

FAREHAM

BOROUGH COUNCIL

Report to the Executive for Decision 4 November 2013

Portfolio:	Policy and Resources
Subject:	Daedalus Investment Project: Project Appraisal and Governance Arrangements
Report of:	Director of Finance and Resources
Strategy/Policy:	
Corporate Objective:	To promote the economic success of the Borough

Purpose:

To update Members on the overall progress with the Daedalus Investment project and to seek approval for governance arrangements including setting up a Project Member Working Group and certain delegations of authority to ensure that the project can proceed within the agreed timescales.

Executive summary:

In July 2013 the Executive supported a proposal to provide improvements to the airfield, provision of new hangar space and an Innovation Centre for small businesses at the Solent Enterprise Zone, Daedalus. Subsequently, at its last meeting on 7 October 2013, the Executive agreed revised funding arrangements for the project.

Overall, the project contains some very challenging timescales. Principally among these is the need to complete the Innovation Centre by March 2015. Work has already commenced on initial design work and a procurement process to appoint a Design and Build contractor and other professional consultants with a view to a start on site in May 2014.

Specification and design work on the airfield improvements is underway and work is scheduled to take place between March and June 2014. Preparatory works will also be undertaken to the secondary runway to allow its use during works to the main runway.

Negotiations are underway concerning the location of the new hangar and the timing of its construction with the Homes And Communities Agency (HCA). The nature of its specification and design will be sufficiently flexible to ensure its' suitability for the length of its useful life, but initially will be guided to a certain extent on the outcome of a pre-letting marketing approach.

The report sets out a proposed decision making structure for the project, including the setting up of a member Working Group.

Recommendations:

It is recommended that the Executive

- (a) Agree the governance and decision-making structure as set out in appendix A to the report;
- (b) Consider the composition of the Project Member Working Group and to nominate representatives on the group

Reason:

To enable the project to proceed in line with the proposed timescales whilst ensuring Member involvement and scrutiny.

Cost of proposals:

The cost of supporting the governance structure will be met within existing resources.

- Appendices A:** Decision Making structure
- B:** Outline project timetable
 - C:** Outline project budget
 - D:** Preliminary sketches of the Innovation Centre for illustrative purposes

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BOROUGH COUNCIL

Executive Briefing Paper

Date: 4 November 2013

Subject: Daedalus Investment Project: Project Appraisal and Governance Arrangements

Briefing by: Director of Finance and Resources Job Title

Portfolio: Policy and Resources

INTRODUCTION

1. The Daedalus Investment Project comprises three distinct, but inter-related elements. A new Innovation Centre will provide office and workshop space for emerging small business and will be funded by a grant of £5.3m from the HCA. This grant is conditional on the provision of improvements to the airfield at a cost of £1.5m and provision of new hangar space, also costing £1.5m, both of which will be funded via borrowing by the Borough Council.
2. The timescale for achieving the completion of these projects by March is very challenging. This is particularly so in the case of the Innovation Centre, a major new build project in a prominent location at the entrance to the site, adjacent to Fareham College's new Centre for Excellence for Engineering, Manufacturing and Advanced Skills Training (CEMAST).
3. The following paragraphs describe the progress in relation to each aspect of the project.

PROPOSAL DETAILS

4. **Innovation Centre.** The Innovation Centre will offer a good quality business incubator facility, providing a total of 25,000 sq ft of space divided between office space, workshop space and common facilities. It will enable new business start ups, encourage entrepreneurship and provide support for new and growing businesses. In line with the objectives of the Enterprise Zone, the Innovation Centre will be targeted at the advanced engineering sector, including marine, aerospace and aviation industries. However, recognising that the Council needs to secure a high level of occupancy, it will not be restricted exclusively to these sectors. It is intended however, that the Centre will work in close co-operation with CEMAST, sharing some facilities and assisting budding entrepreneurs in setting up their own business. It is estimated that it will provide up to 150 new jobs when fully occupied.

5. The Centre will operate on flexible “easy in/easy out” terms to encourage small new businesses and will provide business support to help them survive, thrive and grow. It is anticipated that the availability of larger premises within the immediate area of Daedalus will assist in the move-on process, enabling a level of turnover to encourage further small business.
6. In order for new businesses to qualify for Business Rate Relief for 5 years within an Enterprise Zone, they need to be in occupation by the end of March 2015. It is also a condition of the grant from the HCA that the Centre is completed by this date. This sets a very challenging timescale and one which demands a start on site by May 2014 at the absolute latest.
7. For this reason officers have already started some initial design work. Hampshire County Council (HCC) has been appointed as the Council’s technical adviser under the terms of a Joint Working Agreement between the two Councils and has assisted in procuring the services of an architect to undertake this design work. The design concept which is being developed is based on considerable research into other Innovation Centres and their operators and has been informed by two workshops attended by interested parties including the HCA, HCC, the Solent Local Enterprise Partnership (LEP) and Fareham College.
8. Participants at the workshops agreed a draft vision statement for the Innovation Centre as follows:

The Innovation Centre will be a place which provides new businesses, predominantly within the advanced manufacturing sector, with a range of flexible office and workshop accommodation in which they can be supported to grow and thrive.

9. The initial “concept” for the design is to be flexible so that the split between office and workshop space, the combination of sizes of offices and workshops and the split between “lettable” space and common facilities can all be adjusted as necessary. Initially a set of design principles have been agreed which include the following :
 - The building should make new businesses proud to work in and enable them to impress their clients;
 - The design should be open and inviting with communal space giving opportunities for networking and social interaction and the ability to “create a buzz”;
 - There should be a broad 3:1 ratio of let-able to communal space;
 - There should be a slight bias towards workshop space in the let-able allocation;
 - 50% of the workshop space should be easily convertible into office space, either at the detailed design stage or following completion;
 - A higher percentage of smaller offices to suit new businesses should be provided, but there should be an element of flexibility to enable office sizes to be changed;
 - The building should complement CEMAST but have its own identity.

10. Based on these principles, some initial thoughts have already been given as to how the brief can be interpreted and what type of design could eventually emerge. Some very preliminary sketches are attached at Appendix D. At this stage, it should be stressed that these sketches are for illustrative purposes only to demonstrate how the different types of space can be distributed within a building and how a building could sit on the site. A great deal more work needs to be done before a design is finalised, so the sketches should not be interpreted as how the building will eventually look.
11. The procurement process for a “Design and Build” contractor has already begun with a view to an appointment in early December. The contractor will take over the initial design work and prepare a detailed design, in readiness for an application for full planning consent in mid January. Procurement is also underway for a Quantity Surveyor and Construction Project Manager to oversee the work of the contractor through to completion.
12. It is intended that the Centre will be managed by an operator with considerable experience in the field. Consideration is currently being given to an operator specification which best fits the Council’s vision for the Centre and spreads the risk between the Council and the operator. A procurement process will then commence, resulting in a preferred operator being appointed in time to influence the completed design.
13. The Centre will be located on a site close to the main entrance to the Daedalus site and adjacent to the CEMAST facility. This will create a synergy between the two buildings and assist in the use of shared facilities e.g. conference/meeting rooms, restaurant and use of equipment. It will also help support the potential movement of students at the College into new business start ups at the Innovation Centre. The site is currently owned by the HCA and a 999 year lease will be acquired by the Borough Council.
14. **New Hangar.** The new hangar will provide space for either a new enterprise or for an existing tenant at Daedalus. At this stage, it is intended that the space remains flexible so that it could be used for the storage and maintenance of aircraft or for other manufacturing or engineering facilities which require an airside base close to the main runway. Discussions will be undertaken with prospective new tenants to enable the design and specification to be tailored to suit. However, it is likely that the basic hangar space of approximately 25,000 sq ft. will be procured on a design and build “off the shelf” basis from a specialist supplier and then fitted out accordingly.
15. The development of the hangar is not as far advanced as the Innovation Centre as the lead in time for construction and the construction period itself will not be as long. However, efforts are being made to move it forward as quickly as possible with a view to completion by the end of 2014.
16. HCC will also be acting as a technical advisor to the Council for the project, although their role and the need for other external consultancy support will not be as great as for the Innovation Centre.
17. The new hangar will be located on a prominent site at the northern entrance to the Daedalus site. The land is currently owned by the HCA and will be acquired by the Council on a 999 year lease.

18. **Airfield Improvements.** The improvement work to the airfield will comprise the basic work necessary to prevent further deterioration to the main runway, attract new business and safeguard the site for future investment. Without this work, it is likely that the amount of traffic would decrease, weakening the viability of the airfield and jeopardising the possibility for the airfield to become licensed by the CAA. The proposed work will support an application for a CAA license, eventually allowing for a broader range of aviation uses.
19. The work will include resurfacing, drainage works, the provision of ducting to enable installation of lighting at a future date and an airfield refuelling facility. At present, it does not include upgrading of Air Traffic Control services, but the work carried out now would ensure that this remains an option in future years.
20. The specification has been drawn up by the HCA and HCC are now undertaking design work based on this specification. It is intended that the procurement process will commence at the end of 2013, with a view to starting works on site in March 2014 and completing them by June 2014. The first element of the work will be re-instatement works to enable the second runway to be operational while work is being carried out to the main runway.
21. HCC are currently undertaking all of the infrastructure work on the Daedalus site on behalf of the HCA. HCC will also act as a delivery partner for the Borough Council for the airfield improvements. Due to its in-house expertise HCC will procure and manage the contractor for the execution of the works. The work will be done under the terms of a Joint Working Agreement supported by a funding agreement whereby HCC recovers its actual costs from The Borough Council.

TIMETABLE FOR DELIVERY

22. An outline timetable for whole project is attached at Appendix B. This covers only the headline activities and highlights the dates which are absolutely critical to achieving the whole project on time.

GOVERNANCE AND DECISION MAKING

23. The project is significant in terms of the scale, complexity and importance to the achievement of the Council's corporate objectives. For this reason it is important that there is a clear decision-making structure in place to ensure that the key stages of the project are determined objectively. It is also clear, however, that the timescales for delivering the project are very challenging, if the funding conditions are to be met and the built assets are completed by March 2015.
24. For the above reasons, a decision-making and reporting process is proposed, so that decisions can be made expediently without causing delays to the project, but also so that there is sufficient objective input into the decision-making process. The decision-making structure is set out in Appendix A
25. The role of the Member Working Group for the project is also defined in the appendix and is primarily to act as critical friend and advisory body to support the key decisions that are required to deliver the project. It is proposed that the Working Group comprises 4 Members (3 Conservative and 1 Liberal Democrat) and the Executive are asked to set up the group.

26. The project is the responsibility of the Borough Council and will be led as such. However, the delivery is a priority not only for the Borough Council but also for the Homes and Communities Agency and the Solent Local Enterprise Partnership, both of which have an interest in the project. To support the decision-making process and delivery of the project, an officer-based steering group has been established, comprising representatives of FBC, its delivery partner (HCC) and the partners (Solent LEP and HCA). This group is also assisting in other critical aspects such as design specification, construction and operating arrangements.

PROJECT RISKS

27. As a large and complex project, there are a number of risks associated with it, and these were broadly outlined in the initial report considered by the Executive at their meeting in July 2013, and are re-produced below.
28. *This is an inherently high risk proposition in commercial terms, however, these risks are reduced by the availability of grant funding and favourable loan finance. The most notable risks are explained further below:-*
29. *Development risk – at this stage, the development costs are broad estimates. The nature of the site is such that costs could escalate due to contamination, site constraints or variations to the specification. This risk is carried by FBC as lead body and ultimate asset owner.*
30. *Occupancy risk (hangar) – the hangar would provide commercial premises in a niche market, with a limited demand. While there is every possibility of letting the space, the value will be determined by the wider site infrastructure and suitability/availability of the runway. This risk is carried by FBC (as landlord), but is partially mitigated through a condition on the airfield improvement to ensure it remains accessible for at least 10 years.*
31. *Occupancy risk (Innovation Centre) – There is a reasonable supply of incubator units in the local area, which this proposal would compete against. Independent evidence will be sought to support the assumption that demand exists and that rents are set at an attractive, competitive level. The proposal has been modelled using a conservative occupancy rate, but a 5% change in occupancy would result in a c.£0.5m variation in the 25 year business plan. Equally, a reduction of £50/sqm would result in a c.£1.5m variation in the 25 year business plan.*
32. *Tenant Default risk (Innovation Centre) – The nature of the centre is such that leases will be offered on very flexible terms to tenants who are likely to have a limited track record and whose customer base is unlikely to be well established. There is therefore a higher risk of default which undermines the positive operating position and restricts the ability to repay the Growing Places loan. This risk will be carried by FBC but mitigated partially through flexible loan repayment terms offered by the LEP and by offering mentor/support services through the managing agent of the Centre.*
33. At an early stage, the Member Working Group will be provided with an assessment of the project risks, to assist in monitoring the project.

FINANCIAL IMPLICATIONS

34. An outline project budget is attached at Appendix C, which covers the total estimated capital cost of £8.35m. It should be stressed that, at present, many of the figures are provisional and depend on the outcome of procurement processes which are currently being undertaken and on negotiations on land values. However, they are the best estimates available at the moment and are based on extensive due diligence work and research on the costs of similar projects.

CONCLUSION

35. The three inter-related projects represent an exciting investment opportunity for the Borough Council which will complement the investment already secured for the Daedalus site and assist in the achieving the overall objectives of the Enterprise Zone. In particular, the overall project will provide a facility for business start-ups, currently lacking in the Enterprise Zone, help seed further growth and complement the developing CEMAST facility. The airfield improvement works will secure essential upgrading to the main runway to a standard that will eventually enable the granting of a CAA license.
36. The timescales are, however, very challenging, with a required completion date for the three projects of March 2015. The governance arrangements outlined in this report are designed to ensure that this date is achieved whilst enabling proper scrutiny by members of the council at crucial points in the development.

Reference Papers:

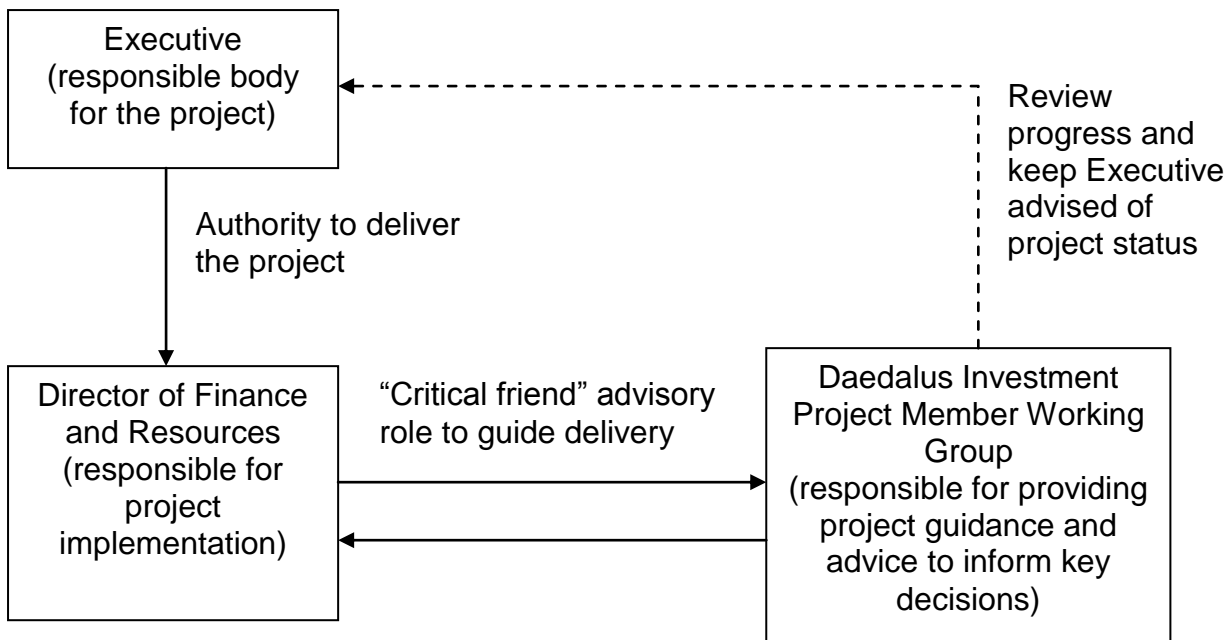
Previous Executive Reports,

July 2013: Daedalus Investment Opportunity (xps-130708-rx01-awa)

October 2013: Daedalus Investment Opportunity - Update (xps-131007-r09-awa)

APPENDIX A

DECISION-MAKING STRUCTURE



DAEDALUS INVESTMENT PROJECT MEMBER WORKING GROUP

To act as critical friend to the project delivery team by

- i. Overseeing progress against the project timetable
- ii. Periodically reviewing the project costs against the agreed budget
- iii. Assisting the delivery team in determining the design features of the Innovation Centre and Hangar space
- iv. Assisting the delivery team in determining the most appropriate basis for managing the Innovation Centre
- v. To make recommendations to the Director of Finance and Resources in relation to the award of contracts, delegated to him by the Executive.
- vi. To provide periodic project status reports to the Executive.

EXECUTIVE

Retain overall responsibility for the delivery of the project

Maintain an overview of the project by receiving regular, periodic reports on project progress from the Project Member Working Group and Director of Finance and Resources

To approve changes to the overall project budget

To delegate authority to the Director of Finance and Resources to make decisions, as set out below, to enable the critical path of the project to be maintained.

DIRECTOR OF FINANCE AND RESOURCES

Delegated authority to:

- (a) Appoint a Quantity Surveyor and Construction Project Manager for the project
- (b) Conclude land transactions within the Enterprise Zone, sufficient to enable construction to be undertaken
- (c) Formally sign off the final design specification for the built assets
- (d) Award the construction contracts for the three project elements, to the most economically advantageous bidder, using previously agreed award criteria
- (e) Award the contract for operate the Innovation Centre

All delegations are subject to the costs being contained within the overall budget available for the project and, in relation to (c), (d) and (e) above, only following consultation with the Project Member Working Group. All decisions will be reported retrospectively to the Executive.

DAEDALUS PROJECT TIMETABLE- HEADLINE ACTIVITIES

(OCTOBER 2013 ONWARDS)

OVERARCHING ACTIONS

ACTIVITY	START	FINISH
Finalise Funding agreement for Innovation Centre	1/10/13	31/10/13
Finalise loan agreements for hangar and airfield improvements	17/10/13	15/11/13
Finalise land acquisition agreements for Innovation Centre and hangar sites	4/11/13	6/12/13
Draft Communications Plan for life of project	4/11/13	18/11/13
Implement Communications Plan	1/12/13	31/3/15

INNOVATION CENTRE

ACTIVITY	START	FINISH
Appoint consultant architect		1/10/13
Agree design principles	1/10/13	15/10/13
Undertake initial design work	1/10/13	31/11/13
Undertake second stage market analysis	7/10/13	31/10/13
Procurement exercise for QS and Construction Project Manager	8/10/13	31/10/13
Appoint QS and CPM	5/11/13	5/11/13
Procurement exercise for Design and Build contractor	8/10/13	16/11/13
Appoint D&B contractor	22/11/13	22/11/13
Agree initial design	9/12/13	13/12/13
Procurement exercise for Centre operator	28/10/13	6/12/13
Appoint preferred Centre operator	15/12/13	15/12/13
Undertake detailed design work	16/12/13	31/3/13
Secure planning consent for Innovation Centre	15/1/14	14/3/14
Construction period	1/5/14	31/3/15
Marketing period	1/4/14	31/3/15
Complete Innovation Centre		31/3/15

NEW HANGAR SPACE

ACTIVITY	START	FINISH
Discuss provision of hangar with potential new tenants	14/10/13	11/11/13
Draft specification for Hangar construction	18/11/13	9/12/13
Agree specification	9/12/13	13/12/13
Procurement process for Design and Build contractor	2/1/14	12/2/14
Appoint D&B contractor	26/2/14	26/2/14
Secure planning consent	1/3/14	31/5/14
Construction period	1/6/14	30/9/14
Complete hangar		30/9/14

AIRFIELD IMPROVEMENTS

ACTIVITY	START	FINISH
Specify airfield requirements	1/10/13	31/10/13
Undertake design works	1/11/13	30/11/13
Agree works license with HCA	1/11/13	30/11/13
Procurement exercise for airfield contractor	1/12/13	15/1/14
Appoint airfield contractor	8/2/14	8/2/14
Undertake preparatory works to second runway	1/3/14	31/3/14
Undertake main airfield improvements	1/4/14	30/6/14

NOTE: Critical activities and dates highlighted in bold type

DAEDALUS PROJECT
PROVISIONAL CAPITAL DUDGET

Innovation Centre

	2013/14 £000	2014/15 £000	2015/16 £000	Total £000
Design and Build Contract	450	3950	400	4800
Land acquisition**	300	0	0	300
Professional fees (Architect, QS, CPM, CDM, BREEAM, Legal fees)	100	30	0	130
HCC Fees (Technical adviser)	40	18	0	58
FBC Project management costs	20	14	0	34
Due Diligence work	15	0	0	15
Planning and Building Control fees	15	0	0	15
	940	4012	400	5352

** Subject to DV valuation

New hangar

	2013/14 £000	2014/15 £000	2015/16 £000	Total £000
Design and Build Contract*	250	1000	0	1250
Land acquisition**	200	0	0	200
HCC Fees (Technical adviser)	15	5	0	20
Legal fees	10	0	0	10
FBC Project management costs	7	5	0	12
Due diligence work	5	0	0	5
Planning and building control fees	15	0	0	15
	502	1010	0	1512

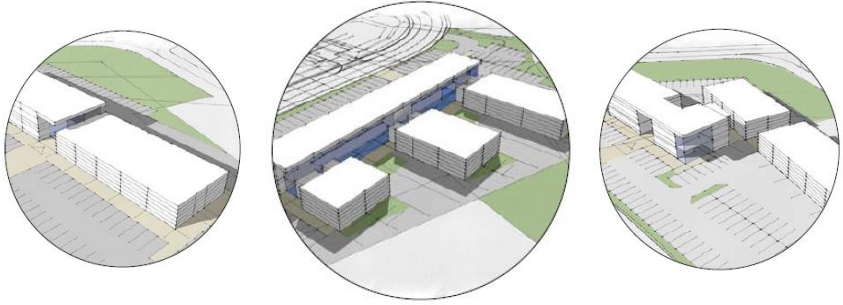
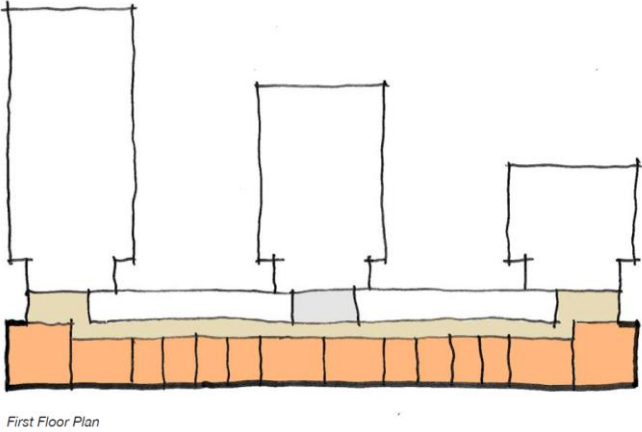
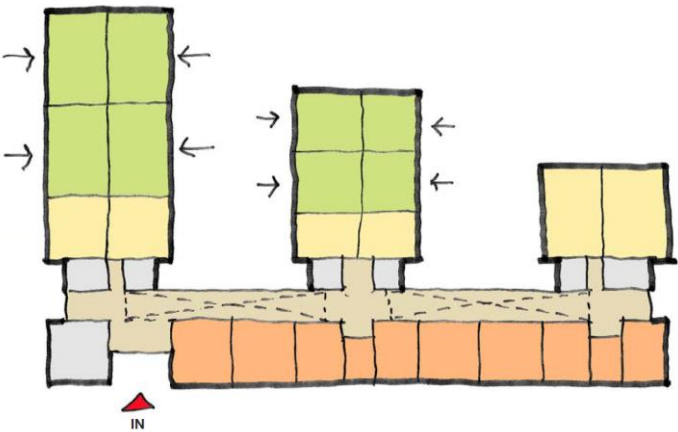
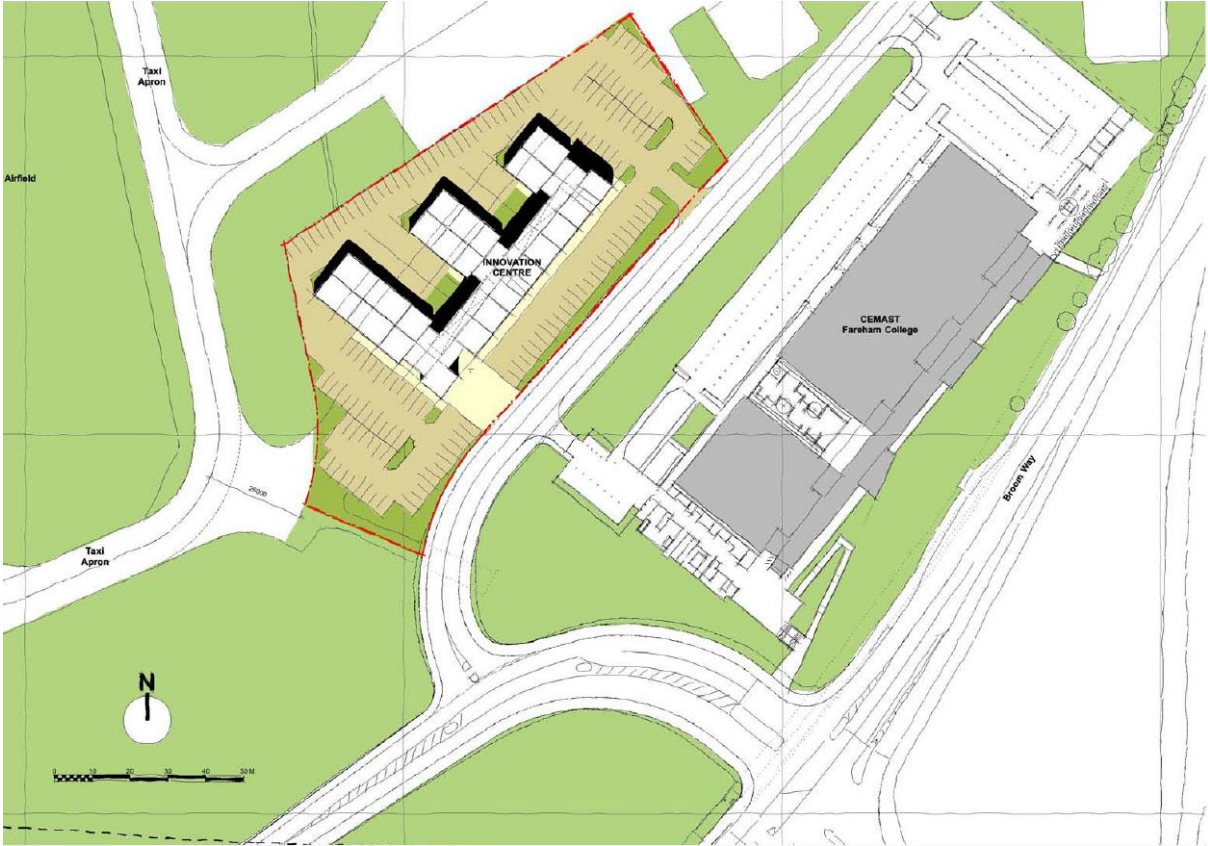
* At this stage, this is an all inclusive figure including an "off the shelf" hangar, preparatory ground works, fitting out and any related professional fees. It will need refinement over the next two to three months

** Subject to DV Valuation

Runway Improvements

	2013/14 £000	2014/15 £000	2015/16 £000	Total £000
Runway works	0	1350	0	1350
HCC Fees (Design and contract management)	80	50	0	130
Legal fees	5	0	0	5
FBC Project management costs	3	2	0	5
	88	1402	0	1490

ILLUSTRATIVE EXAMPLE OF INNOVATION CENTRE CONCEPT AND LOCATION



- Office
- High-bay workshop
- Workshop (conversion to offices possible)
- Circulation
- Support