remain a key project dependency. Cost consultancy and procurement for the Town Centre Spoke element will be developed from Q4 2022 once agreement over the terms of the lease have been agreed and funding has been approved.
30. Planning permission for the first phase of College Hub works has been secured. For the second phase of works planning permission remains to be secured but is considered to represent low planning risk. **It is recommended that clear milestones for the securing of relevant planning permissions for College Hub Phase 2 and Town Centre Spoke works should be set out in order for any delivery risks to be identified at the earliest opportunity.**
31. In terms of market demand for the project, the scheme responds to demand from local employers requiring a more digitally skilled workforce. The expected growth in demand across 16-19 and adult learner cohorts as a result of project outputs is clearly demonstrated.
32. Independent subsidy control advice has been sought in relation to the project but has not yet been finalised. **A condition of funding should be the receipt of this independent subsidy control advice.**

Management Case

33. The Nelson & Colne College Group will be the lead delivery partner on this project. Clear project management arrangements – including named organisation's and team members have been identified to deliver the project.
34. A detailed delivery plan was appended to the business case and a summary of the project milestones is provided below:

| Milestone | Timeline |
|--|---------------------|
| College Hub | |
| College Hub Phase 1 – initial design development complete (RIBA Stage 2) | Complete |
| College Hub Phase 1 - initial / enabling works | Jun – Sept 2021 |
| College Hub Phase 1 – design development complete (RIBA Stage 4) | Dec 2021 |
| College Hub Phase 1 – main contractor appointed | Mar 2022 |
| College Hub Phase 2 - initial design development complete (RIBA Stage 2) | Mar 2022 |
| College Hub Phase 1 - capital works | May – Aug 2022 |
| College Hub Phase 1 – fully operational | Sep 2022 |
| College Hub Phase 2 – design development complete (RIBA Stage 4) | Oct 2022 |
| College Hub Phase 2 – main contractor appointed | Mar 2023 |
| College Hub Phase 2 – capital works | May – Aug 2023 |
| College Hub Phase 2 – fully operational | Sep 2023 |
| Town Centre Spoke | |
| Venue confirmed in principle | July 2022 |
| Lease / commercial arrangements finalised | Oct 2022 |
| Take occupancy of venue | Nov 2022 |
| Configuration and fit out works | Nov 2022 – Feb 2023 |
| Spoke Facility fully operational | Mar 2023 |

35. An appropriate risk assessment has been prepared to allow key project risks to remain under review.

36. Scheme dependencies are identified, including the securing of planning permission and building regulations approval for the second phase of College Hub works and the securing of a lease agreement at the ACE building to ensure the progress of the Town Centre Spoke element. **It is recommended that funding approval for these project phases is conditioned/dependent upon the relevant permissions and lease arrangement in place.**
37. Monitoring and evaluation proposals are in place.

Funding Recommendations

38. Ekosgen have completed the independent Assurance Report of the project business case, taking into account the comments from the Project Appraisal sub-group. Their report recommends approval of the £2.290m Towns Funding to the project subject to a number of conditions being met.
39. Overall, this is a deliverable project, which should achieve good value for money, with a strong strategic fit. In light of the positive independent assurance of business case, the Board are asked to agree the recommendations as set out in this report.
40. Subject to the agreement of the Council's Policy and Resources Committee on 26th May, a Project Summary Document will be submitted to Government signed by the Chair of the Town Deal Board and the Council's Chief Executive or S151 Officer.

IMPLICATIONS

Policy: The project will support the delivery of the Nelson Town Investment Plan.

Financial: The Board are asked to recommend funding approval to Pendle Borough Council. Subject to their agreement, the Project Summary Document will be submitted to Government. Only once this is approved will project delivery funding be released.

Legal: None directly arising from this report.

Risk Management: None directly arising from this report.

Health and Safety: None directly arising from this report.

Sustainability: None directly arising from this report.

Community Safety: None directly arising from this report.

Equality and Diversity: None directly arising from this report.

Appendix 1: Pendle YES Hub Project Appraisal Report by ekosgen