

REQUEST FOR DIRECTOR DECISION – DD1296

Title: Croydon Innovation Centre

Executive Summary:

This paper seeks approval to release funds of up to £800,000 from the London Enterprise Fund for the London Borough of Croydon's Innovation Centre project subsequent to MD895 (approving the overall MRF programme) and MD1092 and the decision of the Executive Director of Development, Enterprise and Environment following Investment and Performance Board approval of the Stage 2 Investment Decision.

The Innovation Centre project will provide a specialist technology business incubator unit to act as a catalyst for the growth of the tech community in Croydon by supporting local businesses and providing a resource to attract inward investment.

Decision:

The Executive Director, Development, Enterprise and Environment approves expenditure of up to £800,000 of London Enterprise Fund (up to £750,000 capital and £50,000 revenue grant funding) as a contribution to the London Borough of Croydon's costs of the delivery of its Innovation Centre project.

AUTHORISING DIRECTOR

I have reviewed the request and am satisfied it is correct and consistent with the Mayor's plans and priorities. It has my approval.

Name: Fiona Fletcher-Smith

Position: Executive Director of Development, Enterprise and Environment

Signature:

Date:

PART I - NON-CONFIDENTIAL FACTS AND ADVICE

Decision required – supporting report

1. Introduction and background

1.1. Introduction

- 1.1.1. Following the public order disturbances in August 2011, the Mayor announced a fund of £70m to invest in the long term regeneration of some of the worst affected boroughs. MD895 and MD1092 approve the overall Mayor's Regeneration Fund / London Enterprise Fund (MRF/LEF) programme budget of £70m and delegated authority on the detailed allocation of the programme budget, individual project budgets and any further resources required to the Executive Director for Development, Enterprise and Environment.
- 1.1.2. The London Borough of Croydon ("the Council") was identified as a recipient of Mayor's Regeneration Fund (MRF/LEF) funding on the basis of the impact on businesses in the local area and potential for growth, and were invited alongside the other boroughs to submit a Mayor's Regeneration Fund (MRF/LEF) proposal which would be prioritised on the basis of deliverability, value for money and contribution to economic growth.
- 1.1.3. The Innovation Centre forms part of the London Enterprise Fund (LEF) allocation for a Business Support Package seeking to instigate new business growth in the Borough and changing the perception of Croydon as a place to do business. Stage 1 approval for this package was provided by the Regeneration Investment Group (RIG) on 6th June 2012. At the meeting it was agreed that each component of the Business Support Package would proceed to Stage 2 approval as and when projects are at an appropriate stage. Following the Croydon Business Rate Relief and West Croydon Investment packages, this is the third and final project to come forward.
- 1.1.4. The original Innovation Centre concept could not be progressed as a result of a significant uplift in the commercial market which resulted in the lease deal for the proposed premises being withdrawn, and made the project unviable in its proposed form. As a result, there was an opportunity to reassess the occupier requirements within the Croydon Opportunity Area (COA) and re-profile the scheme to address weaknesses in the offer. This review showed a strongly growing demand for specialist tech incubator/accelerator premises, and therefore a revised proposal seeks to build on the principles of the Innovation Centre concept but to refocus the offer to help support and enhance the growth profile of the new tech cluster and address a significant weakness in the current local market. It has been acknowledged that there is a lack of fit for purpose office space for this particular business community in Croydon and the council wishes to address that gap in the market.
- 1.1.5. The Stage 2 Investment Decision for the revised proposal was approved in principle at the Investment and Performance Board meeting on 20 November 2014.

1.2. Background

- 1.2.1. After a number of years of underperformance in the commercial occupier market, Croydon has started to see the signs of a recovery – there was a 96% increase in take up in 2013/14, and increasing rents reflect growing confidence in the market – although there remains a significant amount of vacant office space in prime locations.
- 1.2.2. In this period, by far the biggest growth in the centre has been in tech businesses, expanding by 38% over the past two years to the 7th biggest and fastest growing of London's tech clusters. There are now 255 tech businesses in the Opportunity Area, and 1,035 across the borough - if the

trend were to continue, Croydon would become the 5th biggest cluster in London by 2015, outpacing Hammersmith and King's Cross, amongst others (all stats from ONS UK Business Counts MSOA level, April 2014).

- 1.2.3. In order to catalyse the growth of the emerging tech eco-system LB Croydon and Croydon Tech City, a group of tech entrepreneurs working with the council to support the tech sector, have identified the lack of fit for purpose specialist office solutions for the growing tech community as a major limitation. Whilst Croydon has eleven serviced/short term office facilities, only one of these is set up to deliver the specialist tech growth environment required to attract, retain and grow these businesses through the Croydon office environment (and this is still a basic provision). In comparison, the Shoreditch/City Fringe cluster has 23 specialist tech start-up environments, including co-working, incubators, accelerators and serviced office facilities (source www.gocowo.com 2014).
- 1.2.4. In addition, there are no viable incubator solutions for the very early stage businesses/ highly talented individual entrepreneurs who are not yet producing income but have viable and potentially high growth potential. Providing a proportion of high quality, free-to-user space and facilities such as meeting rooms is a critical element in anchoring these high value companies and individuals, as it provides a vital entry point to the next wave of talent into a district and an equally vital engagement point with the local commercial property market, from which the business can be encouraged to grow within the properties in the district. The proposed facility will have a proportion of free desk space in addition to desk space to rent.
- 1.2.5. Lack of suitable accommodation has been reflected in comparative performance in the location of foreign direct investment by tech businesses overseas. Since 2012, the Tech City/Google campus hub has enabled London & Partners (L&P) to attract and secure 52 ICT and creative media enquiries, whilst in the same period Croydon has received 7 enquiries, none of which have been secured. L&P have cited the lack of a fit for purpose unit to house these businesses as a critical reason behind these location decisions and have advised that the development of a similar facility in Croydon would support a similar return.
- 1.2.6. The fact that the private sector is not choosing to provide such a facility may be a combination of different factors: the absence of current space suitable for adaption or in the right location; risk aversion on the part of potential providers to establish a new facility outside more established geographical clusters; or unwillingness of lenders to finance the capital sums required to develop specialised accommodation.
- 1.2.7. The existing serviced office provision in Croydon is performing very strongly, with an average occupancy rate of over 90% across all eleven existing units. As a result of this demand, serviced office space price points have risen to the equivalent of ca £65 per sq.ft, which is pricing out a number of particularly early stage businesses.
- 1.2.8. Croydon Tech City have developed a community of over 600 local tech businesses, a number of which have indicated an early interest in a new co-working facility. In addition, they are aware of a wider addressable community within key hubs across south London, including Clapham Junction, Brixton, Crystal Palace, totalling over 10,000 registered tech businesses. Due to the high quality transport connections, a Croydon based Innovation Centre could provide a viable hub for the south London digital community, which would also provide a lower cost alternative to travelling in and out of central London from south London and surrounding districts each day. It is hoped that the incentives provided through this project will create the critical mass required for the facility to be a success.

2. Objectives and expected outcomes

- 2.1. The Council is proposing to provide up to 20,000 sq.ft. in a council owned building to a specialist tech incubator space provider to set up a new facility in Davis House, central Croydon.
- 2.2. The proposed GLA investment is £800,000, of which £750,000 is capital and £50,000 revenue. Croydon Council will provide £1.090m (the value of Croydon providing Davis House rent/rate free for the first two years and staff costs to deliver the project). The total cost to deliver the project is £1.890m.
- 2.3. In addition the management partner (the operator) will be responsible for the management of the hub office space and café/bar concession, at a revenue cost estimated at £500,000 per year. The operator would raise this revenue, and any profits through revenues received through membership fees/tenancy arrangements in the pay-for space which forms part of the project.
- 2.4. Whilst there has been some interest from the specialist tech co-working/accelerator providers in a new operation in Croydon, it remains a new market for this use and therefore a riskier proposition than other locations/operations. In order to attract a first mover to make the market and invest in the substantial start-up costs to build the community, Croydon will need to provide an offer significantly better than current terms available to them in other more established locations.
- 2.5. Croydon Council will use the funding requested from the GLA to deliver the fit out of the space to the specification required by the operator and provide marketing to attract businesses to the centre. In addition the council will also be providing a highly competitive lease package, including rent/rate/service charge free period over the first two years.
- 2.6. The operator for the Innovation Centre will be procured through a competitive process, where they will be invited to tender a management proposal which delivers a detailed programme of support services (including but not limited to accelerator programmes, networking events, skills training services). In return, the operator will be able to sub-let/charge membership rates on an agreed proportion of the space to deliver an income stream for the on-going revenue management of the programme and a commercial return to the company. Croydon Council has commenced (at risk) the procurement of an operator, and this has demonstrated that there is interest in the market to deliver the project.
- 2.7. Specifically, the project will:
 - Secure a suitably qualified and experienced operator for the Innovation Centre through a competitive tendering process. The operator will be expected to have experience of running tech focused accommodation and accelerator programmes. The Croydon Tech City group will be involved in an advisory capacity in the tender, design and selection process.
 - In consultation with the operator, refurbish Davis House - a council owned property, based on the edge of Old Town, which is at the centre of the existing Croydon Tech City community.
 - Croydon Council will offer the operator a two year rent/rates/service charge free lease for the space in Davis House, with an option to extend at commercial terms for a further 8 years. The rent free period is designed to make this project as attractive and 'risk free' as possible to attract the highest quality operators to the tendering process.
 - Croydon Council would have access to and share ownership of the membership base of the Innovation Centre. If the operator did not choose to extend their lease at the 2 year break point, the user database would be retained to enable hand over to a new operator which again would be selected through a tendering process.

2.8. Delivery model

Subject to final designs for the fit-out, it is proposed to deliver a 15-20,000 sq.ft facility (depending on how areas are utilised), which will be split into a combination of membership options. To increase the attractiveness of the unit to occupiers and to develop additional revenue streams, we are proposing that the ground floor unit would contain a bar/catering/coffee shop concession and would be open to the public, a model repeated across a number of co-working spaces. It is also proposed that contained within the building will be a number of shared tech facilities which will be provided by the operator. These facilities will provide added value to the membership base. These may include:

- Digital production facilities including 3D printing equipment;
- Post production facilities;
- Broadcast production facilities;
- Testing facilities, including for all new systems.

2.9. Proposed accommodation

Ground floor: Entry level	Free for space Occupancy approx. 5000sq.ft including bar concession/meeting/event & meeting space Occupancy ratio 4:1 <i>The occupancy ratio reflects the fact that this space will be let to 400% capacity, as because of the hot desking nature, the space can be used by multiple people within the same day, as people depart for meetings /work elsewhere or are absent</i>
First / second floor	Entry level semi private suites, including fixed terminals, storage and bookable meeting space Occupancy approx. 3000 sq.ft , 2000 sq.ft meeting/storage/shared facilities Occupancy ratio 2.5:1 <i>This space will be available to multiple users at one time and not all users will be present at once. Therefore we foresee that this space could be let out at 2.5 times capacity.</i>
	High quality, tech focused serviced office suites Occupancy 3750 sq.ft office space, 1250 sq.ft shared space (toilets, reception, meeting space) Occupancy ratio 1:1
	Private, self-managed office suites Occupancy ratio 1:1

N.B. Areas indicative until designs are finalised

2.10. Commissioned outcomes

Objective	Outputs over first 2 years	Outcomes	Evaluation Method
To develop a new specialist tech hub within Croydon to specifically support the tech/creative industries	<ul style="list-style-type: none"> • One new co-working facility which provides a series of occupation options for high growth new tech businesses • 15-20,000 sq.ft. mixed economy Tech Hub centre created • 28 new businesses created • 25 existing businesses supported • 10 Tech businesses relocating to Croydon 	<ul style="list-style-type: none"> • Change business perception of Croydon as a tech centre • New tech businesses relocating to Croydon • New tech businesses being created within Croydon • A throughput of new businesses into the wider Croydon commercial office market 	<ul style="list-style-type: none"> • Number of businesses registered • Number of businesses departing for bigger premises • User surveys to capture turnover and employment

	<ul style="list-style-type: none"> A minimum of 80 jobs created and sustained for a minimum of 26 weeks (as per GLA KPI definition) 		growth
To act as a catalyst for the growth of the indigenous tech community and support the growth of new companies from external locations to Croydon	<ul style="list-style-type: none"> A dedicated marketing resource to attract new users to the space and wider Croydon community Up to 5 new accelerator programmes run from the new tech (i.e. mentoring programmes to enable participants to access funding to develop their products and services) Up to 10 new events/socials/ workshops being run by the community each month 	<ul style="list-style-type: none"> New tech businesses relocating to Croydon New tech businesses being created within Croydon New tech businesses growing within Croydon Increasing number of jobs in Croydon, particularly in tech industry 	<ul style="list-style-type: none"> Number of businesses registered Number of referrals/landings from UKTI and L&P User surveys to capture Turnover growth, employment growth

3. Equality comments

- 3.1. Through their existing public sector duties and via the requirements which will be set out in the funding agreement, the Council must ensure that they give due regard to the requirements of the Public Sector Equality Duty: eliminate discrimination, advance equality of opportunity and foster good relations between different people when carrying out this project.
- 3.2. The above outlined project activities will take place in a location that is accessible and can be used by a diverse representation of Londoners. Access requirements will be incorporated in the detailed proposals for the refurbishment and fit-out of the centre. The Council will be required to monitor the project against the equality duty.

4. Other considerations

a) Key risks and issues

	Risk description	Mitigation / Risk response	Current probability (1-4)	Current impact (1-4)	RAG rating	GLA risk owner
1	Failure to attract sufficient businesses to space. Damage to management team business model; risk to delivering sufficient outputs and outcomes.	Detailed engagement with the tech community to ensure the space is delivering optimum environment/programme, 12 month lead in marketing process, regular engagement with potential users	3	3		TR
2	Failure to secure operator for the site.	Early and lengthy engagement	3	3		TR

		with potential operators. Ensure lease deal is attractive and enables early exit without penalty.				
3	Failure to deliver a viable design solution. Increased cost to the project, delays to the project.	Early, detailed brief with specific requirements and regular monitoring during design stage.	2	2		TR

b) Links to Mayoral strategies and priorities

The project will support the manifesto commitment to regenerate town centres and drive investment. The project will also support the objectives set out in the Mayor's 2020 Vision and the Mayor's Economic Development Strategy to create new jobs in the Southall Opportunity Area.

c) Impact assessments and consultations

Croydon Council's internal consultation has largely been completed, and formal approval for the proposed lease arrangements for the space in Davies House was granted by Members at Cabinet on 29 September 2014.

External consultation and engagement will be led through Croydon Council and the Croydon Tech City group initially, then subsequently through the operator's appointed management team, who will establish this within the wider London tech eco-system through their networks.

The project will be developed and delivered in compliance with relevant Codes of Practice and in line with the public sector equality duty to ensure that the following issues have been considered:

- Design proposals: All design proposals will be assessed in terms of accessibility to ensure we minimise disadvantages suffered by people who share a protected characteristic, in particular with regards to disability.
- Events: all events will be open to all and, where possible, we will encourage people who share a protected characteristic to participate in any activity in which their participation is disproportionately low.

5. Financial comments

5.1. Approval is being sought to grant-fund up to £800,000 to LB Croydon as a contribution to its costs of delivering the Innovation Centre project (to be governed by funding agreement).

5.2. The proposed profile of spend and match funding is as follows :

	2014/15 £'000	2015/16 £'000	2016/17 £'000	Total £'000
GLA revenue		50		50
GLA capital	20	730		750
Match funding	30	535	525	1,090
TOTAL	50	1,315	525	1,890

- 5.3. The spend of up to £800,000 will be funded from the London Enterprise Fund (LEF). The Stage 2 approval of 25 September 2012 was for capital LEF funding of £1,449,540 and revenue LEF funding of £50,000. The current proposal underspends this capital sum by £699,540.
- 5.4. As the GLA is funding capital elements of the project which will be delivered directly by LB Croydon, reliance has to be placed on its certification of the total amount of capital spend, and the period over which the benefits arising from that spend will accrue. Consequently, LB Croydon's Chief Finance Officer will be required to certify that the sum is accurate and is in accordance with regulation and proper practice, and will be required to advise how this sum will be reflected in LB Croydon's own accounts.
- 5.5. All requisite budget adjustments will be made.
- As the proposed funding above is to be governed via funding agreement, officers are reminded to ensure that they liaise with both the Legal and Finance Teams in the preparation and execution of the funding agreements. In addition, the monitoring of the funding and associated payments must be in line with the Authority's Funding Agreement Toolkit.
- 5.6. Officers will be responsible for assessing LB Croydon's grant claims against the funding agreement and taking any remedial action should output and costs vary from the agreement. The funding agreements should clearly state milestones to be met in order to claim funding. Officers should also ensure that the requirements relating to the Authority's Contracts and Funding Code are met.
- 5.7. Any changes to this proposal must be subject to further approval via the Authority's decision-making process.
- 5.8. The Regeneration Team within the Development, Enterprise & Environment Directorate will be responsible for managing this project and associated funding agreement.

6. Legal comments

- 6.1 The foregoing sections of this report indicate that:
- 6.1.1 the decisions requested of the Executive Director fall within the statutory powers, acting on behalf of the Authority (pursuant to her delegated authority granted under MD895), to promote economic development and wealth creation and do anything which is facilitative of or conducive or incidental to the promotion of those purposes, in Greater London; and
 - 6.1.2 in formulating the proposals in respect of which a decision is sought officers have complied with the Authority's related statutory duties to:
 - (a) pay due regard to the principle that there should be equality of opportunity for all people;
 - (b) consider how the proposals will promote the improvement of health of persons, health inequalities between persons and to contribute towards the achievement of sustainable development in the United Kingdom; and
 - (c) consult with appropriate bodies.
- 6.2 Officers have indicated in sections 1 to 4 of this report that the contribution of funding to the London Borough of Croydon will amount to the provision of funding and not a payment for services rendered.
- 6.3 Officers must ensure that:

- 6.3.1 Authority funding is not used for any activities or overheads incurred in respect of activities for which any recipients charge and a clear operational limit is placed on their use of funds for the administration of the project in this regard;
 - 6.3.2 the London Borough of Croydon are required to have a separate account for the receipt and use of Authority funding, or if this is not possible, that they show the funding and related expenditure as a restricted fund in their accounts under a clear identifier, e.g. "MRF Funding";
 - 6.3.3 any services and supplies purchased by Croydon using Authority funding are procured competitively; and
 - 6.3.4 any award by the London Borough of Croydon of funding to sub-recipients (if permitted) under the funded projects are made in accordance with EU "de minimis" principles.
- 6.4 Therefore, the Executive Director (having delegated authority via MD895 pursuant to section 38 of the Greater London Authority Act 1999) may approve the proposed award of grant funding and entry into corresponding funding agreements if satisfied with the content of this report.
- 6.5 Officers must ensure that funding agreements are put in place and executed by the London Borough of Enfield and Authority before any commitment is made to the grant of funding.

7. Planned delivery approach and next steps

- 7.1. Croydon Council will enter into a grant funding agreement with the GLA for the full amount and will be responsible for ensuring compliance with the terms of the agreement. Responsibility and risk will be passed on to the operator of the Innovation Centre through the lease and appendices thereof; additional agreements between Croydon Council and the operator may be required subject to legal advice.
- 7.2. Croydon Council's Economic Development Team has provided a cost schedule for key activities including construction, refurbishment and fit out, marketing and evaluation. Funds will be transferred on the basis of delivery against key milestones, to be agreed in the grant agreement drawn up with the London Borough of Croydon. The London Borough of Croydon will be responsible for any project overspend and for identifying any necessary project contingency within the overall agreed funding amount. Any unspent grant, or project under spend will be maintained by the GLA.
- 7.3. The grant agreement will define clear, measurable and unambiguous project objectives in relation to the creation of economic outputs. As the delivery of job and business creation targets will take place after completion of the capital works, the requirement to regularly review these outputs over a period of two years from the opening of the Innovation Centre will need to be agreed with the Council. The GLA may at its absolute discretion require all or part of the GLA funding to be repaid if the delivery of the project objectives is reasonably adjudged by the GLA to be unsatisfactory. The project will be closed down once all milestones have been achieved and an evaluation has been completed.
- 7.4. The London Borough of Croydon will procure a commercial service provider to operate and manage the Innovation Centre and any events, products and services delivered from the site. Croydon Council, will retain appropriate levels of influence and control over the company, but the company will have sufficient freedoms to allow it to trade, develop and be entrepreneurial.
- 7.5. The premises will be subject to a 10 year lease with a 2 year break. If the venture is successful the operator will continue with the lease at commercial rates. If the operator decides to trigger the break clause, the space will be returned to the Council to re-let to another operator.

- 7.6. The project will be managed by the South Area Team within the GLA's Regeneration Unit, and it will be delivered by the London Borough of Croydon.
- 7.7. LB Croydon will be providing dedicated staff resource to project manage the procurement and design process, oversee the delivery of the contract and ongoing performance management of the operator and support the work of the operator – funding for this resource is contained within the proposal. In addition, the implementation of the project will be governed through an advisory project group with representation from the GLA, the council and private sector partners such as Croydon Tech City, reporting into the council's Enterprise and Innovation Board and escalating to the newly formed MRF Programme Board. This approach will ensure a co-ordinated response across the regeneration projects in Croydon.
- 7.8. The project will be required to provide monthly updates on performance and delivery which will be monitored by the Regeneration Team. Project progress will be reported to IPB through the completed dashboard and project progress, issues and risks will be reviewed by the Regeneration Programme Board on a quarterly basis.
- 7.9. In addition, the project will be subject to review by members of the Mayor's Design Advisory Group (MDAG) at key milestones in the design and delivery of the programme of works.
- 7.10. There will be an obligation on LB Croydon to undertake a self-evaluation at project closure. In addition, the project will be evaluated as part of the Regeneration Team's on-going programme for evaluation, for which modest provision has been made within the MRF Programme Budget.

Activity	Timeline
Funding agreement completed	March 2015
Management partner appointed	March 2015
LB Croydon and operator to sign lease	March 2015
Tenant marketing commenced	April 2015
Design/ fit out brief agreed with management partner	April 2015
Design team appointed	End April 2015
Final designs and cost plan produced	End June 2015
Fit out commenced	July 2015
Innovation Centre opens - first tenants in occupation	Dec 2015
Project closure (as seed funded initiative; project anticipated to run for further 8 years+ as sustainable private sector initiative)	Dec 2017

Appendices and supporting papers:

Stage 2: Investment Decision – Innovation Centre

Public access to information

Information in this form (Part 1) is subject to the Freedom of Information Act 2000 (FOI Act) and will be made available on the GLA website within one working day of approval.

If immediate publication risks compromising the implementation of the decision (for example, to complete a procurement process), it can be deferred until a specific date. Deferral periods should be kept to the shortest length strictly necessary.

Note: This form (Part 1) will either be published within one working day after approval or on the defer date.

Part 1 Deferral:**Is the publication of Part 1 of this approval to be deferred? YES**

If YES, for what reason:

It contains information the disclosure of which would be likely to prejudice the London Borough of Croydon's commercial interests by distorting competitiveness in the relevant market. Such distortion impacts upon the London Borough of Croydon's ability to secure competitive and sustainable bids for the provision of such supplies and services and value for money which is not in the public interest. Publication will be once the London Borough of Croydon has procured its operator and a contract is in place in this regard.

Until what date: 31 March 2015

Part 2 Confidentiality: Only the facts or advice considered to be exempt from disclosure under the FOI Act should be in the separate Part 2 form, together with the legal rationale for non-publication.

Is there a part 2 form – NO

ORIGINATING OFFICER DECLARATION:

Drafting officer to confirm the following (✓)

Drafting officer:

Tim Rettler has drafted this report in accordance with GLA procedures and confirms that:

✓

Assistant Director/Head of Service:

Debbie Jackson has reviewed the documentation and is satisfied for it to be referred to the Sponsoring Director for approval.

✓

Financial and Legal advice:

The Finance and Legal teams have commented on this proposal, and this decision reflects their comments.

✓

EXECUTIVE DIRECTOR, RESOURCES:

I confirm that financial and legal implications have been appropriately considered in the preparation of this report.

Signature

Date