

North Devon Enterprise Centre Phase 2 – Provision of support for development

Report of the Head of Economy, Enterprise and Skills

Please note that the following recommendations are subject to consideration and determination by the Cabinet (and confirmation under the provisions of the Council's Constitution) before taking effect.

Recommendations:

- a) that the Cabinet approves capital funding of up to £640,000 to enable Phase 2 of the North Devon Enterprise Centre to be constructed, subject to agreeing a capital grant from the Heart of the South West Local Enterprise Partnership.
- b) that the Cabinet approves an increase in revenue funding of up to £75,000 to be met by revenue at outturn.
- c) that the Head of Economy Enterprise and Skills be given delegated powers, in consultation with the County Treasurer and the Cabinet Member for Economic Recovery and Skills, to agree the capital grant funding with the LEP.

1. Summary

The North Devon Enterprise Centre, now known as the "Node" is a business incubation facility, supporting small business growth, located on our employment land at Roundswell South, Barnstaple. DCC invested over £574,782 in Phase 1, along with significant match funding from the HotSW LEP and European Regional Development Fund, totalling an investment of £5.3 million. Following a successful opening in February 2021, 57% of offices have already been let. This report seeks Cabinet approval for additional capital and revenue funding to match with external funding from the LEP to bring forward phase two of the Node. The LEP has indicated a minimum of £450,000 capital grant is available, subject to signing off the business case by the LEP Board in November 2021. The costs in the paper are to be finalised by a tender process for a contractor using the Southern Construction Framework.

This investment would see the Node's footprint increase by a further 26% producing 537sqm of commercial floor space and the creation of an additional 38 jobs with further business support, networking and mentoring from the operator currently managing the main building. The aim is to have the building open late summer 2023, subject to completing planning by January 2022 and construction beginning in early summer. This investment will support the economic recovery in northern Devon and support the ongoing sustainability of the Node, as well as providing a flagship building for the surrounding employment site.

2. Introduction

The Node is a business incubation workspace and offers co-working membership for local businesses, offices, business support and meeting & event space to stimulate economic

growth, new jobs and business start-ups. Town Square Spaces, has been appointed to manage and operate the facility, and brings a range of knowledge and expertise from running similar centres in England and Wales.

The existing building has performed ahead of expectations since it opened in February 2021, despite the pandemic, showing latent need in the area was as our commissioned research demonstrated, having already exceeded the 50% occupancy rate planned for end of Year 2 of operation. The pandemic has prompted a change to how we work and may in part be why this model of enterprise centre is proving successful.

The Phase 2 extension was incorporated in the original designs and case for the Centre. The available funding was only sufficient to bring forward phase 1. Increasing the size of the facility does create an improved sustainable business model for the facility.

The LEP's Strategic Investment Panel has approved an allocation of match funding of approximately £450,000 from the Getting Building Funding. This is subject to LEP Board approval, in November.

3. Proposal

The proposal is that the Council invests an additional £790,000 in building a Phase 2 extension to the Node building on our Roundswell South employment site in Barnstaple, using £1 million of existing funding from the capital programme earmarked for industrial estate development and a contribution from HotSW LEP of approximately £450,000 Getting Building Funding. This extension will provide additional capacity for job creation and growth in the northern Devon area and support the wider economic recovery across Devon.

The LEP's Getting Building funding, part of government's response to the pandemic launched in summer 2020 has a small capital underspend and the LEP sought schemes to come forward to reallocate this. A proposal for the extension to the Node was not selected in the first set of projects approved by the LEP due to the fund being oversubscribed. The remainder of the funding package proposed for the extension is to utilise an existing £1m allocation within the approved capital programme for industrial estate development. This was a provision made to enable us to access match funding for schemes when the opportunity arose and this proposal is consistent with this aim.

Since opening in February of this year, demand for the Node's services has been strong, with 21 of the 37 (57%) offices occupied, with a further 13 co-working memberships, meaning that the facility is ahead of the Year 2 occupancy target of 50%. The Phase 2 extension will increase the existing building by 26% and meet the growing demand for high quality office space and co-working space in the local area.

Phase 2 will adjoin the original building and be serviced by the existing front of house, facilities management and business support packages offered by the Operator, Town Square Spaces.

The existing building is a purpose-built enterprise centre which serves northern Devon, comprising 2,140 sqm (net internal) of high-quality flexible business space and incubation support. Devon County Council owns the land and will retain freehold ownership of the building. Town Square (are responsible for sub-letting the space and providing incubation

and on-site business support. Phase 2 will add a 2-storey extension which will increase the lettable space by 537 sqm to 2,677 sqm.

The Node is a strategically important project for the area. Northern Devon is one of the most economically deprived parts of Devon. The average full-time (residence based) earnings in North Devon and Torridge are £475.4 and £512.4 respectively, compared with a South West average of £558.4 and a national average of £585.5. It also has low rates of business start-ups, particularly high value start-ups, and low business churn. This is partly because of a lack of infrastructure and agglomeration of innovative businesses and linked support. Prior to the Node Phase 1, dedicated incubation space was largely absent in northern Devon and the nearest innovation facilities are almost an hour and a half away. Despite evidence of demand (identified within the demand study that was undertaken for this project), the private sector is not supplying that space because there is a pronounced market failure: land values are low but the costs and uncertainty of developing such sites are high, which makes such development uneconomic to the private sector.

The proposed expansion of the Node supports the Team Devon COVID-19 Economy & Business Recovery Prospectus by providing additional workspace and business support for small businesses and start-ups, especially those located within the digital sector. Barnstaple is one of the towns most impacted by COVID-19 in Devon with a rise in the number of Universal Credit claimants. This additional workspace combined with business support will aid the creation of more job opportunities and give greater visibility of enterprise infrastructure to local aspirant entrepreneurs.

The proposal supports North Devon Council's Economic Recovery Plan "A Road to Recovery" by providing support for future innovation needs including grow on space and by encouraging innovation in the wider area. The Plan also states an aim of providing support for skills in high value sectors such as digital and collaboration with the knowledge base at Petroc College and the accompanying pre-start infrastructure and business support offered at the Centre of Technology and Innovation Excellence (Cotie).

Collaboration between Cotie and the Node continues to develop, with regular dialogue and engagement across partners. The offers are complementary and provide local entrepreneurs with a comprehensive support package; Cotie works with pre-start and start-ups to take ideas off the page into Proof of Concept and then sign-posts next stage support available through coworking and flexible office space at the Node.

The County Council is a member of the North Devon Innovation Board which covers North Devon and Torridge and seeks to identify and address gaps in provision, both physical infrastructure and within learning and skills and business support. The Board is business-led and has acted as a steering group for the development of the Enterprise Centre. This Phase 2 expansion is supported by the Innovation Board.

Demand for the Centre since opening has remained firm, despite the change in working patterns governed by pandemic lockdown and social distancing measures. The pipeline of enquiries for space is also firm, with rental rates achieving levels more comparable with cities than market towns surrounded by rural hinterlands.

The Enterprise Centre sits within a wider strategic employment land development on the outskirts of Barnstaple currently known as the 'Roundswell South Business Park'. This

4.25ha site will be developed for mixed employment uses and will include the Node as the flagship scheme. Devon County Council has already undertaken some preparatory work on the site to enable it to be developed and secured planning consent in outline for mixed business uses, and in full for the site access road, drainage services, utilities and structural landscaping. As the proposed Phase 2 is adjoined to Phase 1, the cost of development is reduced by nature of the works which have already been taken to bring the site forward. Furthermore, as an operator and systems are in place, the cost of managing the additional space is minimal as resource is already in place.

The Council has invested in this site infrastructure to bring the 4 other plots on the Roundswell South site to market in Autumn 2021. This makes the Node the flagship building for a larger employment site, which also links to the existing employment site on the other side of the A39, though the Council's previous investments in a small roundabout and the pedestrian and cycle bridge, which also received HotSW LEP funding and facilitates low carbon access to the site.

This Phase 2 development is subject to business case approval at the LEP's October Strategic Investment Panel and LEP Board approval in November 2021 and planning approval is intended for January 2022.

Revenue funding from existing Economy, Enterprise and Skills Service budget is being used at risk to secure planning permission and an additional revenue ask for professional fees of £75,000 is required in 2021/22. Professional fees associated with planning will be capitalised in the event of a successful application. The maximum capital expenditure of £640,000 would be funded from internal borrowing, subject to the affordability of internal cash resources. This will be repaid via the Minimum Revenue Provision at £26,000 per annum over a 25-year period. The LEP requires an ambitious timescale to be maintained to evidence that government requirements to spend Getting Building Funding are being prioritised. The intention is to spend the LEP's contribution before the end of March 2023.

Initial drawings for the ground and upper floor and a site location drawing for the proposed extension are set out in the appendix to this report.

The external operator has business support experience and there are still ERDF business support outputs to deliver. The provision of ongoing business support will be considered as part of the operator agreement extension, as we would expect occupiers of Phase 2 to receive access to the same service as those in the main building.

4. Options/Alternatives

Three options have been considered:

Option	Pros	Cons
Do nothing	<ul style="list-style-type: none"> No capital and no resources needed, low risk 	<ul style="list-style-type: none"> The current Node is expected to meet the target of 85% capacity by summer of 2022. Meaning very soon demand for quality enterprise space will

		<p>out-strip supply, limiting opportunities for new occupants and growth of existing occupants</p> <ul style="list-style-type: none"> • A Phase 2 was envisaged at project start to enable the building to be the most appropriate size to meet market demand in the area and ensure financial sustainability. • Loss of increasing capital investment from the LEP
<p>Delay the expansion of Phase 2 until other funding sources become available</p>	<ul style="list-style-type: none"> • There could be an opportunity for DCC to receive a higher percentage of match funding if we waited for a future scheme. 	<ul style="list-style-type: none"> • Currently there are no other Government capital funding programmes available for this activity. • There is no certainty on what the Levelling Up White paper would indicate and what timescales any funding opportunity would be delivered over • We do not know the criteria yet for future EU funding replacement schemes, such as UK Shared Prosperity Fund, so the offer may not be more attractive than the LEP scheme and is likely to be competitive. • Waiting times are unknown so the market demand could outstrip supply for an extended period, hampering growth in the area and reducing the viability of the operator ongoing. • The LEP funding offer is time-limited so we

		cannot take a “wait and see” approach.
<p>Develop the Phase 2 expansion using an underspend from the Heart of the South West LEP’s Getting Building Fund as match funding as per the recommendations</p>	<ul style="list-style-type: none"> • Subject to a LEP approved business case the scheme could achieve planning permission in early 2022, begin construction summer 2022 and open in summer 2023. This means the period with limited occupancy capacity is as short as is feasible. • Delivers commercial floorspace to meet the ongoing demand demonstrated since opening of Node. • The existing operator procurement included the extension, meaning no opening delays while we commission a service and a solution to meet their identified demand. • The demonstration of a successful expanding centre on our Roundswell South site will increase the attractiveness of the other plots when they go out to market in Autumn 2021. 	<ul style="list-style-type: none"> • DCC will have to fund approximately 75% of the scheme from our own budgets • However, when combined with Phase 1 the overall percentage of DCC investment in Phases 1 and 2 is just under 30%.

5. Technical data

A brief demand study was carried out in Spring 2021 by consultants Hardisty Jones Associates, to update the previous demand study carried out by them prior to the funding approval for the main building, focussing on the demand for the Phase 2 extension. This emphasised the ongoing need for the extension, supporting our case to continue seeking funding to implement.

6. Financial Considerations

Estimated planning costs are £150,000 in 2021/22. There is £75k available within revenue budgets but the additional £75k revenue cost would need to be met at outturn, if they cannot be capitalised. The upfront elements are on a tight timescale, seeking planning approval by January, meaning we need to submit a planning application in November. Work has already begun on drawings utilising the existing service budgets for industrial estates and Roundswell development.

The estimated costs have been produced by NPS Quantity Surveyor in conjunction with the Economy Enterprise Service team members. These are subject to a successful tender and contractors being appointed through the Southern Construction Framework, which would happen in parallel with the planning process.

Bearing in mind cost escalation in the construction industry, a contingency of 10% has been included. The Funding Agreements issued by the LEP place the responsibility for cost over runs on the applicant. There may also be additional funding reallocated from the LEP up to a further £80,000, which is why an “up to” contribution for the Council has been used. The Council’s requested capital investment will be used as a balancing figure and will not be greater than the requested additional sum of £640,000.

Estimated Construction Cost/fees:	£1.9 million
Contingency 10%:	£0.19 million
Total	£2.09 million

Budget allocations:

Existing capital programme allocation:	£1.0 million
LEP Getting Building Funding:	£0.45 million
DCC balance (including contingency)	£0.64 million
Total	£2.09 million

Capital Build Phasing:

2022/23	£1.0 million
2023/24	£1.09 million

Summary of the current and proposed extension phases:

Phase	1	2
Sqm Floorspace	2085	537
Jobs created	90	38
Value of total public sector investment	£5,381,697	£2,090,000
LEP - Local Growth Fund	£2,150,000	£0
ERDF	£2,932,162	£0
DCC	£574,782	£1,640,000
LEP – Getting Building Fund	£0	£450,000
Total project value	£5,381,697	£2,090,000

7. Legal Considerations

There are no substantive or new legal considerations. However, the Council may need to update our agreement with Town Square to initiate the phase 2 operation.

The LEP Getting Building Fund funding agreement for Devon Workhubs would be adjusted to add in this scheme, as it is the LEP's intention to fund this building as an extension to that project for expediency.

Subsidy control has been considered and legal advice has been sought. The current position is that we are compliant within the Subsidy Control regime, and the previous state aid advice under GBER Article 56. We will review the position again when detailed guidance comes out on subsidy control.

8. Environmental Impact Considerations (Including Climate Change)

There will be some environmental impacts associated with site development for Phase 2. However, this development takes place at a location identified as employment land which already has impact mitigation measures in place.

Furthermore, the extension was in the outline planning permission and does not impact the existing provision of environmental services for the plot or existing building.

The main Node building is built to BREEAM Excellent standards to minimise the impact on climate change and also includes solar PV panels. EV charging points are currently being implemented. The Phase 2 extension will be built to the same standards. However, the impact on the environment will be considered by the district council during the planning process.

Overall, this extension is not expected to have a negative impact on the environment or climate change in the area. The overall Node development should be seen as a flagship for high quality build within a defined budget, while also reducing environmental impacts of commuting out of the area by providing good quality workspace and business support locally. There is existing provision for pedestrian and cycle access.

The impact assessment as described in section 9 below includes environmental considerations in more detail.

9. Equality Considerations

Where relevant to the decision, the Equality Act 2010 Public Sector Equality Duty requires decision makers to give due regard to the need to:

- eliminate discrimination, harassment, victimisation and any other prohibited conduct;
- advance equality by encouraging participation, removing disadvantage, taking account of disabilities and meeting people's needs; and
- foster good relations between people by tackling prejudice and promoting understanding.

taking account of age, disability, race/ethnicity (includes Gypsies and Travellers), gender and gender identity, religion and belief, sexual orientation, pregnant women/ new and breastfeeding mothers, marriage/civil partnership status in coming to a decision, a decision maker may also consider other relevant factors such as caring responsibilities, rural isolation or socio-economic disadvantage.

This may be achieved, for example, through completing a full Equality Impact Needs Assessment / Impact Assessment or other form of options/project management appraisal that achieves the same objective.

In progressing this particular scheme/proposal, an Impact Assessment has been prepared which has been circulated separately to Cabinet Councillors and is also available alongside this Report on the Council's website at: [Node Phase 2 Impact Assessment September 2021/](#), which Councillors will need to consider for the purposes of this item.

The Impact Assessment carried out indicates that the impacts on the local area are positive and no negative impacts have been identified.

10. Risk Management Considerations

This policy/proposal has been assessed and all necessary safeguards or action have been taken/included to safeguard the Council's position.

Where risks have been identified, such as not receiving planning permission by the deadline or construction cost escalation, the implications of those have been taken into account in preparing this report by the following mitigations:

- upfront work already undertaken with NPS, using existing revenue budget to meet planning deadline
- contingency put in place to reduce cost escalation risk
- use of Design and Build construction contract, as per the main building, to reduce risk of cost escalation
- early tendering for construction contract in parallel with planning application to reduce cost escalation and design cost risk.

The corporate or community risk registers have been updated as appropriate.

11. Public Health Impact

There is no impact on public health services in the area from this scheme.

12. Conclusion and reasons for recommendations

This scheme will support the Council's economic recovery policies, create jobs post-pandemic, provide additional workspace for local businesses, help the Node to continue to act as a flagship for the wider Roundswell South site, support the sustainability of the current operation and support economic growth in a deprived part of the County. The match funding from the HotSW LEP means the scheme demonstrates good value for money and enables the additional workspace to be available during the second half of 2023. If we do not go ahead, we will lose the opportunity to access the LEP funding and it is currently uncertain when further match funding opportunities, such as UK Shared Prosperity Fund, will be available from government.

Keri Denton
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Electoral Divisions: Fremington Rural, Chulmleigh and Landkey,

Cabinet Member for Economic Recovery and Skills: Councillor Rufus Gilbert

Local Government Act 1972: List of Background Papers

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Background Paper	Date	File Reference
Nil		

Appendices to EES/21/3

1. Site plan showing the location of the Phase 2 with the existing building

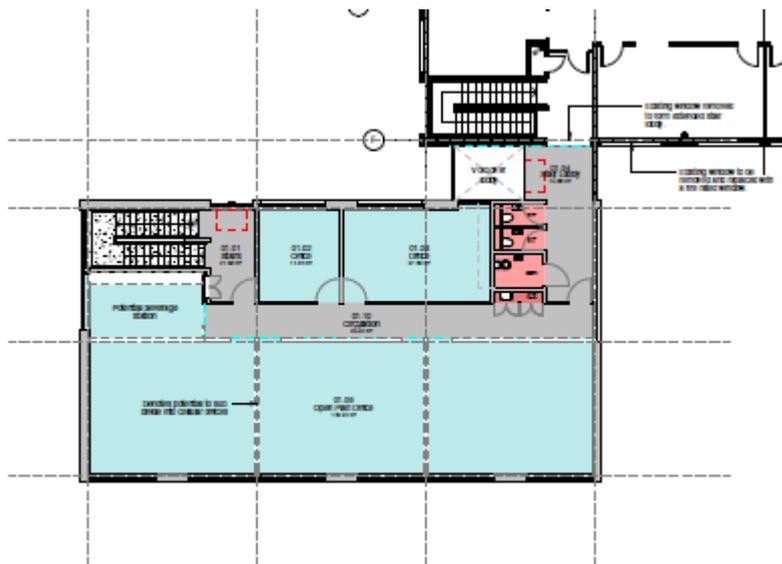


SK01	Project NODE Proposed Extension.	Drawing Title Site Plan - Option 1	Stage Stage 0	Project Strategic Definition	Scale 1:250 @ A1	Date 27/04/21	Devon County Council	nps group NPS SOUTH WEST LTD. www.npsgroup.co.uk
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2. Ground floor – Phase 2 provisional draft



3. Upper floor Phase 2 – provisional draft



North Devon Enterprise Centre Phase 2 – Provision of support for development - Final