

# FAREHAM

## BOROUGH COUNCIL

### Report to the Executive for Decision 06 June 2016

<b>Portfolio:</b>	Policy and Resources
<b>Subject:</b>	<b>Fareham Innovation Centre – Phase 2</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 seek approval to proceed with the development of Fareham Innovation Centre Phase 2 and to include provision for the scheme within the Capital Programme.

#### **Executive summary:**

Owing to the remarkable success of Fareham Innovation Centre, it is now being proposed to build a second phase, immediately adjacent to the existing building.

The purpose of this second phase is twofold. First of all it will provide some larger space to enable businesses within the first phase to grow and move on, thus retaining their jobs and skills within the immediate area. Secondly it will provide more small office and workshop space to enable new start-up businesses to move into the Centre and be supported to prosper and grow in their early years.

The total estimated cost of the scheme is £6.6m and authority is sought to add this to the Capital Programme. However, a bid for a grant of £1.980m has been submitted to the Solent LEP under the Solent Local Growth Deal. If successful, this will reduce the Council's borrowing requirement, although the outcome of the submission will not be known until later in 2016.

#### **Recommendations:**

That the Executive:

- (a) agrees in principle to proceed with Fareham Innovation Centre Phase 2, with provision of £6.6m being made for the scheme within the Capital Programme;

- (b) notes that if the application for grant funding from the Solent Local Growth Deal is unsuccessful, the business case will be reviewed by the Director of Finance and Resources to consider scheme viability, who will make recommendations to the Executive;
- (c) grants delegated authority to the Director of Finance and Resources to appoint a design team to complete the pre-construction phases of work; and
- (d) grants delegated authority to the Director of Finance and Resources in consultation with the Executive Leader, to accept a tender for the construction of the scheme provided it is within the capital budget and funding is secured.

**Reason:**

To enable the Fareham Innovation Centre Phase 2 to proceed, building on the success of the first phase and continuing to provide support to enable new businesses to prosper and grow within the Solent Enterprise Zone at Daedalus.

**Cost of proposals:**

The total capital cost of the scheme is estimated to be £6.6m. It is anticipated that this will be partly be funded through prudential borrowing and partly through a grant from the Solent Local Growth Fund, if the latter is successful.

**Appendices:**

A: Confidential - Detailed financial analysis of proposal  
B: Confidential - Outline Business Case - submission to the Solent LEP

**Background papers:** File of Correspondence and Funding Bid Application.

**Reference papers:**

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## BOROUGH COUNCIL

### Executive Briefing Paper

<b>Date:</b>	06 June 2016
<b>Subject:</b>	Fareham Innovation Centre - Phase 2
<b>Briefing by:</b>	Director of Finance and Resources
<b>Portfolio:</b>	Policy and Resources

#### INTRODUCTION

1. As Members will be aware from previous reports on the subject, Fareham Innovation Centre has been a remarkable success. It has fulfilled its principal objective of providing an environment in which new innovative businesses, predominantly within the marine, aviation, aerospace and advanced manufacturing businesses can prosper and grow. It has exceeded all expectations by achieving 100% occupation within its first year of operation, a target which was not expected to be reached until its third year.
2. A key element of its success has been the provision of on-site business support. This has been crucial in providing advice, support and access to networking and professional opportunities. This has helped new businesses survive their crucial formative first year and begin to grow.
3. In a sense, the Centre has been a victim of its own success as it now has a waiting list of twenty businesses wishing to locate there. In addition four businesses are already forecasting their need for more space as they continue their growth trajectory.
4. It was always the intention to consider the development of a second stage of the Centre to provide move-on accommodation at some stage in the future. However, the current success and the level of unmet need it has revealed within the immediate vicinity has prompted these proposals to be brought forward and this report seeks approval to begin the development process to enable this second phase to be built within the 2017/8 financial year

#### THE PROPOSED SCHEME

5. The purpose of Innovation Centre Phase 2 will be twofold. First of all it will provide some larger space into which existing businesses who have outgrown the existing Centre can move into. This will help to retain the businesses, the jobs they have created and the skills they have developed, within the immediate area and more specifically within the Enterprise Zone. It will also help to free up smaller space within the existing building. Secondly, it will provide additional space within the Enterprise Zone to meet the unmet demand for new businesses requiring space within a supportive environment.

6. An initial feasibility study and some preliminary concept design work has demonstrated that a new building which at 3,000m<sup>2</sup> will be slightly larger than the current Centre, could be built on a site immediately adjacent to and integral with it. It could provide around 46 new offices and workshops and workshops tailored to the needs of businesses within the strategic priorities of the Solent LEP. The overall layout of the building and exact number of offices and workshops and the ratio between them will be determined as detailed design proceeds.
7. The existing building will remain the hub of the overall Centre and will continue to provide reception, other support facilities and meeting rooms and other communal space. There will need to be a rearrangement of the current parking facilities to accommodate the new building, as this will partly be built over the existing car park.
8. It is also proposed to provide some additional conferencing space, possibly through conversion of one or two existing workshops, although this will depend on how the detailed design work proceeds. It has become evident that this is something which is lacking in the immediate vicinity as the existing Innovation Centre has had to turn down many requests for training events, larger meetings, seminars and conferences as it does not have a space large enough.
9. Phase 2 will build on the success of the business support role by expanding the role of the current Innovation Director to full time. This will enable continued support to all of the new businesses and will also act as a catalyst in promoting collaboration, networking, sharing resources, contacts and opportunities between businesses. The role will also further develop the connectivity of the Centre with the wider Solent region through the hosting of business growth seminars and workshops and linking to the region's research and knowledge centres.

## **TIMESCALE**

10. To enable incoming businesses to take full advantage of the 5 year business rate relief on Enterprise Zones, they will need to be in occupation by 31<sup>st</sup> March 2018. The building will therefore need to be complete and ready for occupation by that time. This represents a challenging timescale, but one which is realistically achievable, provided all of the parties work together to ensure that deadlines are met and that, where possible activities are run concurrently rather than successively. This was the approach taken with the even more challenging timescale presented by Phase 1.
11. A firm project plan will need to be developed, but in outline, the following programme, whilst tight, appears to have a realistic chance of success:

<b>Activity</b>	<b>Timescale</b>
Executive approval in principle	June 2016
Outline design	June - July 2016
Planning application	August 2016
Planning consent	October 2016
Detailed design work and tender preparation	August - October 2016

Tender invitation, negotiation and acceptance	November 2016 - January 2017
Start on site	April 2017
Completion	March 2018

## FINANCIAL IMPLICATIONS

12. A full Cost Plan for the proposal has not yet been developed. However based on the cost of the existing Innovation Centre and data from other recent construction projects on the Enterprise Zone, an indicative total cost of £6.6m has been estimated. This will obviously need to be tested as part of a cost planning exercise as the proposals develop and through a competitive procurement process for the construction work.
13. Phase 2 provides for a higher ratio of lettable to non- lettable space as many of the communal facilities which do not generate income will continue to be located in the existing building. There will also be economies of scale in operational costs as, although the overall Innovation Centre will more than double in size, there will not be a corresponding doubling of staffing, maintenance and other management costs.
14. However, what marks out the Centre as being different from routine managed office space is the business support element. Whilst this has been demonstrated to be crucial to its success, it does make it more expensive to run and the existing Innovation Centre was only viable due to grant funding from the Homes and Communities Agency. Initial discussions with the current operators, Oxford Innovation, show that over a ten year period the estimated total rental income from the new building would be £7.1m and the total operational costs would be £4.4m, leaving a surplus over the period of £2.7m. This would be insufficient to achieve a payback of the Council's investment over a reasonable timescale. A more detailed financial analysis is attached as confidential Appendix A.
15. The Council have therefore applied to the Solent LEP for funding under the Solent Local Growth Deal, which is part of a national growth fund of £1.8bn. The Innovation Centre is thought to be a good fit with the priorities of this funding programme and an outline business case and bid have been submitted in the sum of £1.98m. If successful, this would reduce the Council's borrowing requirement to £4.620m, resulting in an acceptable payback period of approximately 20 years. The full outline business case as submitted is attached as confidential Appendix B.
16. The timescale for consideration of the bids is in three parts. First of all, the Solent LEP Board will decide on 10<sup>th</sup> June which schemes it wishes to support and will then submit a Local Growth Deal submission to Government in July. If, following the Government review, the project continues to be supported, the Council will be invited to develop a full business case. The Solent LEP Board will then consider the full business case and decide whether or not to confirm funding. There is currently no timescale for these later stages, but in order to achieve the Council's programme, it will not be possible to wait until a decision before proceeding. It is therefore recommended that the proposal progresses through the design phase on the assumption that this funding will be forthcoming. However if the bid does not succeed, the business case will be reviewed to consider whether options exist to proceed with the scheme, prior to the construction phase. These options will be subject to review by the Daedalus Member Working Group and reported to the Executive for consideration at a future meeting.

17. Furthermore, in order to avoid delaying the programme, it is recommended that the Director of Finance and Resources is given delegated authority to approve the construction tender, provided that it is within the allocated capital budget and assuming that the funding bid succeeds.

## **RISKS**

18. There are a number of risks associated with the project. These together with the necessary mitigation actions are outlined in the following paragraphs.
19. Although the indicative outline estimate has been based on the actual cost of similar projects, it is possible that the tender price may be significantly higher. To mitigate this risk, there will be a tight specification which emphasises value for money, without sacrificing quality and a robust procurement process will be undertaken. If tenders do come in too high, a realistic approach to value engineering will be adopted during the tender review process.
20. The challenging timescale may result in a project over-run. To combat this the programme will be tightly controlled and activities will be run concurrently rather than consecutively wherever possible.
21. There is a strong risk that the application for capital grant funding from the Solent Growth Fund may not be successful. If this happens, the business case will be thoroughly reviewed.
22. There is a slight risk that Phase 2 may not be as immediate a success as Phase 1 and that it is occupied at a much slower rate, affecting the Council's income from the project. A realistic approach to the likely occupancy rate has been adopted in preparing the business case, and a strong marketing strategy would be adopted to minimise this risk.
23. Finally, as this proposal represents a further significant investment by the Council in Daedalus, it is proposed that the Daedalus Member Working Group be asked to oversee the delivery of the project.

## **CONCLUSIONS**

24. Fareham Innovation Centre has been a remarkable success. It has proved to be a well-designed building which has met with all of its objectives in providing a welcoming, supportive environment in which new businesses have been proud to work and which has enabled them to survive, prosper and grow. It has reached full occupancy two years ahead of schedule and has a waiting list of twenty new businesses wishing to move in and four existing businesses who are forecasting the need for more space in which to grow.

It is therefore proposed to bring forward plans for an Innovation Centre Phase 2, to enable design and construction works to take place with a view to completion in March 2018.

### **Enquiries:**

For further information on this report please contact Andrew Wannell (Ext 4620)