

 <b>Executive</b> <b>2 July 2014</b>		<b>Agenda Item No.</b> <div style="font-size: 2em; text-align: center;"><b>5</b></div>	
<b>Title</b>		Creation of Digital Gaming Hub at 26 Hamilton Terrace, Royal Leamington Spa	
<b>For further information about this report please contact</b>		Joseph Baconnet, Economic Development and Regeneration Manager 01926 456011 <a href="mailto:Joseph.baconnet@warwickdc.gov.uk">Joseph.baconnet@warwickdc.gov.uk</a>  Gayle Spencer, Business Manager (Enterprise) 01926 333220 <a href="mailto:Gayle.spencer@warwickdc.gov.uk">Gayle.spencer@warwickdc.gov.uk</a>	
<b>Wards of the District directly affected</b>		Clarendon	
<b>Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006?</b>		No If yes state why	
<b>Date and meeting when issue was last considered and relevant minute number</b>		Executive 11 <sup>th</sup> December 2013 Asset Review	
<b>Background Papers</b>		None included	
<b>Contrary to the policy framework:</b>			No
<b>Contrary to the budgetary framework:</b>			No?
<b>Key Decision?</b>			No
<b>Included within the Forward Plan? (If yes include reference number)</b>			Yes
<b>Equality &amp; Sustainability Impact Assessment Undertaken</b>			No
<b>Officer/Councillor Approval</b>			
<b>Officer Approval</b>	<b>Date</b>	<b>Name</b>	
Chief Executive/Deputy Chief Executive		Chris Elliott, Andy Jones	
Head of Service		Tracy Darke	
CMT		Chris Elliott, Andy Jones, Bill Hunt	
Section 151 Officer		Mike Snow	
Monitoring Officer		Andy Jones	
Finance		Mike Snow	
Portfolio Holder(s)		Cllr Hammon	
<b>Consultation &amp; Community Engagement</b>			
<b>Final Decision?</b>			Yes
<b>Suggested next steps (if not final decision please set out below)</b>			

## 1. **SUMMARY**

- 1.1 The report updates members on the success of a funding bid for a games incubator hub at 26 Hamilton Terrace and seeks funding for business sector specific support.

## 2. **RECOMMENDATION**

That Executive:

- 2.1 Note the success of the recent bid to the Coventry and Warwickshire Local Enterprise Partnership's (CWLEP) Growing Places Fund;
- 2.2 Delegate to the Deputy Chief Executive and Economic Development Manager in consultation with the portfolio holder for development services to complete any necessary agreements with CWLEP to draw down the funding;
- 2.3 Agree to the use of up to 12% of the gross rental income in any financial year from 26 Hamilton Terrace to be used for sector specific business support initiatives;
- 2.4 Note that a digital games action plan will be brought to a future Executive.

## 3. **REASONS FOR THE RECOMMENDATION**

- 3.1 CWLEP sought proposals from the area's seven Local Authorities for 'shovel ready' capital infrastructure projects which will stimulate jobs and economic growth. Approximately £1m was available from Coventry and Warwickshire's Growing Places allocation. Under the growing places fund, infrastructure projects would include:-

- Measures that improve access to employment sites
- Highway improvements
- Land purchase
- Bringing redundant buildings back into economic use
- Flood Defences

In all cases, projects had to demonstrate strong links to the creation of new jobs, and the stimulation of the Coventry and Warwickshire economy. Each Local Authority area had to prioritise its projects and submit a single bid.

- 3.2 CMT had authorised Development Services to make a bid to the CWLEP's Growing Places fund for money to refurbish a vacant WDC owned property (26 Hamilton Terrace) as a digital games incubator hub. The incubator hub is intended to provide a multi-occupancy serviced office for small & start-up games companies – a digital games version of the Althorpe Enterprise Hub. This project was already in development and significant work on the costs of the building refurbishment and business case had already been carried out before the bid process began. 26 Hamilton Terrace has been empty since July 2010 when the former tenant (Alsters Kelley) served notice and moved out. WDC had marketed the property for occupation as an office but there have been no takers in its current state. The commercial agents marketing the site advised that it be withdrawn from active marketing until WDC was able to invest in the property to present it properly.
- 3.3 Royal Leamington Spa has a strong games development business base (as outlined in section 8 – background). The use of 26 Hamilton Terrace to support the small start-up businesses within the developer community has been

extensively tested with the industry and there was been strong support for the concept and for WDC's bid to Growing Places. This is complimentary to other office spaces within the area and would allow for the support of the businesses by the Enterprise Team (based at Althorpe Enterprise Hub) and other initiatives such as the recently launched Arch Creatives.

- 3.4 The bid to the CWLEP Growing Places Fund for the refurbishment and fit out of the building was successful and the total funding allocated by the LEP totals £108,000. The feedback from the LEP was that it was a comprehensive bid that demonstrated strong private sector support.

#### *Completion of agreements*

- 3.5 At the time of writing, the contract from the LEP has not yet been received, but delegating authority to the named officers will enable the completion of all the agreements needed for the drawdown of funding and an early start to the project.

#### *Sector Specific Business Support*

- 3.6 The bid to the Growing Places Fund included a commitment to ring fence a small percentage of the rental income from 26 Hamilton Terrace (26HT) for games industry sector specific business support. This would allow the income from 26 HT to generate activity that might not be possible from within existing budgets. This was done to enhance the attractiveness of the bid to the CWLEP which was seeking activity that was both "shovel ready" and which included measures to increase the long term sustainability of the sector. That activity is expected to enhance and increase the amount of engagement that WDC can have with the industry to continue to support it (eg: attendance and promotion of the Silicon Spa cluster & it's companies at Games Shows such as Develop, Rezzed, Eurogamer and ComiCon. Plus business & networking support to individual companies).
- 3.7 At maximum occupancy, 26HT is expected to generate a gross rental revenue of £35,000 which would mean that we would be able to put a maximum sector support funding of £4,200 pa- assuming a % from gross.
- 3.8 As the total fit out for 26 Hamilton Terrace is now being funded by the CWLEP Growing Places fund, there will no longer be a request for capital funding from WDC reserves or borrowing. Even allowing for sector support contributions it is anticipated that at full occupancy, the building may generate more for the general fund than other individual properties on Hamilton Terrace.
- 3.9 Economic Development & Regeneration officers in conjunction with WCC colleagues have been working with a number of games industry developers in Royal Leamington Spa on a digital games action plan based around the strengths of the Silicon Spa cluster and this will be subject of a future Executive report.

#### **4. POLICY FRAMEWORK**

##### **4.1 Policy Framework**

The proposal fits within the framework of the emerging Local Plan, the CWLEP SEP and the emerging Digital Games action plan.

The proposal is also in accordance with the adopted principles of strategic asset management.

#### 4.2 **Fit for the Future**

The recommendation accords with the FFF policy, as it has secured an additional capital investment that will help the on-going revenue stream for the authority.

### 5. **BUDGETARY FRAMEWORK**

- 5.1 A feasibility and option appraisal together with budget estimates was conducted by a WDC building surveyor – see appendix 1. Building costs for this project are estimated at up to £85,000, including a contingency of £12,000. In addition, the assets review agreed (& allowed funding for) maintenance liabilities of £6,267.
- 5.2 Fit out, furniture and equipment costs are estimated at approximately £20,000 depending on the standard of furniture used. This figure is currently based on costs for similar projects. Both the building fit out and the furniture costs are covered by the Growing Places grant from CWLEP.
- 5.3 The financial modeling has been carried out in two ways estimating for a lower occupancy and optimum occupancy scenarios. In both scenarios, officers will attempt to minimise the business rates liability of unoccupied offices.
- 5.4 At full occupancy income is estimated at approximately £35,000 per annum. Whilst officers would closely monitor the income to identify any potential bad debts, the projections do allow for a Bad Debt provision.
- 5.5 The Corporate Repairs and Improvement Programme for 2014/15 financial year shows a total of £6,267 being allocated to maintenance of the property to keep it in its current state. The figures quoted within this report assume that this figure is used to assist in bringing the property back to use for the project.
- 5.6 The bid to the CWLEP indicated that an element of sector specific business support that would come from the income generated. Using a percentage caps the total amount that would be spent from the income generated. It is anticipated that the sector support would bolster the amount of work that WDC is able to do with the sector and increase it's impact. This amount is similar to the annual interest costs that WDC would have to pay if it had to borrow the money to refit the building.

### 6. **RISKS**

#### 6.1

<b>Risk</b>	<b>Possible Trigger</b>	<b>Possible Consequences</b>	<b>Risk Mitigation / Control</b>
<b>Failure to meet income targets</b>	Occupancy remains at low level	Reduce rental levels Increased business rates costs to WDC	<ul style="list-style-type: none"><li>- Concept Tested with sector already</li><li>- Marketing Incentives</li><li>- Review to turn over to</li></ul>

			single occupier - Whole package includes Business support
	Competitors enter the market	Reduced levels of occupancy Failure of scheme to make financial targets over time	review
	High turnover of tenants	Bad debts  Higher than planned vacancy levels as companies move in and out	Within business plan Review and interviews with tenants and prospective tenants Potential to widen the lettings strategy
	"crash" of the target market within the sector	Recession; Competition from other centres; Withdrawal of Tax credit	
<b>Build works go over-budget</b>	Unknown Problems within the building  Poor contract management	Increased costs  Dedicated surveyor Defined level of works to be carried out	Tight contract management – surveyor allocated  Sticking to the contract / client management
Dissatisfied tenants	Tenants demanding more 'service' than WDC can realistically deliver  Inability to fix problems with the building quickly	Increased workload on the Enterprise Team  Loss of tenants	Business support  Development of systems to help manage the building and any problems

## 7. ALTERNATIVE OPTION(S) CONSIDERED

- 7.1 To not accept the Growing Places Funding: discounted as this would result in not receiving the external grant of £108,000 and a significant loss of credibility with the CWLEP and the wider industry.

- 7.2 To not include sector support spending from revenue generated: discounted because of inclusion within the bid document to the LEP.

## 8. **BACKGROUND**

- 8.1 The following is from TIGA, the industry association representing the Games Industry in the UK:

The UK video games industry is the largest in Europe and the UK is a world class location for video game development. The UK boasts a substantial and highly qualified talent pool, some of the finest video games studios globally, technical as well as creative excellence, an ongoing ability to generate products that sell well globally and to create original video games IP.

The UK game development sector is R&D intensive. Two fifths of UK game developers have a budget dedicated to R&D. UK game developers spend on average 20 per cent of turnover on R&D.

- 8.2 In 2012, the sector contributed £947m to UK GDP. (TIGA)
- 8.3 It is estimated by TIGA (the trade association representing the games industry in the UK) that of the 9,000 employed in the gaming (creation) sector in the UK, over 1200 are employed within Coventry and Warwickshire- the majority within the Silicon Spa cluster.
- 8.4 Of the 36 currently identified Computer Software companies (including gaming) within the C&W area, 75% of the companies are within Warwick district. Numerically, by employment, Codemasters just outside of Leamington Spa (in SDC) remains the single largest employer with 600 employees. However, as Codemasters is technically counted in as part of the Silicon Spa cluster, employment in Silicon Spa amounts to 86% of the games industry employment in the CWLEP area.
- 8.5 Nationally, the Silicon Spa cluster is ranked No 3 within the UK, behind London and Dundee.
- 8.6 The successful gaming cluster formed within the District (largely as a result of Codemasters existence) is continuing to expand and diversify. As a result of the ever changing technical arena the sector, in efforts to diversify, are forming mini companies, known in the industry as 'off-springs'. It is believed by key members of the sector that this approach will continue and that smaller studios will emerge as key players in the industry with a move away from the traditional larger studios.
- 8.7 A sign of the potential vulnerability of the big studio model was brought to the fore in September 2013, when 150 Blitz Games employees were made redundant as the company ceased trading. WDC and Arch Creative partners offered support to those individuals affected. Following the Blitz redundancies a number of 'off springs' have formed and existing UK companies have set up Leamington studios. Whilst a "new" Blitz Games has emerged, it was a warning that the traditional strengths (based around console gaming) of the sector and that of Silicon Spa cannot be taken for granted.
- 8.8 Arch Creatives are a not for profit company created by directors Steve Stopps and Ollie Clarke. The objective of the project undertaken is to assist individuals

and small 'off-springs' with their own gaming projects. Arch Creatives have taken the lease of Arch 2, Court St. Creative Arches, as their base. The arch will become a gaming incubation hub. Individuals and 'off-springs' will benefit from sharing a hot-desking space on an ad hoc basis with other likeminded individuals, they will obtain key skills and opportunities to network.

- 8.9 Arch Creatives have been successful in securing funding to fit out the arch. They have received sponsorships, support and interest from key players such as Sony and Microsoft, together with financial support from WCC. Arch Creatives have been running a networking group from the Conference Arch, at Court Street Creatives Arches since July 2013 and are already working with individuals and 'off-springs'.
- 8.10 Arch Creatives strongly believe that the proposed WDC gaming incubation hub would attract many individuals and small businesses created through the Arch Creatives project. The Arch Creatives model relies very much on individuals and 'off-springs' establishing themselves long term in their own environment/office. The WDC hub at 26 Hamilton Terrace would allow these small companies the opportunity to grow and expand – thereby creating a virtuous circle.
- 8.11 It is recognised by those in the gaming sector that the industry depends and thrives upon co-working and a team environment and the design of the interior of 26 Hamilton Terrace will allow this.
- 8.12 WDC continues to support the extensive networking and knowledge sharing promoted by the industry. The Council was also a significant player in supporting BackSPACE which was an exhibition aimed at promoting & celebrating the sector to the public. BackSPACE will run again in 2014.
- 8.13 Warwickshire College runs a games design course and it is anticipated that they would also support the Games Incubation Hub.
- 8.14 WCC and WDC have also continued to support the games sector at trade shows around the UK, including shows at the NEC, Olympia etc...

## Appendix 2 – projected income

Occupancy Projections with Income	Optimum projection		Lower Occupancy Projections	
	Optimum occupancy	Projected income	Lower occupancy	Projected income
Year 1	45%	£16,025.00	45%	£16,025.00
Year 2	80%	£28,305.00	80%	£28,305.00
Year 3	90%	£31,810.00	80%	£28,100.00
Year 4	95%	£33,440.00	85%	£29,920.00
Year 5	95%	£33,440.00	85%	£29,920.00
<b>Income projection over five years</b>		<b>£143,020.00</b>		<b>£132,270.00</b>
<b>Bad Debt Provision (over 5 years)</b>	-5%	<b>-£7,200.00</b>	-5%	<b>-£6,600.00</b>
<b>Income Projection after allowing for Bad Debts</b>		<b>£135,820.00</b>		<b>£125,670.00</b>
<b>Costs over 5 year period</b>				
WDC payable Business rate costs over 4 years		£6,428.03		£9,166.87
Sector specific Business support (over 5 years)		£17,160		£15,871
<b>Projected income over 5 years</b>		<b>£112,231.03</b>		<b>£100,632.13</b>