

# FAREHAM

## BOROUGH COUNCIL

### Report to the Executive for Decision 11 April 2016

<b>Portfolio:</b>	Policy and Resources
<b>Subject:</b>	<b>Daedalus Programme Update</b>
<b>Report of:</b>	Director of Finance and Resources
<b>Strategy/Policy:</b>	Corporate Strategy
<b>Corporate Objective:</b>	To maintain and extend prosperity A Dynamic, Prudent and Progressive Council

#### **Purpose:**

The purpose of this report is to review progress on the Council's £8.3m investment project at Daedalus, to update the Executive on proposals to be implemented in order to achieve the Council's published Vision in the future and to make recommendations for investment to deliver elements of this.

#### **Executive summary:**

Prior to its acquisition of the site, the Executive agreed to undertake three projects on the Daedalus site. These were the construction of the Innovation Centre, improvements to the runway and the construction of new hangar space. Two of these projects, the Innovation Centre and the runway improvements have now been completed and have been operational for a year. This report reviews their achievements against the original objectives and the lessons learned.

The Innovation Centre has been a great success and at the end of March was fully occupied, greatly in excess of its original target. The runway improvements have also been successful and have enabled the airfield operator to gain a CAA license.

Subsequent to the Borough Council's acquisition of the airfield, the Executive agreed a Vision for Daedalus. This report also summarises progress on the various projects needed to realise the Vision. In particular it seeks approval to include within the capital programme the cost of developing new hangars and the appointment of a Members Working Group to oversee the delivery of the projects.

**Recommendation/Recommended Option:**

That the Executive:

- (a) notes the progress on Daedalus to date and the progress towards implementing the Vision in future years;
- (b) agrees to the inclusion of the following schemes in the 2016/17 capital programme;
  - Development of a new hangar and associated office space for an existing airfield tenant at an indicative cost of £4.3m
  - Development of six new hangars suitable for relocation of existing businesses and attracting new business at an indicative cost of £3m.
  - Development of five new hangars and associated communal facilities suitable for relocation of existing general aviation tenants and attracting new locally based aircraft an indicative cost of £1.5m;
- (c) agrees to delegate authority to the Director of Finance and Resources to award the tenders to build the new hangars, subject to the cost being within the allocated budget; and
- (d) appoints Members to a new Daedalus Asset Development Members Working Group.

**Reason:**

To enable the delivery of the Vision for Daedalus to continue.

**Cost of proposals:**

The estimated cost of the development of new hangars in 2016/17 is £8.8m. The cost of other capital projects associated with the delivery of the Vision for Daedalus will be the subject of individual business cases which will be brought to the Executive at the appropriate time. Some capital costs, including the delivery of infrastructure on Daedalus West, are already partly or fully funded, but the full costs will be reported to the Executive as plans become firmly established.

**Background papers:**

File of working papers

**Reference papers:**

Fareham Borough Council's Vision for Daedalus

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### Executive Briefing Paper

<b>Date:</b>	11 April 2016
<b>Subject:</b>	Daedalus Programme Update
<b>Briefing by:</b>	Director of Finance and Resources
<b>Portfolio:</b>	Policy and Resources

#### INTRODUCTION

1. At its meeting on 4<sup>th</sup> November 2013, the Executive agreed to move forward with the development of three investment projects on the Daedalus site and set up a Member Working Group to oversee them. These three projects were:
  - Development of a new Innovation Centre;
  - Improvements to the runway;
  - The development of new hangar space.
2. With the exception of the development of new hangar space, which has been delayed for reasons explained in paragraph 27, these projects have now been completed and have been operational for 12 months. This paper reviews their achievements against objectives and any lessons learnt.
3. Subsequent to the development of these projects, the Borough Council acquired the whole of the airfield site and on 12<sup>th</sup> October 2015 agreed a Vision for the site. This paper, therefore, also updates Members on the progress of the various projects which will be necessary to realise that Vision. It also seeks approval for inclusion of the cost of developing new hangars in the Council's capital programme and the appointment of a new Daedalus Asset Development Members Working Group.

#### INNOVATION CENTRE

4. The Innovation Centre proved to be the most challenging of the three projects, partly due to its complexity and the fact that this was the first project of its kind embarked upon by the Borough Council, but primarily because of the timescale. It was a condition of the Funding Agreement from the HCA that the project was complete by 31<sup>st</sup> March 2015. Effectively this gave the Borough Council 16 months to agree a design and specification for the building, gain planning consent, procure the building works and appoint an experienced operator to run the facility. This challenging timetable was achieved by running concurrently a number of processes which would normally run consecutively and

by a high level of commitment and concerted effort by everyone involved in the project at every stage.

5. **Objectives:** The main objectives of the Innovation Centre were agreed at the outset and can be summarised as follows:
  - To provide new businesses, predominantly, but not exclusively within the advanced manufacturing sector with a range of flexible workshop and office accommodation which enables them to prosper and grow;
  - To provide access to a range of high quality business support services to nurture, mentor and facilitate business development;
  - To bring together a cluster of like minded people and provide opportunities for networking through a variety of social spaces to encourage businesses to interact, share ideas and provide mutual support;
  - To develop a building which creates a “buzz”, is of a high quality design, is welcoming, airy and bright, in which new businesses are proud to work and in which they can impress their clients.
  
6. **Risks:** At the outset, a number of risks were identified. The principal ones were as follows:
  - Development risk – the initial development costs were broad estimates and could escalate due to contamination, site constraints, changes to the specification or building costs;
  - Occupancy risk – there was a reasonable supply of business incubator units in the local area which the Innovation Centre would compete against. Independent evidence was sought to support the assumption that demand exists and that rents could be set at an attractive, competitive level;
  - Tenant default risks – the nature of the Centre was such that leases were to be offered on flexible terms to tenants who have a limited track record and whose customer base is unlikely to be well established , resulting in the potential for a higher risk of default.
  - Timetable risk – there was an absolute requirement for the building to be completed by 31<sup>st</sup> March 2015 in order for the funding to be fully met. There was, therefore a very strong risk that the final tranche of funding would not be forthcoming.
  
7. **Achievements:** In the event, all of the parties involved have worked to ensure that all of the objectives have been met and none of the risks have materialised.
  
8. The building was completed on time, on 16<sup>th</sup> March 2015, at a final cost of £5.471m. This was only very slightly (1.4%) over the original budget of £5.396m. The difference was largely due to two factors. The first was the fact that the final tender sum was slightly above the estimate. The second was due to additional work identified by the operator of the Centre, Oxford Innovation, during the course of the contract. This work was agreed as being essential to the efficient operation of the Centre.
  
9. Since its completion, the Centre has been an unqualified success. The building has certainly reached its objective of being well designed, light and airy and pleasurable to work in. It has drawn very favourable comments from both customers of the Centre and their visitors. The finishing touches which Oxford Innovation have applied in the reception area, the conference rooms and the Business Lounge in what was already a well designed building have also been instrumental in achieving a “state of the art” appearance and turning the Centre into the flagship operation of its 20 Centres.

10. Occupancy levels have massively exceeded expectations. It was initially forecast that it would take some time to build a customer base and that by the end of its first year the Centre would have achieved an average occupancy level over the year of 27%. This would rise to 50% by the end of 2016/17 and that by the end of 2017/18 it would be fully occupied with an average occupancy over the year of 72%.
11. In the event, it reached full occupancy by the end of March 2016, with capacity for growth limited to Business Lounge clients. The majority of the occupants are in the target sectors of marine, aerospace, aviation and advanced engineering.
12. The effect of this has been a huge improvement in the budgetary position. It was initially forecast that the Centre would have a deficit of £168,000 in 2015/16 and would not actually generate a surplus until 2017/18. However, the deficit for 2015/16 is now likely to be reduced to around £25,000 and it is already generating a monthly surplus.
13. In addition, it appears that the Council's investment of £60,000 on solar panels is beginning to pay off. Electricity bills for the Centre are now estimated to be around £24,000 per annum when it is at full capacity, compared with Oxford Innovation's initial budget forecast of £40,000 for buildings of a similar size. As the Council is also benefiting from Feed in Tariff payments of an estimated £3400 per annum, providing a good return on investment.
14. Another area of success is the added value gained from the employment of a Business Incubation Director to give business support to occupants of the Centre. A significant level of support and advice has been given which is enabling businesses to grow even at this early stage. A number of networking events, roadshows and workshops have taken place throughout the year and more are planned on a fortnightly basis. These are proving invaluable to small businesses in providing them with information and signposting to help them develop and thrive.
15. Additionally, as Members will be aware, the Borough Council has received an award from the Federation of Small Businesses which named the Centre as the most innovative initiative of the year for small business.
16. Due to its success, officers of the Council have already begun some initial discussions about the feasibility of providing an Innovation Centre stage 2 on an adjacent plot of land. The purpose of this will be to provide move on accommodation for businesses who have outgrown the Centre but who wish to remain in the immediate area in the longer term. This will also be of benefit in retaining the skills which have been developed within the local community.
17. **Lessons learnt:** Whilst the Centre has been a great success, there are always lessons to be learnt from embarking on a project such as this, one which has been a new departure for the Borough Council.
18. The first lesson is that, ideally, such projects would benefit from a longer timescale. The whole process, starting with a workshop in September 2013 to discuss the objectives of the project and its design principles through to the completion of the building took only 18 months. This timescale certainly concentrated the minds of everyone involved and led to a number of hurdles which had to be resolved very quickly and under pressure in order to achieve the programme.

19. A second lesson is that future schemes could benefit from a higher ratio of lettable space to communal space. Whilst the amount of well designed communal and informal networking space within the building has contributed to its success and made it more lettable, it undoubtedly will have an impact on the gross revenue in the longer term.
20. Finally, it would have been beneficial to have appointed an operator at an earlier stage in the process. The tight timescale meant that the design work was completed and building works were already well underway prior to an operator being appointed in September 2014. This did give Oxford Innovation six months in which to commence marketing and branding activity, provide advice on the fit out and final design touches and make some suggestions to minor changes to the internal layout prior to the installation of internal partitions. This provided sufficient time although there is no doubt that their involvement during the design process would have had further benefits.

### **RUNWAY IMPROVEMENTS**

21. The runway improvement work comprised the basic work necessary to prevent further deterioration, attract new business and safeguard the site for future investment. Without the work it was likely that the amount of traffic would decrease, weakening the viability of the airfield and jeopardising the possibility of it ever receiving a CAA license.
22. The work included resurfacing of the main runway, drainage works, remedial works to taxiways and aprons and the provision of ducting to facilitate the future installation of Aeronautical Ground Lighting.
23. The work was completed in December 2014 and an opening event was held in March 2015. The total out-turn cost was £1.494m, which was slightly under (1%) the budget of £1.508m.
24. Following completion of the works, the airfield operator, Regional and City Airports Management, applied for a CAA license and this was granted in April 2015.
25. As part of the Council's Vision for the future of the airfield, further infrastructure works are planned including upgrading of the Air Traffic Control system, the provision of navigational aids and the installation of runway lighting. These improvements will further enhance the viability of the airfield and its attractiveness to a wider variety of aviation traffic.

### **NEW HANGAR SPACE**

26. The third project being overseen by the Group was the construction of a new hangar of approximately 2,300m<sup>2</sup> (25,000ft<sup>2</sup>). It was intended that this could be used for the maintenance or manufacture of aircraft or similar engineering facilities which required an airside base close to the main runway and that it be located on the Daedalus West part of the site. It is a condition of the Funding Agreement with the HCA that the Council makes its best endeavours to complete this building by 2018.
27. It has not yet been possible to proceed with this part of the project. It has been in abeyance pending the development of an overall Vision for the airfield following its acquisition from the HCA and the development of new infrastructure on Daedalus West. However, plans are currently being developed for a new hangar with associated office space in the area between the two existing Bellman hangars and it is expected that this will fulfil that requirement. It is intended that this should be for occupation by an existing airfield tenant. The building will provide approximately 2,970m<sup>2</sup> of open hangar space for

maintenance and manufacture together with office space of around 720m<sup>2</sup> at mezzanine or first floor level. It is planned for completion during the early part of 2017. As the plans have not yet been finalised, a firm cost is not yet available, but is expected to be in the region of £4.3m.

28. In the meantime, plans are progressing for the development of a number of new smaller hangars, each measuring approximately 600m<sup>2</sup>. These hangars will partly enable the relocation of existing businesses from old hangars due for demolition and partly assist in meeting the unmet demand for new hangar space at the airfield and will be built during the latter part of 2016.
29. The HCA originally planned to construct six temporary hangars in the area on Daedalus West on a site on which it is now planned to build the hangar described above. A 3 year temporary planning consent exists for this purpose. However, the Council now intends to build eleven permanent new hangars on Daedalus East in two locations.
30. The first location is on an area of land between the disused runway 17/35 and the existing taxiway. The hangars, each measuring approximately 600m<sup>2</sup>, would be built in a terrace of six and, in view of their prominent location, it is proposed that they be built to a relatively high specification and an attractive exterior design. It is intended that they be self-contained and built to a standard which will enable existing aircraft maintenance businesses to relocate and to attract new businesses to the airfield. With these factors in mind, the indicative total cost is estimated to be in the region of £3m, although this will need to be fully tested through a detailed cost planning exercise and ultimately through a Design and Build tender process. It is currently planned to submit an application for planning consent towards the end of April 2016. Concurrent with this, it is planned to run a procurement exercise using an established Framework to which the Council is a party and then to construct the hangars during the latter part of 2016. The site will also accommodate a further terrace of five new hangars at a later date should demand continue.
31. The second location is at the northern end of the airfield to the east of the existing taxiway. Here it is proposed to build five new hangars, also measuring approximately 600m<sup>2</sup> each, to a lower specification, together with a separate modular building which would provide toilets, kitchen facilities and a meeting room. These hangars would be suitable for aircraft storage and parking and would enable the relocation of existing general aviation tenants and attract new locally based general aviation aircraft to the airfield, thus meeting the continuing demand for hangar space. As above, the cost of these hangars is subject to a detailed cost planning exercise, but at this stage it is estimated to be in the region of £1.5m. It is intended that they be built concurrently with the six hangars mentioned above, possibly as part of the same contract, although the most cost effective solution will be explored.

## **REALISING THE COUNCIL'S VISION - PROGRESS ON OTHER PROJECTS**

32. In order to implement the Council's Vision for the airfield, a number of other projects are in progress or planned for the near future. The following paragraphs give a brief update for each of these.
33. **Developing the Masterplan:** A Masterplan for the whole airfield has been developed and will be used as the basis of future investment decisions on the airfield. It should be noted that this not intended to be a planning document but outlines the Council's plans as landowner of the site, and it enables the necessary infrastructure to be designed and planning consent sought.

34. **Procurement of new airfield management contract:** Earlier this year, the Executive agreed to award the new contract for the management of the airfield for the next five years to Regional and City Airports (RCA) and the new contract became operational on 1<sup>st</sup> April. A Tenants Workshop was held on 18<sup>th</sup> March at which RCA outlined how it planned to approach the management of the airfield and how it intends to involve tenants, the local community and other interested parties.
35. **Upgrading of air traffic services:** One of the early tasks of the airfield operator will be to bring forward proposals for the upgrading of air traffic services from the current, very basic, Air to Ground Communication Service to a Flight Information Service and to train staff accordingly. This will be undertaken towards the end of 2016. Proposals will also be developed for the provision of enhanced navigational aids, for possible introduction towards the end of 2017.
36. **Provision of facilities for visitors:** During the course of 2016, proposals will be brought forward for the provision of café/restaurant facilities to serve airfield visitors and members of the public. This could involve refurbishment work to the existing Air Traffic Control building, possibly with a new build extension. The potential for a Heritage Centre for Visitors adjacent to these facilities will also be explored including investigating the cost and feasibility of relocating one of the existing hangars for this purpose. This will be subject to the development of a satisfactory business case as there will be a requirement for substantial capital investment. Whilst it will not be possible to have such facilities in place until 2017, as an interim measure, a mobile catering facility is being sought in time for summer 2016.
37. **Rationalisation of fuel supplies:** Another early task for the airfield operator will be to bring forward proposals for the rationalisation and consolidation of fuel supplies. This will enable a consistent and readily accessible supply of fuel to be available for visitors and residents alike and is considered to be a vital step in attracting more corporate aviation. This is likely to be done on an incremental basis, initially through the purchase of two mobile fuel bowsers and leading ultimately to the provision of a fuel farm with a permanent static bowser in early 2017
38. **Attracting more corporate aviation:** During the early part of the new contract, plans will be brought forward to introduce a corporate handling service to encourage more corporate aviation such as air taxis and business jets. As an interim measure this will require the purchase of a temporary building to enable facilities for pilots and their passengers to be provided.
39. **Aeronautical Ground Lighting:** In the longer term, it is proposed to bring forward proposals for runway lighting. This will require substantial capital investment and will need to be the subject of a satisfactory business case. It is not likely that this will be implemented until 2018.
40. **Provision of public open space:** Proposals are currently being developed for the provision of public open space along Gosport Road and it is intended that this be developed in early 2017.
41. **National Grid Interconnector proposal:** The second round of public consultation on the National Grid's proposals was undertaken during March 2016 with an outline planning application following shortly after. In the meantime, the National Grid is commissioning a technical study to examine the potential impact of the proposals on airfield activities and on the immediate environment.

42. **Daedalus East Buildings:** The infrastructure project to provide roads and services to Daedalus East has now been completed. A new building to which UTP, a precision tool engineering company, will be relocating will be complete in April 2016. A new industrial building which Hampshire County Council are developing on behalf of Fareham Borough Council, is now on site and is due for completion at the end of June 2016. Discussions are underway with potential tenants for the building.

## **FINANCIAL IMPLICATIONS**

43. At present, there are number of investment plans for which the cost is either a very outline indicative cost or where it is not yet known. Some costs, such as the infrastructure costs for Daedalus West and the cost of providing some of the new hangar space are already part or fully funded through agreements made with the Homes and Communities Agency and the Solent Local Enterprise Partnership prior to the Council acquiring the site. Other costs, such as providing new visitor facilities and aeronautical ground lighting will need to be the subject of a business case and brought to the Executive for approval at the appropriate time.
44. At present, however, approval is sought to include the cost of building the new hangars described in paragraphs 27-31 in the 2016/17 capital programme. The total indicative cost is estimated to be £8.8m, although as plans develop it is hoped that this sum will reduce. The total is made up as follows:
- A new hangar to provide a total of 3690m<sup>2</sup> of hangar and office space - £4.3m
  - Six new hangars totalling 3600m<sup>2</sup> to enable existing businesses on the airfield to relocate and attract new business - £3m.
  - Five new hangars totalling 3000m<sup>2</sup> together with communal toilet and meeting room facilities to enable existing general aviation tenants to relocate and attract new locally based aircraft - £1.5m
45. £1.45m of the total budget will be funded from grant that was secured through the HCA, and a further £1.5m is already budgeted for in the capital programme. The balance of £5.85m will initially be financed through borrowing, but then repaid through rental income from the hangars and future land receipts (once the Growing Places Fund loan balance of £3.2m has been settled). The borrowing costs of this capital outlay will be met from rental income from the hangars, and based on average rentals for this type of building, this would represent a yield of approximately 5-6%, enabling the investment to be repaid within 20 years (on a full cost basis).
46. Provided the costs are within the capital budget, it is recommended that delegated authority be given to the Director of Finance and Resources to accept the tenders for the works.

## **GOVERNANCE ISSUES**

47. When the Executive approved the Vision for Daedalus on 12th October 2015, it also considered the governance arrangements for taking the project forward. These included the establishment of a Daedalus Local Members Forum, which has recently had its first meeting, and the formation of “task and finish” Members Working Groups to oversee specific elements of the delivery of the Vision. In view of the number of issues concerned with the development of council assets such as new infrastructure provision for Daedalus West, the development of new hangars, development of new visitor facilities and

provision of new airfield infrastructure such as runway lighting, it is recommended that a Members Working Group be established to oversee this work. This could have similar terms of reference to the Members Working Group which successfully oversaw the delivery of the earlier investment projects.

48. The Executive is therefore asked to consider the appointment of Members to a Daedalus Asset Development Members Working Group.

## **CONCLUSIONS**

49. The development of Daedalus following the Executive's adoption of the Vision in October 2015 is complex and multi faceted. Good progress has been made to date and a number of major projects, such as the Innovation Centre, runway improvements and the provision of new infrastructure on Daedalus East have already been successfully completed. Plans for others, such as new hangars and new visitor facilities will come to fruition during 2016/17. Medium term plans, including the provision of new infrastructure to unlock development on Daedalus West, will also be developed during the course of the next year.
50. In order to facilitate the delivery of such plans, the Executive is therefore asked to approve the inclusion of the cost of new hangars in the 2016/17 capital programme and to appoint a Daedalus Asset Development Members Working Group.

**Enquiries:** For further information on this report please contact Andy Wannell (Ext 4620)