

FAREHAM

BOROUGH COUNCIL

Fareham Innovation Centre Phase 2



Full Business Case in support of an Innovation Fund application to the Solent Local Enterprise Partnership

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Contents

- 1. Executive Summary**
- 2. The Commercial and Economic Cases - Project Purpose and Objectives**
- 3. The Strategic Case**
- 4. Project Outputs**
- 5. The Financial Case**
- 6. The Management Case - Project Delivery Plan and Risk Register**

1 Executive Summary

This document is the Full Business Case in support of the application for grant funding by Fareham Borough Council for Fareham Innovation Centre Phase 2 under the Innovation Fund.

Fareham Innovation Centre (FIC2) will build on the remarkable success of the first stage (FIC1), which was fully occupied within a year of completion. It will expand the existing destination for innovative SMEs in the Fareham/Gosport peninsula and provide space to enable businesses grown in FIC1 to stay, resulting in more jobs and opportunities for local people and the further creation of a significant cluster of businesses in the LEP's strategic sectors. It will provide 33 offices and 5 workshops in a new 3,400m² building tailored to the needs of businesses in the strategic engineering, marine and aerospace sectors. It will be aimed particularly at businesses which are engaged in developing new and innovative technologies and will also create a much needed conferencing venue on the Fareham/Gosport peninsula.

A key element of the success of FIC1 is the provision of on-site business support, which makes it more expensive to operate, but is crucial in providing strategic advice, support, access to professional services and networking opportunities. This has helped new businesses to survive their crucial formative year and thrive and grow thereafter. This support will be extended and continue to be offered in FIC2.

The project is an excellent fit with the Solent LEP's strategic priorities in that it will;

- Bring forward a site which can deliver up to 480 new jobs over 10 years within 17 months;
- Support the key strategic sectors of advanced engineering, marine, aviation and aerospace and invest in new technologies;
- Work closely with the adjacent CEMAST facility to help to improve the skills and talent of the existing workforce;
- Concentrate on attracting new businesses which are strongly innovative in their approach as evidenced by FIC1;
- Improve connectivity by acting as a shop window to attract new businesses into the Solent Enterprise Zone;
- Help create and maintain jobs in the Fareham/Gosport peninsula and reduce out-commuting.

Feasibility work has already been carried out and the project is now at detailed design stage. Constructive pre application discussions have been carried out with the planning authority to pave the way for a full planning application to be made during November. The scheme will be the subject of a full public procurement process and it is envisaged that a tender will be accepted in January 2017, with a view to an immediate start on site preparation works and final completion in March 2018.

The total cost of the project is estimated to be £6.96m, but due to the level of business support provided, the scheme cannot be fully self-funding. FIC1 was only viable due to grant funding from the Homes and Communities Agency. The Borough Council is therefore seeking grant funding of £2m, which represents 29% of the total cost, to support the scheme.

The Council's Executive has already agreed, in June 2016, to include the scheme in its Capital Programme, subject to a successful bid for LEP funding. Match funding of 71% of the total project cost is therefore already in place.

2 The Commercial and Economic Cases - Project Purpose and Objectives

The success of Fareham Innovation Centre Phase 1.

Fareham Innovation Centre Phase 1 (FIC1) has been a remarkable success. The building was completed in March 2015 and comprises 24 offices and 15 workshops aimed at business start-ups, primarily in the advanced engineering, marine, aviation and aerospace sectors. It also provides virtual office and business lounge facilities for businesses not yet ready to take up physical office space and some much in demand meeting facilities.

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 it would have achieved an average occupancy level of 27% and that it would reach an optimum occupancy level of 90% by March 2018. In the event, it reached 100% occupancy by the end of March 2016 and there is a waiting list of 20 businesses wishing to take up space. The Centre has therefore revealed a huge pent up demand for such accommodation in the Fareham/Gosport peninsula.

The Centre has reached its objective of being well designed, light and airy which businesses find pleasurable to work in and are proud to show off to their clients. The operator, Oxford Innovation, has proved to be innovative and imaginative in its approach to managing the building and it considers it to be the flagship operation of its 23 centres.

A key area of success is the added value gained from the employment of a Business Innovation Director to give business support to fledgling businesses. A significant level of advice and support has been given both on a one to one basis and through networking events, roadshows and workshops. These are proving invaluable to businesses in providing them with information and signposting to help them develop and thrive. Even at this early stage, some businesses have already graduated from being Business Lounge members still working from a spare bedroom, through to taking up shared office space and finally to renting a small office and employing staff.

A mark of its success is that FIC1 won the award for the most innovative small business project at the Federation of Small Businesses Awards in 2015.

The objectives of Phase 2

FIC2 aims to build on that success and will have three main objectives.

The first will be to provide more, larger office space to enable existing businesses to continue to grow and move to bigger premises. 4 businesses in FIC1 are already forecasting a requirement for new space as they continue on their growth trajectory. Without FIC2, they will need to move away from the community of innovative businesses being developed on Daedalus and the skills they have developed will be lost to the immediate area. This will also help to free up smaller space within FIC1.

Secondly, FIC2 will continue to provide more small office and workshop space for fledgling businesses. The project will be particularly aimed at those businesses which are engaged in the development of innovative new and emerging technologies, particularly, but not exclusively, in the marine and aerospace sectors including the development of autonomous and drone technologies. The current level of business support will be expanded to enable these businesses to benefit from the same level of advice and support provided in FIC1. Business support is especially important in these fields as it enables people to concentrate on their strengths such as the development of new ideas, whilst giving them the necessary tools to enable them to thrive and prosper as businesses in their early years.

Thirdly, FIC2 will provide some larger meeting and conferencing space. FIC1 has had to turn down requests for larger meetings due to the size of its existing rooms, so evidence of the demand is already there. The potential for holding larger conferences and events, particularly aviation themed ones, will act as a shop window for the Enterprise Zone as a whole and can play a role in increasing connectivity between the EZ, the wider LEP area and southern and central England as a whole. This will also help to showcase the emerging cluster of innovative businesses on the Fareham/Gosport peninsula, as well as to create jobs in the supply chain through event services.

The proposal is therefore to build a new 3400m² building on a site immediately adjacent to FIC1 and integral with it. It will provide approximately 33 new offices and 5 new workshops tailored to the needs of businesses within the strategic priorities of the LEP. The overall layout of the building and the exact number and size of offices will be determined as detailed design work proceeds.

The existing building will remain the hub of the overall Centre and will continue to provide reception, other support facilities, small meeting rooms and other communal space. The larger meeting and conferencing space will be provided within the new building. There will need to be a rearrangement of parking facilities as the new building will be built partly over the existing car park.

What marks out FIC1 as being different from routine managed office space is the business support element. This was crucial to the success of FIC1 and will be built on in FIC2. This will enable continued support to all new businesses but will also act as a catalyst in promoting collaboration, networking and sharing of resources between businesses. This role will also further develop the connectivity between the EZ and the wider Solent region through the hosting of business growth seminars and workshops and establishing links with the region's research and knowledge centres.

This element makes the Centre more expensive to operate than ordinary managed office space. FIC1 was only viable as a result of a grant from the Homes and Communities Agency. A detailed financial appraisal is set out in section 5. This demonstrates that the estimated operational costs would mean that the income would be insufficient to enable payback of the Council's investment over a reasonable timescale. This is why the Council is applying for funding under the Innovation Fund in order to bridge the gap and make this significant project viable.

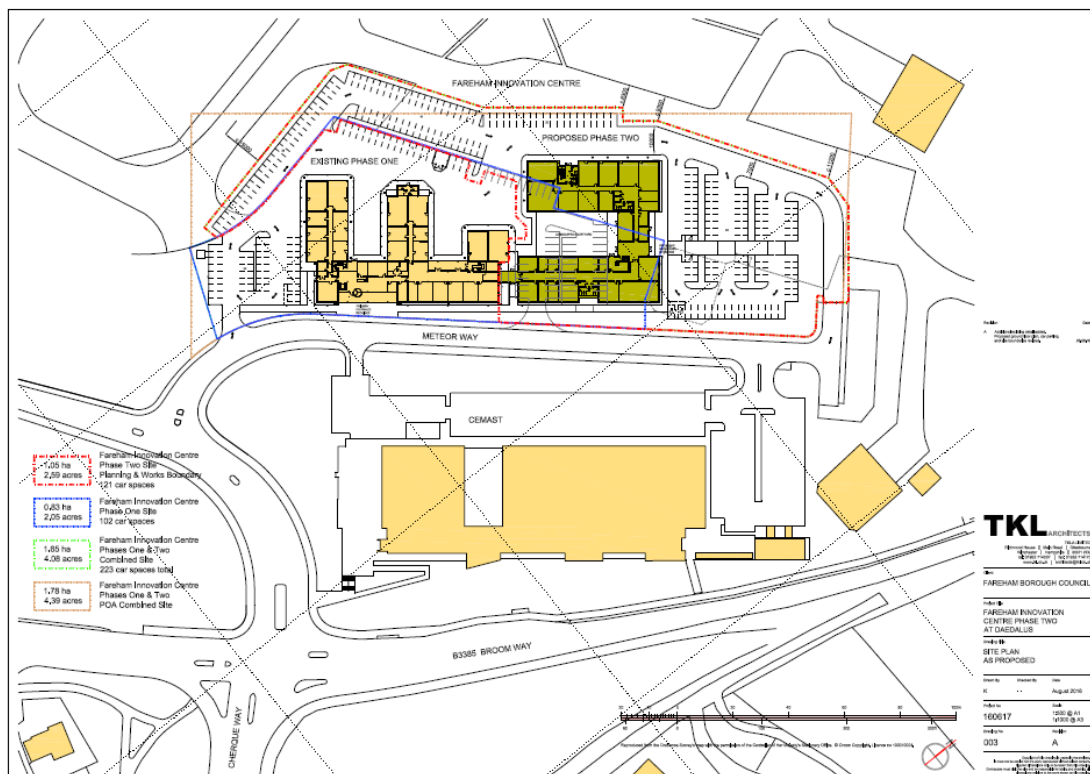
Other options considered.

The Council have considered options other than the one proposed.

The first was to do nothing. However this would ignore the unmet need that has been uncovered within the Fareham/Gosport peninsula for start-up space in a supportive environment. It would also result in FIC1 customers outgrowing the Centre, not being able to stay local and having to move to continue their growth, either within or outside the region. This will have a consequential impact on their suppliers. FIC1 would be hampered in helping to achieve the long term sustainable economic change that it set out to achieve and economic regeneration and connectivity would be hampered. Highly talented individuals would need to move with their businesses.

The second was to build a second self-contained Innovation Centre on a different site within the Enterprise Zone or elsewhere. However, this would mean that the economies of scale and other benefits arising from integrating the new scheme with the existing Innovation Centre would not be realised. In particular, the sharing of reception facilities, other communal areas and staffing and management arrangements make much more economic sense than replicating these facilities in an entirely new building. The synergy that could be achieved by a larger number of businesses collaborating and networking would also be lost.

Other options considered related to the exact position of the new building in relation to the existing one, the workshop to office ratio and the ratio of large to small office space. The preferred option, shown below, emerged after exhaustive analysis as being the most practical in management terms, the most cost effective and the one which met the identified needs most closely.



3 The Strategic Case

The proposal is a very good fit with the overall strategic priorities of the Solent LEP. The following paragraphs show how FIC2 will address particular issues which can be evidenced by the track record of FIC1.

Improving connectivity:

The business support element of FIC1 has not only promoted support for the businesses within the Centre, but has also, through weekly events, promoted outreach work to ensure connectivity with other businesses and opportunities throughout the Solent region and beyond. It has even recently hosted a Trade Mission from China who were interested in replicating the model. In addition to this, FIC2 will also provide for much needed conferencing and training facilities within the area, to extend the connectivity across the target sectors, e.g. through marine, aviation and aerospace sector themed events.

Its location on a live and developing airfield make it uniquely qualified for this purpose and will be vital as a “shop window” in helping to attract new aviation and aerospace businesses onto the Solent Enterprise Zone.

Attendees at events will experience the unique community of innovative growth businesses and will be attracted by the state of the art facilities and business support on offer, making Daedalus an aspirational home for those wanting to grow and collaborate.

The role of FIC1’s Innovation Director will be expanded to support the businesses based within FIC2, acting as a nucleus for collaboration between businesses within the FIC community, planning and hosting a series of business growth seminars and workshops, linking to the region’s research and knowledge centres as well as those inside and outside of the region who have expertise in the key sectors, such as Portsmouth, Southampton and Solent Universities and University of West England, for example.

Stimulating and supporting innovation:

FIC1 has attracted many new businesses in both its office and workshop space which are strongly innovative.

The waiting list for new space continues this trend. Through its business support activity FIC1 has demonstrated a track record of supporting and stimulating innovation and FIC2 will build on this. Existing businesses have already demonstrated the serendipity of businesses networking and sharing resources, contacts and opportunities.

Examples of this can be found on the current Innovation Centre website.

<http://fareham-ic.co.uk/news/2016/04/18/shared-space-rings-right-tone-for-fab-four/>

Improving the skills and talents of the workforce:

FIC1 has developed a strong working relationship with CEMAST, particularly in relationship to apprenticeship schemes. FIC2 will build on this synergy and will aim to support budding young entrepreneurs completing courses to set up their own business.

There are 17 engineering apprentices from CEMAST working in FIC1. Two businesses are employing 5 interns from University of Southampton (subject to matching candidates). These interns will be carrying out six to eight week research projects and product prototype assembly. Efforts are underway, to convert these internships into regular 'Year-in-Employment' programmes. In addition, the Centre hosted the Semi-Finals of the Young Start-Up Talent competition and mentoring programme, a new annual outreach initiative to engage and encourage 16 to 25 year old entrepreneurs in the Solent area. Many of the candidates came to this event from Fareham College and schools local to FIC1.

FIC2 will be vital in enabling the further development of these opportunities, including the provision of a dedicated office environment for interns to work closely with a range of FIC1 and 2 customers.

Supporting business growth:

Business support has been a key element of the success of FIC1 and has resulted in a more resilient business community. One to one intensive support has helped entrepreneurs with ideas, but little in the way of business skills, to survive in tough market conditions, to realise their aims and grow their business. This has been supplemented by regular networking opportunities and access to external support and advice through weekly events. The role of the Innovation Director will be expanded to ensure that this approach will continue to be developed within FIC2.

The approach will provide a true 'hub' focus for activity in these sectors to enable partners and businesses to influence and evolve the facilities and services available over time and depending on their requirements. The Innovation Director will also directly support collaboration amongst customers of both Centres and the wider business eco-system in terms of supply chain, open innovation and potential joint ventures.

Raising productivity:

FIC2 will provide an opportunity for businesses already located in the Enterprise Zone to grow, allowing them to stay in the area and not have the substantial upheaval of full relocation.

Equally, it will provide a facility where further similar businesses can cluster and co-locate, enhancing the growth opportunities within the EZ and minimising the need for logistics costs.

FIC2 will further expand the stimulating environment already created on Daedalus and will help remove some obstacles to scaling up and business growth, acting as a

hub of tailored support which is highly visible and engaged within the wider Solent region. The innate creativity and innovative nature of the businesses supported now and in the future will enhance longer-term productivity, e.g. in terms of better products and higher consumer satisfaction.

FIC2 will be a magnet for innovators and entrepreneurs, and the Innovation Director will break down the barriers to sustainable business growth by creating a network of business support available to customers ensuring the right intervention is identified and applied when the business needs it.

Wider economic impacts:

The proposal will potentially have the following wider economic impacts:

- Enable further small/start-up businesses to grow at an accelerated rate, within a supported environment.
- Provide support and supply chain services to larger advanced manufacturing businesses who wish to relocate onto the SEZ.
- Train and develop staff with the requisite skills to enable their employment in these advanced manufacturing businesses.
- With its advanced training and conferencing facilities, FIC2 will act as a shop window to businesses wishing to relocate onto the SEZ.
- Linking with the universities in the region, FIC2 will provide high quality job opportunities through the internship programme and in providing attractive options for graduates and retaining the intellectual capital developed through their studies in the Solent region.

Wider social impacts:

The proposal will

- Benefit individual small businesses in enabling them to move their business away from their spare bedroom or garage.
- Create a significant and recognised cluster of innovative growth businesses in the LEP's strategic sectors, supporting not only the supply chain but also the Universities in providing opportunities for research, collaboration and job opportunities for students and graduates.
- Help in the creation of a more highly skilled and trained workforce within the immediate area, making it more attractive to potential investors.
- Play its part in reducing out-commuting from the Fareham/ Gosport peninsula by creating and retaining jobs within the area, thus reducing traffic congestion within Gosport and Fareham.
- Create high value jobs for local people
- Retain skilled staff in the area.
- Have an aspirational effect on young people through the Young Talent Start Up competition.

4 Project Outputs

The Project will provide 3400m² of new commercial space in 33 new offices and 5 new workshops. Included within this is approximately 190m² of meeting, conferencing and event space.

A total of 292 net new jobs will be provided initially in FIC2. However, assuming an average level of turnover, this will grow to 468 gross new jobs over a 10 year period. In addition, based on the available evidence from Oxford Innovation's other Innovation Centres and recognised industry benchmarks, it is forecast that 435 new jobs will be created over a 10 year period from businesses supported by FIC2 after they have graduated from the building.

On the basis of funding under the Innovation Fund of £2m, this represents an investment of £6,849 per job (net) and £4,597 per job (gross).

The nature of the businesses it is proposed to locate within the Centre means that many of these will be high value, highly skilled jobs, which are desperately needed in the region.

150 jobs will be safeguarded as businesses within FIC1 will have a larger space to move into when they have outgrown the building, thus freeing up more, smaller space.

There is already a close relationship between FIC1 and CEMAST which has resulted in the employment of 17 apprentices within the Centre, 5 summer interns and 5 trainees. It is intended that FIC2 builds on that relationship and continues with this level of contribution towards skills training.

Based on the experience of FIC1, it is estimated that a total of 700 people will be employed on the design and construction of the building, with around 70 people being employed on site at any one time during 2017/18. This equates to 6.6 FTE jobs on the basis of 1 job per £1m of construction.

Overall, it is estimated that over a 10 year period, the proposal will result in an additional £11m GVA in the local economy, assisting in the Solent LEP's GVA growth plans.

5 The Financial Case

Capital cost.

The total estimated capital cost of the proposal is £6.963m. This application is seeking a grant contribution of £2m towards that total figure.

As the project is now at detailed design stage, a detailed Cost Plan has been developed to allow the beginning of the procurement process. Whilst this is still indicative, it is based on a number of factors. Foremost among these is the actual build cost of FIC1 as FIC2 will be built to a very similar specification. This is supplemented by data from more recently completed construction projects on nearby sites and knowledge of the site and its condition.

The estimated capital cost can be broken down as follows:

Design and build contract (including build costs and technical design fees)	£6,463,000
Fit out costs	£150,000
Client side costs (including design fees up to tender stage, QS, Contract Management, Project Management, survey costs)	£350,000
Total	£6,963,000

The exact phasing of the cash flow can only be fully determined once the project is at a more advanced stage and when a tender has been accepted. However, the table below shows a reasonably informed estimate.

	2016/17	2017/18 Q1	2017/18 Q2	2017/18 Q3	2017/18 Q4	2018/19
Client side costs	260,000	30,000	30,000	20,000	10,000	
D&B contract	1,740,000	1,323,000	1,300,000	1,300,000	600,000	200,000
Fit out costs					150,000	
Total	2,000,000	1,353,000	1,330,000	1,320,000	760,000	200,000

The Council's Executive, at its meeting on 6th June 2016, agreed in principle to the inclusion of this scheme in the capital programme, although it noted that there was a funding gap which necessitated bid for a funding contribution from the Innovation Fund.

The key financial risk is that the Design and Build tenders will come in at a significantly higher cost. However, the design and specification and the associated cost planning process will be tightly controlled to ensure that this does not happen. If it does, then a Value Engineering exercise will be undertaken with a view to bringing the costs down.

Revenue costs.

Based on the experience of operating FIC1 including assumptions about the level and speed of occupancy, the likely rental rates and taking into account the economies of scale presented by FIC2, the Borough Council and Oxford Innovation

have undertaken a detailed and exhaustive exercise to determine its net operating costs. Over a ten year period, this can be summarised as follows.

	Year 1 (£)	Year 2 (£)	Year 3 (£)	Year 4 (£)	Year 5 (£)	Years 6-10 (£)
Operating costs	241,257	277,835	322,849	331,525	339,782	2,937,042
Cumulative operating costs	241,257	519,092	841,941	1,173,466	1,513,248	4,450,289
Income	181,812	521,247	734,320	753,990	772,840	4,163,857
Cumulative income	181,812	703,060	1,437,379	2,191,369	2,964,209	7,128,065
Net profit/(loss)	(59,445)	243,412	411,471	422,465	433,058	1,226,815
Cumulative net profit/(loss)	(59,445)	183,967	595,438	1,017,903	1,450,961	2,677,776

This analysis assumes that business rates relief will apply in Years 1-5, but that full business rates will be payable from Year 6 onwards.

It demonstrates that the net income from the scheme of £2.67m over the first 10 years would, when projected forward, be insufficient to achieve a payback on the Council's investment over a reasonable timescale. The Council is therefore seeking a grant from the Innovation Fund of £2m in order to close this gap. Taking into account a contribution of £150,000 from the Centre operator for fit out costs, this will reduce the Council's borrowing requirement to £4.813m, resulting in a more acceptable payback period of 20 years.

The cash flow from the various funding parties could therefore be as follows:

	2016/17	2017/18 Q1	2017/18 Q2	2017/18 Q3	2017/18 Q4	2018/19	Total
FBC funding		1,353,000	1,330,000	1,320,000	610,000	200,000	4,813,000
Centre operator funding	0	0	0	0	150,000	0	150,000
LEP funding request	2,000,000	0	0	0	0	0	2,000,000
Total	2,000,000	1,353,000	1,330,000	1,320,000	760,000	200,000	6,963,000

6 The Management Case - Project Delivery Plan and Risk Register

The project has currently reached detailed design stage. The feasibility of the scheme has been established and more detailed design work, to enable a detailed Cost Plan to be developed and enable a planning application to be made, commenced at the end of July 2016.

The Council's Executive have approved the inclusion of the scheme in the Capital Programme, subject to a successful LEP funding application and the project is therefore well advanced and ready to proceed. The Council has appointed a design team, including an architect together with mechanical and electrical engineering consultants, structural and civil engineers and project management cost consultants. It will shortly be in a position to submit a planning application and prepare tender documentation.

To enable incoming businesses to take full advantage of the 5 year Business rate relief and to comply with the requirements of LEP funding, the building will need to be complete and ready for occupation by March 2018. This is 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 consecutively. This was the approach taken with the even more challenging timescale presented by FIC1. This scheme moved from concept design stage in October 2013 to completion in March 2015.

A detailed project plan is still to be drafted, but bearing in mind, the required end date, an outline project plan is set out below. The activities in italics are those that have already been achieved.

Activity	Start date	Finish date
<i>Gain Executive approval in principle</i>	<i>6 Jun 2016</i>	<i>6 Jun 2016</i>
<i>Undertake feasibility study and concept design (RIBA Stages 1-2)</i>	<i>1 May 2016</i>	<i>30 Jun 2016</i>
<i>Undertake developed design work (RIBA Stage 3)</i>	<i>1 Jul 2016</i>	<i>31 Oct 2016</i>
<i>Develop detailed Cost Plan</i>	<i>1 Oct 2016</i>	<i>31 Oct 2016</i>
Commission and undertake site surveys	1 Nov 2016	30 Nov 2016
Achieve planning permission	1 Nov 2016	25 Jan 2017
Prepare tender documentation	1 Nov 2016	30 Nov 2016
Tender invitation, negotiation and acceptance	1 Dec 2016	15 Jan 2017
Technical design by Design and Build contractor (RIBA Stage 4)	16 Jan 2017	30 Apr 2017
Site preparation works and construction period	16 Jan 2017	15 Mar 2018
Internal fit out	1 Feb 2018	15 Mar 2018
Marketing and letting to first tenants	1 Dec 2017	15 Mar 2018
First tenants take up occupation	16 Mar 2018	ongoing

The Council will be undertaking a full public sector procurement process through an established Framework with a view to appointing a contractor on a Design and Build

basis. The Council will be undertaking design work up to and including RIBA Stage 3. This will include seeking detailed planning consent, undertaking appropriate surveys and developing an outline design and specification. Upon appointment, the contractor will develop the detailed technical design work prior to starting construction work.

As Oxford Innovation are already the operator for FIC1, a contract won as a result of a competitive tendering process, their contract will be extended to cover FIC2.

Like any project, this is not without risk, but the actions to mitigate these risks are already under consideration and a register of the key risks set out below.

Risk	Mitigating actions	Review date	RAG rating
That site surveys show up significant problems of contamination or unexploded ordnance.	Preparation of comprehensive method statements to deal with such issues and adjustment to design if necessary	Sep 2016	4
That planning consent is not forthcoming	Pre application discussions with planning authority to ensure location and design are consistent with planning policy	Sep 2016	2
That the tender price is significantly higher than estimated	Adopting a tight specification and a robust procurement process and, if necessary, a realistic approach to Value Engineering.	Jan 2017	4
That the programme for completion over-runs affecting the ability of new businesses to claim Business rate relief	Tight control of the programme both pre and post contract and the option of running certain activities concurrently rather than consecutively as evidenced by FIC1	Sep 2017	6
That the Centre is occupied at a much slower rate than anticipated with a consequential adverse impact on the revenue stream in the early years	A realistic appraisal of the likely occupancy rate allied to a strong approach to marketing	Sep 2018	4
That new businesses being set up in the Centre default on their payments with a consequential adverse impact on the revenue stream	A comprehensive approach to business support which assists in early years survival and early warning of any potential problems	Sep 2018	4