

3b Five Year Plan Outcomes

- Slough will be an attractive place where people choose to live, work and stay

Our commitment to creating a new Innovation Space will boost the Borough's economy and improve its appeal as a destination for start up businesses. It will encourage people to visit, live and work in Slough.

- Slough will attract, retain and grow businesses and investment to provide opportunities for our residents

Providing an Innovation facility with business support for start up businesses will help attract and retain businesses in the borough encouraging them to occupy commercial office spaces and create employment opportunities.

4 Other Implications

(a) Financial

The main implications here are that:

- the Council is taking on the risk of underwriting £703,358 at a time when resources are already stretched and filling shortfall as a consequence of COVID 19 unexpected expenses. Although the Project is expecting to make up for this through SME income, the risk still exists that this income may not get achieved.
- The Council is having to cover running costs upfront. ERDF funds are paid quarterly in arrears, and it can therefore be up to 5 months from SBC spending money to reimbursement from ERDF. The highest amount of upfront costs is at **£514k** in Q2 2021. This soon reduces down to around £200k by Q1 2022, and the slate is wiped clean by Q1 2024 when all the ERDF funds are received

(b) Risk Management

Recommendation from section 2 above	Risks/Threats/ Opportunities	Current Controls	Using the Risk Management Matrix Score the risk	Future Controls
It is recommended that the Cabinet agrees to underwrite £703,358 of expected income from SMEs using the planned new Slough Innovation Space, between 2021 – 2023.	There is a risk that SME income is lower than expected. This would mean the Council might be responsible for the shortfall and make payments to SIS suppliers.	We have conservatively assumed that the SIS is, on average, only 72% occupied. The SIS would therefore need to be less than 72% occupied by SMEs for the project period (on average) for SBC to be	6 Risk: Very Low Impact: Critical (Financial impact between £500,000 and £1,000,000)	The Council, working with the Innovation Consultancy that will be procured to operate the SIS, will develop a multi-channel digital and outdoor media marketing strategy to build awareness for

		liable for any payments.		the SIS and attract SMEs. The strategy will allow SBC to flex levers (e.g. Google Paid Search spend) to attract more SMEs if occupancy is forecast to be lower than expected.
Note that by underwriting this amount, the Council will unlock funding of £2.35m from ERDF and other partners (subject to a successful application).	There is a threat that if SBC does not underwrite the income from SMEs then the application for ERDF grant of £1.65m, plus the already committed match funding from the LEP and Heathrow Airport Ltd (£700k total) will not be successful.	This submission to Cabinet to agree to underwrite the SME income.	12 Risk: Low Severity: Catastrophic (Financial impact in excess of £1m)	SBC, supported by an Innovation consultancy, will continue to respond to clarification questions from MHCLG about the ERDF grant application, to ensure successful approval of the grant as quickly as possible.
Note that this project is a key initiative to help recovery and renewal for Slough SMEs and its economy by creating 181 well paid jobs and 54 fast growing tech SMEs between now and 2023	The application for ERDF funding is an opportunity to create high growth successful SMEs in Slough and help mitigate the impact of COVID-19 to the local economy. Slough is one of the two towns currently experiencing the highest rate of business deaths in	The Council has already submitted an 81 page business case application to MHCLG, seeking approval for the £1.65m ERDF grant.	12 Risk: Low Severity: Catastrophic (Financial impact in excess of £1m)	SBC, supported by an Innovation Consultancy, will continue to respond to clarification questions from MHCLG about the ERDF grant application, to ensure successful approval of the grant as quickly as possible.

	Berkshire. There is therefore a threat to the successful recovery of the Slough economy if Cabinet does not underwrite the SME income.			
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(c) Human Rights Act and Other Legal Implications

On the assumption that occupancy of Council premises may give rise to property rights to the occupants, it needs to be borne in mind that Article 1 of the First Protocol to the European Convention on human Rights, which is given effect to in domestic law by the Human Rights Act 1998, provides that every natural and legal person is entitled to the peaceful enjoyment of his possessions and that no person shall be deprived of their possessions except in the public interest and subject to the conditions provided by law. It will need to be ensured therefore that any occupation is arranged in the appropriate manner which protects the Council's interests against the creation of any protected business tenancies under the Landlord and Tenant Act 1954.

Under the Council's constitution any individual debt in excess of £15,000 may be recommended for write off by the Section 151 Officer and approved by the Cabinet. In any one financial year the Section 151 Officer may not approve the write offs of debts totalling more than £500,000 in aggregate.

Any form of financial accommodation given to businesses by the Council runs the risk of constituting illegal state aid under EU Law, which will continue to apply until 31 December 2020. External legal advice has been obtained by the Council which confirms that most of the instances of financial accommodation likely to be afforded by the Council under the proposed scheme are likely to be exempt under the "De Minimis" rule which exempts from the State Aid regime financial accommodation up to a limit of 200,000 euros to any individual economic operator in any cumulative period of 3 years. Further, the advice is to the effect that the manner in which any financial accommodation will be afforded under the proposed scheme will be compliant with the restrictions of the State Aid regime.

A full State Aid Report has been provided by Bevan Britton who has fully considered implications of State Aid associated with this project. Attached as Appendix 'A'

(d) Equalities Impact Assessment

There is no identified need for the completion of an EIA.

(d) Workforce

There are no workforce implications, the project will form part of current job holders work plans. Their existing terms and conditions coupled with their contractual hours will not change. Any additional hours worked will be recharged to ERDF .

Although there are no formal workforce implications, it is worth noting that the Funding Application allows us to recharge associated staff costs for those SBC staff that will have input into the ongoing project.

The ERDF funding allows us to draw down costs associated with staff that have input into the delivery of the project. The following staff have been identified to support this along with the cost of their time based upon a certain percentage of their full time role.

<p>SBC Staff –</p> <ol style="list-style-type: none"> 1. Senior Responsible – (SL level) 2. Contracts Officer – (Procurement Officer level) 3. Project & Financial controller – (Finance Manager) 	<p>£76,630</p>	<p>SBC is compensated for the time of three Council officers who will support the SIS</p>
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SBC Senior Responsible Owner

The SRO has ultimate responsibility for the successful delivery of the SIS project time, cost and quality and ensuring the outputs defined in the ERDF application are achieved.

Contracts manager

The Contracts Manager manages the contractual relationship with the SIS Design & Build supplier, and SIS Operator supplier. They are responsible for:

- Formally assessing and reporting performance of suppliers against deliverables and KPIs defined in the contract
- Managing contract change control

Enforcing contract mechanisms as necessary governing supplier poor performance or breach of contract.

Project and financial controller

The Project and Financial Controller formally quality assures and then reports the following to the Managing Authority:

- Quarterly grant claims in accordance with the standard terms and conditions set by ERDF including a breakdown of the amount of eligible expenditure that will be funded by grant and the amounts funded by each of the other funding source.
- A quarterly detailed Project Progress report describing progress made towards achieving the quantified targets.

They are responsible for ensuring all grant claims are compliant with State Aid legislation and ERDF eligibility rules.

(f) Property

Slough Innovation Space will occupy the 5th Floor of Observatory House from start of project and the duration of ERDF Funding. The long term home of the facility is intended to be on The North West Quadrant Site which is being factored into the masterplan of the site, currently. After 2023 when the project funding finishes and if the NWQ facility is not ready for the Innovation Space, the project will continue to occupy 5th Floor.

This location is deemed most appropriate for the SIS and will help it be a success. The location and proximity to the train station is ideal, as well as providing a boost to the Town Centre area. Other sites were considered for the SIS but nothing was in line with providing a modern space that helps create the right atmosphere for businesses to innovate and network with other start ups. Proximity to the train station also supports sustainable travel from other parts of Berkshire and West London, from where we are expecting businesses to arrive from.

5 Supporting Information

- 5.1 Slough Borough Council (SBC) has applied for £1.65m of European Regional Development Fund (ERDF) cash, administered by the Ministry of Housing, Communities and Local Government (MHCLG) to fund a brand new Innovation Space that will be created on the 5th Floor of Observatory House.
- 5.2 The project will make Slough recognised as a UK tech leader, create 181 high paid jobs and generate £8.3m of new economic activity in Slough and surrounding area during the initial project period alone (2021 – 2023).
- 5.3 The total budget for the project is £3.85m which includes the £1.65m grant application from ERDF and a match fund from Slough and its Partners, The funds will be used to:
- 5.3.1 Fit out a state of the art 10,000 Sq/ft innovation space on 5th floor Observatory House
- 5.3.2 Design and operate an R&D accelerator programme to help at least 54 SMEs successfully commercialise innovative products and services
- 5.3.3 Create a new Innovation Hub in Thames Valley Berkshire – hosting frequent ‘Slough Solves’ events to solve local health, social, economic and environmental issues
- 5.4 The Council has already secured agreement for £500k match funding from the Thames Valley Berkshire Local Enterprise Partnership (TVB LEP), and £200k from Heathrow Airport Ltd. The full funding breakdown is as follows:

Funding source	Amount	Notes
ERDF	£1,650,000	
TVB LEP	£500,000	Confirmed
Heathrow Airport	£200,000	Confirmed
SBC value in kind donation of 10,000 Sq/Ft of 5 th floor, Observatory House	£800,000	
Income from SMEs using space	£703,358	Proposed to be underwritten by SBC
Total	£3,853,358	

The expenditure breakdown for the project is as follows:

Expenditure	Amount	Notes
Fit-out	£1,109,000	Design and fitout of 10,000 Sq/ft space of 5 th floor observatory house
SBC Staff	£76,630	SBC is compensated for the time of three Council officers who will support the SIS part time
Operator Supplier	£1,842,728	Specialist innovation consultancy with proven track record – to be procured
Premises cost	£800,000	Market rate of 5 th floor Observatory House space, donated by SBC for the project
ERDF Summative assessment	£25,000	Required by ERDF to independently assess project outputs
Total	£3,853,358	

5.5 ERDF funds are paid quarterly in arrears, and it can therefore be up to 5 months from SBC spending money to reimbursement. The table below shows the cash flow for each quarter of the project - the maximum amount owed back to SBC at any point is £514k, in Q2 2021.

	ERDF grant claimed	ERDF funds received	Total project costs paid out	SME income	SBC project cash balance	Notes
2020						
Q4	£121,689		£203,552	£0	£700,000 £496,448	Assumes LEP and Heathrow Airport match funding is paid up front
2021						
Q1	£303,166		£588,868		-£92,420	
Q2	£297,125	£121,689	£571,979	£28,878	-£513,832	
Q3	£180,759	£303,166	£333,744	£68,713	-£475,697	
Q4	£96,858	£297,125	£165,944	£68,713	-£275,803	
2022						
Q1	£96,917	£180,759	£166,107	£68,821	-£192,330	
Q2	£101,668	£96,858	£179,391	£73,664	-£201,199	
Q3	£101,668	£96,917	£179,391	£77,657	-£206,016	
Q4	£101,668	£101,668	£179,391	£77,657	-£206,082	
2023						
Q1	£101,881	£101,668	£179,985	£78,052	-£206,347	
Q2	£103,201	£101,668	£183,676	£80,507	-£207,848	
Q3	£43,400	£101,881	£121,330	£80,696	-£146,601	
Q4		£103,201	£0		-£43,400	
2024						
Q1		£43,400			£0	
Totals	£1,650,000	£1,650,000	£3,053,358	£703,358	£0	

5.6 The ERDF outline application was approved by MHCLG in November and SBC submitted a full application in February that is now in review. The planned opening date for the new facility is April 2021 (although it is possible this could be delayed by the impact of COVID-19).

5.7 Income from SMEs cannot be used as a match funding source in the ERDF application as all match funding must be guaranteed before the project starts.

5.8 We are therefore asking Cabinet to underwrite the SME income by providing a match funding letter to MHCLG, to accompany the ERDF application form.

5.9 Outside of the ERDF funding application process, we will be using other sources of funding to cover the rental cost of the 5th Floor being contributed to this project. Negotiations with a number of Partners are currently underway as well as firmed contributions already made towards the project by other Partners.

The payment mechanism

5.10 The mechanism for receiving income from SMEs and paying suppliers is as follows:

- 5.10.1 SMEs pay rent in advance each month
- 5.10.2 SBC pays SIS suppliers end of each month

5.11 SBC should therefore never be liable for any payments, but underwrites the income in case it is below what is needed to pay suppliers

Assumptions for SME income

5.12 All inclusive monthly rates for SMEs (except meeting room usage):

- £200/month (+ VAT) for hotdesk
- £350/month (+VAT) for private office desk
- £30/hour meeting room usage (+VAT)

5.13 The Maximum quarterly income is:

- 32 Private desks = £33.6k
- 42 hot desks, but assume 60% occupancy so 70 desks can be sold = £42k
- Payment for meeting rooms, assume £30/hour and each SME books on average 10 hours per month = £30 x 10 x 3 x 28 SMEs (average no. SMEs assuming 3 FTEs per SME using hot desks) = £25.2k revenue
- **Total = £100.8k quarterly max revenue**

5.14 Occupancy begins at the start of May 2021 and for the purposes of the ERDF project, continues until end of Q3 2023, which is 9 2/3 quarters.

5.15 Therefore the theoretical maximum income is 9 2/3 x £100.8 = £974k

5.16 It should be noted that SMEs who successfully join the R&D Accelerator programme receive free use of the space for six months (after which they're invited to become paying residents).

5.17 We have assumed SME income of £704k, which is therefore an average paying occupancy of £704k/£974k = 72% occupancy.

5.18 Therefore as long the Council and the procured Innovation Consultancy achieve an average paying occupancy of >72% the Council will not be liable for any payments

6 Comments of Other Committees

n/a

7 Conclusion

The Slough Innovation Space project is an opportunity to take advantage of a £1.65m grant to build a state of the art innovation facility and help make Slough famous for creating successful, high growth R&D focussed technology start-ups.

It is recommended that Cabinet agrees to underwrite the SME income so the Council can complete its application to MHCLG and successfully obtain the grant funding.

8 Appendices Attached (if any)

'A' - Bevan Brittan State Aid Report

9 Background Papers

'1' - none