

## Wiltshire Council

### Cabinet

7 January 2020

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**Subject:** Porton Science Park - Phase Two

**Cabinet Member:** Cllr Philip Whitehead Leader of the Council and Cabinet Member for Economic Development  
Cllr Simon Jacobs Cabinet Member for Finance and Procurement  
Cllr Toby Sturgis Cabinet Member for Spatial Planning, Development Management and Investment

**Key Decision:** Key

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#### **Executive Summary**

Following the success of the phase one Incubator building at Porton Science Park, which officially opened in September 2018, there is a strong business case to construct an Innovation Centre to support scientific activities linked to the Porton Campus.

Phase two would deliver a research and innovation facility providing; meeting and conferencing space, collaborative workspace, and flexible office and laboratory bench space to support scientific activities linked to the Porton campus. A programme of business support, training and development will be offered, delivered by specialist providers out of the new building. In order to deliver the most financially viable scheme with the best economic outputs, officers recommend to members the option that delivers the most office and laboratory space, generating additional revenue and creating a 40,000 sq ft (3716 sqm) Centre.

A full application for European Regional Development Funding (ERDF) of £2.5 million has been submitted by the council and has been selected to go forward to grant funding agreement. The grant funding agreement is subject to the confirmation of matched funding and the project being at RIBA stage 3.

In order to reach RIBA stage 3 an architect and building contractor have been selected, but not appointed yet, through a detailed procurement process. Therefore, some spend will be required before a Funding Agreement is entered into, to secure the ERDF grant.

This report requests match funding of £2.5 million capital to create the Innovation Centre and support the Business Support package, and an additional £2.5 million to create a larger building housing office and laboratory grow-on space.

Approximately £250,000 of capital would be required this financial year, £4.25 million during 2020/21 and the remaining £500,000 in 2021/22.

The ERDF programme is ending, and this will be the final opportunity we have to apply for funding.

### **Proposals**

Members are asked to endorse funding of £2,500,000.00 capital to enable the draw-down of match European funding for the costs of building a 20,000 sq ft (1858 sqm) Innovation centre at Porton Science Park, and to provide specialist business support, training and development on-site.

Members are asked to endorse an additional £2,500,000.00 capital to fund an additional 1858 sqm, enabling a larger 3716 sqm building to be constructed, which will provide grow-on space, additional employment from the scheme and enable an economy of scale. As with the first phase building at Porton, the additional space will be built as a shell, with a reduced price per sqm charged to reflect the fit-out costs the tenant will bear.

### **Reason for Proposals**

- To progress delivery of Porton Science Park, in partnership with Dstl and PHE.
- To ensure that businesses at Porton Science Park do not need to travel out of the SWLEP area for innovation support because this project will provide free access to this in situ
- To offer flexible space for meetings and a collaborative laboratory space supported by existing ultrafast broadband provision, as well as creative and recreational space to support networking
- To build on existing innovation assets at Porton Science Campus (including the specialist technology which may be made available at Dstl and PHE) and directly develop opportunities for exchange between small and medium sized enterprises and larger research bodies in the area
- To establish links to higher education institutions, researchers and academics on a national basis, as well as Catapult centres and other centres of excellence
- To increase demand from the SME business base for research and development activity by lowering the barrier to entry and providing an affordable space for these activities to be undertaken
- To enhance innovation capacity within SWLEP based SMEs including the ability to undertake end-to-end research and development for new products and process innovations, including opportunities to work in collaboration with research institutes

**Alistair Cunningham OBE, Executive Director, Growth and Place**

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### **Purpose of Report**

1. This report recognises the importance of the first phase of Porton Science Park to economic regeneration and in developing our sector strengths in the south of Wiltshire and seeks members' endorsement of funding for a second phase of development, to help achieve the long-term vision for growing high value activity in the defence and health/life sciences sectors at this centre of excellence.
2. Endorsement of funding is required to enable the draw down of match European funding for the capital costs of building the centre and providing specialist business support, training and development on-site. The overall funding package cabinet is asked to endorse to deliver the project is £7.5 million. £2.5 million of this will be funded by the European Regional Development Fund. It is proposed that the council both match this amount, plus finance an additional £2.5 million towards the creation of additional commercial space (laboratory and office), in order to generate sufficient income to cover its overall revenue cost of capital.

### **Relevance to the Council's Business Plan**

3. The project is a priority in achieving Key Action 2 of the Council's Business Plan which is to, 'Stimulate economic growth and create additional jobs in partnership with the Local Enterprise Partnership.'
4. Porton Science Park is a priority in delivering Objective 1: Wiltshire Has a Thriving and Growing Economy, in the Council's Business Plan

### **Background**

5. The first phase of the Porton Science Park comprises 3948 sqm of serviced Innovation and Grow-on space for new and growing enterprises in the life sciences and related research sectors. The Centre was funded by Wiltshire Council, UK Government via the Swindon and Wiltshire Local Enterprise

Partnership, and European Regional Development Funding, and became operational in January 2018. The centre is now 90% occupied.

6. Future phases of development at the Science Park are expected to be market-led, centred around specific pre-lets. There will also be a requirement for catering and other social amenities as the park increases. The co-ordination and planning of this work will be taken forward by a Porton Science Park Director (post due to be advertised in February 2020) and guided by the Porton Science Campus Strategic Steering Group.
7. While the first phase has been highly successful and demonstrates potential, it is fundamentally a workspace-focussed facility with no readily available business support on offer, and a recognised and evidenced lack of meeting, conferencing and collaborative space.
8. Two financial models have been developed to test the viability of a second phase of development using European funding, illustrating a 15-year revenue cost calculation for a 1858 sqm centre based on a total project cost of £5m and a 3716 sqm centre with a total project cost of £7.5m. The models show that there is no break even point for the 1858 sqm centre compared to a break-even point in year 5 for the larger build.

### **Main Considerations for the Council**

9. Phase two will deliver a research and innovation facility providing collaborative workspace, flexible office, meeting and laboratory bench space. A programme of business support, training and development will be provided by specialist providers for the Health and Life Sciences Sector (HLS) through the organisation and delivery of a mix of sector-specific conferences, seminars, workshops and one-to-one support.
10. The project will promote and develop interaction between universities, SMEs and the Swindon and Wiltshire Local Enterprise Partnership (SWLEP), enabling universities to strengthen their role as strategic partners in growth in Swindon and Wiltshire. Porton Science Park is strategically positioned to facilitate this with similar objectives to a UEZ (University Enterprise Zone). This approach will help academics, entrepreneurs and businesses achieve and accelerate growth by investing in innovation, research and development activities.
11. Business support will be two-fold, consisting of specialist technical support and business advice for SMEs working at the Science Park, and events designed promote the science park and collaboration between universities and SMEs. These events will consist of a mix of conferences, workshops and seminars. It is anticipated that the successful provider will also deliver multi-day courses for HLS start-ups. The newly built Research and Innovation Centre will provide collaborative workspace, flexible office and laboratory bench space free of charge for these events and business support activities.
12. The phase two “Collaborative Innovation Centre” (Centre), would provide a supportive environment for our existing businesses to grow while reinforcing Porton Down an attractive location to invest. Some businesses already see the supply chain opportunities of being located near some of the UK’s largest, most

innovative firms and the commercial opportunities associated with the Military. They can also be attracted to the area's strategic connectivity to national and international markets and the quality of life on offer. However, the competition faced by Swindon and Wiltshire, and specifically Porton, is fierce because of the concentration of high value-added economic activity in London and the other large English core cities which present a challenge to a science park located in rural Wiltshire. To attract a greater share of foreign and domestic investment to the area it is necessary to leverage and showcase the existing research strengths Porton boasts and the uniqueness of its offer. This project would achieve this objective. It will promote the area and attract new inward investors from around the world, for which innovation is a major business driver.

13. The Centre, being located at an existing and world-renowned science hub, will provide a high-quality environment in which to inspire invention, discovery, and experimentation combined with entrepreneurial prowess. The Centre will encourage greater interaction and collaboration between universities and businesses, allowing universities to establish and strengthen their role as strategic partners in local growth and stimulate further development at the Science Park.
14. Since the first phase Incubation Centre was opened, meeting facilities have been oversubscribed both in terms of number of bookings and size of the space. Recognising this need on the Science Park the European funded phase two building will address this by providing more modern conference and meeting room space.
15. The council has received several expressions of interest both from existing occupiers of the Science Park who are planning for growth, and companies both in the UK and abroad in taking new space at Porton Science Park. This evidence of demand substantiates the business case for creating additional commercial space to grow the Science Park further.
16. To achieve the programme of building work, we have used a modular building Framework to tender for a turn-key contractor (single contractor to deliver all the aspects of the works). Once funding has been endorsed a contractor will be appointed under a pre-construction agreement to carry out RIBA 1-4 services. Once a funding agreement has been entered into with the Managing Authority, formal contract will be entered into with the appointed contractor to construct the new building. Engagement of the successful contractor will be reviewed should we be successful in realising the additional £2.5 million for a larger 3716 sqm building.
17. Market engagement and procurement of Business support providers will be twin-tracked with the latter half of the design and build phase to ensure provision is in place in time for handover and opening of the new Centre.

### **Overview and Scrutiny Engagement**

18. N/A

### **Safeguarding Implications**

19. There are no additional considerations relating to the proposals to deliver Porton Science Park.

### **Public Health Implications**

20. The creation of a significant number of high-quality job opportunities in the Health and Life Sciences at the Porton Science Park will have a beneficial impact on research to address public health issues.
21. Workplace health will be considered as part of this development, and the permitted scheme will incorporate positive design elements which will contribute to general wellbeing.

### **Procurement Implications**

22. This project is intending to use a Framework as a route to market and follow a “develop and construct” methodology. The Southern Modular Building Framework is a recognised OJEU compliant framework established and managed by a neighbouring Local Authority (Hampshire County Council) and we are working closely with them.
23. This project is intending to follow a two-stage process. The first stage is to enter into a pre-construction services agreement with the preferred supply chain partner, with two outputs: Firstly, to carry out design works across RIBA stages 1 to 4, and secondly to provide a lump-sum fixed price to build the proposed Innovation Centre. On acceptance of the design and the price, we will then look to enter into an NEC Building Contract with the Contractor to build the Innovation Centre. This is expected to take place in early Summer 2020, however the Council are under no obligation to proceed to construction.

### **Equalities Impact of the Proposal**

24. There are no equalities impacts arising from the proposal

### **Environmental and Climate Change Considerations**

25. The operator will be expected to adhere to the operation manual for the building, ensuring that both they and tenants occupying the building manage it in an energy efficient way and in line with the BREEAM Very Good specification (or alternative environmental standards providing they can be clearly evidenced) to which it will have been constructed.
26. In line with Wiltshire Council’s recognition of the climate change issue, the development of the Centre has had as an objective carbon neutrality. This will include a combination of roof PV panels providing the maximum load possible, heat recovery units, air source heat pump condensing units and rain water harvesting.

27. This project will work closely with a separate proposal to establish a Combined Heat & Power (CHP) solution at the Science Park. The Innovation Centre will be future proofed to enable connection to the network once established.
28. Providing additional laboratory and office space for growing SMEs in Wiltshire will also reduce the necessity for travel out of the county; offering benefits through reduced carbon emissions, improved air quality and an improved work-life balance. We are also developing a green travel plan with our campus partners to encourage greater car share and park & ride options across the site. Electric car charging points are currently under consideration, for installation as the science park develops.

#### **Risks that may arise if the proposed decision and related work is not taken**

29. The European Regional Development Funding available to part-fund the scheme is at risk of loss from the SWLEP area if we cannot bring forward a suitable phase 2 project at Porton.
30. Without endorsement of capital funding we will not be able to enter into a pre-construction services agreement with the preferred contractor, to carry out design works and provide a fixed sum for the Innovation Centre, and the project will not proceed.

#### **Risks that may arise if the proposed decision is taken and actions that will be taken to manage these risks**

31. There may be a shortfall in occupancy of the Centre, which would result in underperformance in terms of rental income, and additional empty unit costs. Assumptions have been made for both of these issues in the cost calculation used to forecast the building's financial performance. These assumptions are relatively conservative (risk averse); assuming an initial occupancy of 40% rising to 80% overall as at year 5, based on performance experienced at the council's other business incubators (The Enterprise Network) and the current performance of the phase one facility which is operating at near full capacity.
32. Conversely, there may be unexpected incidental costs, for example emergency repairs. The cost calculation for the Innovation Centre includes evidence-based allowances for both fit out and maintenance costs over the 15 year lifetime of the building which should be able to manage all but the most exceptional of circumstances. This will be managed as a "sinking fund", meaning that surplus rental income will be set aside to manage years where there may be a shortfall. This risk and the responsibility for managing the building will lie primarily with the operator, however either failure to properly upkeep the building, or financial distress on the part of the operator, may require the council's intervention.

#### **Financial Implications**

33. The total capital request for Porton phase 2 is £5 million, this will be matched with £2.5 million ERDF grant funding that has been secured and is at agreement stage. The full amount will be spent in 20/21.

34. If approved this bid will be included in Budget Setting report to Council in February for agreement of the funding. A virement is also requested in 19/20 from Boscombe Down capital budget for £0.25 million so that works can commence in 19/20.
35. Capital financing costs would be circa £0.198 million per year based on annuity Loan for 50 years at 3.1%. The capital financing budget would need to be increased by this amount in year 21/22.
36. An NPV cashflow has been completed for Phase two, and forecasts that the site can breakeven in year 6 25/26. From year 25/26 the site can cover all forecast operational running costs including the capital financing costs and generate an average return of £0.175 million per year.
37. Modelling has been based on reaching 80% capacity by year 25/25 generating £0.747 million income rising to £1.068 million in 35/36. Operational costs excluding capital financing costs are forecast at £0.339 million in 25/26 rising to £0.461 million in 35/35
38. The risk is that the site does not reach and sustain 80% occupancy and generate a return. Once it has broken even the site can cover operational costs and borrowing costs at 60% capacity however it would not be generating a return.
39. Borrowing is being based on 50 years, this is therefore considered as a long-term investment.
40. ERDF grant conditions will need to be complied with to ensure the full grant amount can be drawn down and claw back is not triggered.

### **Legal Implications**

41. The Council's legal team has been involved in the procurement process which led to the appointment of the contractor through the Southern Modular Building Framework Agreement. The Framework is managed by Hampshire County Council, with whom the Council has signed the User Agreement in September 2019. The Framework Agreement is fully compliant with the relevant procurement legislation, particularly the Public Contracts Regulations 2015.
42. The legal team will support the rest of the process and ensure that all relevant legal agreements entered into by the Council are compliant with the relevant legal requirements. This will ensure that Wiltshire Council is fully protected.

### **Workforce Implications**

43. There will be a requirement for a Lab technician and general Facilities Management to support the new building. It is expected that the council will recruit for these roles using its normal recruitment processes and budget has been allocated in the 15 year revenue cost calculation for the business plan.

## **Options Considered**

44. Do nothing. If the council does not proceed with this project the available European funding will be lost from the Swindon and Wiltshire area. This would have negative financial, economic and reputational impacts and therefore is not the preferred option.
45. Do minimum. European funding must be matched pound for pound. Therefore the minimum scale that can be delivered will be a £5 million project. This model has been tested financially and a building meeting this minimum specification would fail to generate sufficient return to cover its cost of capital finance. This is therefore not the preferred option.
46. Do more. By increasing its capital commitment to the overall project, the council can increase the quantum of commercial lettable space and create a viable scheme. This is the preferred option to deliver the desired economic outputs of the project, and progress of Porton Science Park.

## **Conclusions**

47. The first phase of Porton Science Park has been a great success creating high value new jobs, and growing SME businesses in the life sciences. This report has set out the business case for delivering a second phase of development which will build on, and complement, this success.

## **Simon Hendeley, Director, Housing and Commercial**

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23 December 2019

## **Appendices**

None

## **Background Papers**

ESIF-ERDF Full application form for Porton Science Park – Phase two.