



Committee report

Committee	EXECUTIVE
Date	18 MAY 2017
Title	COUNCIL SUPPORT TO SECURE A NEW ISLE OF WIGHT INVESTMENT AND JOB CREATION OPPORTUNITY
Report of	DIRECTOR OF REGENERATION

EXECUTIVE SUMMARY

1. Following a long period of negotiation the Council is in a position to facilitate the creation of 400 new jobs (rising to 600 in time) with a contact centre provider which specialises in working with blue chip clients. In order to secure this opportunity for the Isle of Wight; the Council will need to lease and invest in identified commercial office premises at an estimated capital cost to the Council of £2.1 million, and it is estimated that this will leverage an overall investment of at least £35million over the next five years from the operator. This investment will also help the Council to rationalise its own accommodation by transferring operation from two other leased buildings into the same commercial office premises.
2. Time is of the essence in securing this opportunity as the operator has secured some new contracts and requires its new facility to be operational in September 2017.
3. This report seeks approval for the Director of Regeneration, in liaison with the relevant Executive member(s), subject to the satisfaction of the Director of Finance, to conclude property and funding agreements to secure the provision of the identified commercial office space in order to provide accommodation for and secure this large scale inward investment to the Isle of Wight.

CONFIDENTIAL / EXEMPT ITEMS

4. The identity of the inward investing organisation is to be treated as confidential until a final agreement is reached, subject to approval of the project by the Executive. Appendices 1, 2, and 3 attached, to be treated as confidential, sets out the main details connected to the proposed support.

BACKGROUND

5. On 15 December 2016, the Isle of Wight Council Executive approved the adoption of the Isle of Wight regeneration programme as a basis for securing the future prosperity and sustainability of the Isle of Wight, built on the pillars of regeneration,

growth and productivity. In order to achieve this aspiration, the report highlighted the need to establish a regeneration programme that could build confidence in investors and employers, demonstrating that the Isle of Wight is serious about its regeneration aspirations and prepared to work with them to deliver solutions that meet the Island's needs.

6. One such opportunity to attract private sector inward investment has been identified through discussions with an outsource provider of telephone and web-based customer contact services with several blue-chip clients. The development of the contact centre sector has seen significant growth across the UK in the last 20 years. As the provision of services and the opportunity to purchase goods online has increased so has the need to provide enhanced capacity to service customer care for this market. The concept of 'offshoring' this capacity gained popularity due primarily to the lower costs involved along with the concept of outsourcing these services to specialist contact centre providers.
7. In recent years the outsource companies have increasingly 'on-shored', bringing jobs back to the UK due to expressed customer preference in dealing with English first language speakers.
8. The sector has become increasingly attractive to a younger workforce, providing a strong team building/working ethos and flexible working conditions to allow full or part time study. The 'next generation' of contact centres will be focusing more on digital interactions with customers through 'web chat' more than telephone, requiring a more skilled workforce offering a more sophisticated customer service offer.
9. The volumes of customer interactions, particularly at peak times during the shopping year requires large scale resourcing linked closely to the customer service expectations of the outsourcer's clients. Given the projected growth in the 'next generation' contact centre market, bringing the sector to Island which offers excellent IT connectivity and a locally based loyal workforce can significantly enhance the profile of Island's local economy in attracting further investment of this type.
10. A provider of telephone and web-based customer contact services to several blue chip clients has identified the Island as providing a potential location to set up a contact centre providing initially up to 400 jobs rising to up to 600 if their business continues to grow. The projected overall value of their investment is £35million. Their decision to invest follows their recent success in securing a major new contract for providing customer support services to a major online and high street retailer. It follows consideration of other sites on the mainland, lengthy discussions with the Council over the last two years and the recent development of a support package designed to support their set up and operation on the Isle of Wight.
11. The resulting establishment of the first major customer service contact centre on the Island will help further diversify the Island's economy and bring further opportunity for year round employment. The potential for this operator growing its workforce and other contact centre providers being attracted to the Island is significant given the Isle of Wight's excellent broadband links, skilled workforce and the wider confidence an investment of this size can bring.

STRATEGIC CONTEXT

12. The proposed recommendation in this report would support two of the four priorities of the current corporate plan:
 - Supporting growth in the economy, making the Island a better place and keeping it safe.
 - Ensuring that all the resources available to the Island are used in the most effective way in achieving the Island's priorities.
13. By creating new year round employment, supporting growth in the economy, the project helps to significantly increase the presence of the telephone and online customer service sector on the Island. This is a sector that has seen significant growth on the mainland and is not affected in terms of physical connectivity, taking advantage of the Island's position as the UK's only fully superfast broadband enabled area. The sector is particularly popular as source of employment for students and graduates and also seeks to attract older workers able to advise and support those unfamiliar with online commerce.
14. The current Isle of Wight Economic Development (2015-17) Plan prioritises employment of the digital economy as key sector to develop on the Island and the evolving regeneration programme has identified the need for increased provision of high quality commercial space to attract these types of businesses.

PROJECTED BENEFITS OF PROJECT SUPPORT

15. By bringing an existing building back into use, updating its capacity to offer more environmentally efficient, attractive office accommodation, the project will supporting best use of the Island's existing resources to achieve our priorities.

The creation of up to 600 jobs on the Isle of Wight in a growing part of the regional and national economy clearly brings significant benefits to Island residents. In addition to salaries and career prospects involved the additional spending in the local economy on local goods and services and the supply chain to the investment represents an annual cash injection of over £7m. This can be assumed for at least 5 years given the proposed terms of the lease.

Even more significant in the context of the wider regeneration programme will be the message the project conveys regarding the Isle of Wight as a place to invest, particularly in terms of the digital economy. This is difficult to quantify for the purposes of this report but research regarding the impact of similar investments indicate a multiplier ratio of 2.5 :1 in terms of increased confidence amongst existing businesses to grow and new business to consider locating.

More difficult to value will be the psychological impact of seeing this size of investment and scale of opportunity coming to the Isle of Wight in terms of influencing the location choices of young people and families. The opportunity to study and work on the Island and to consider a new career path has the potential to significantly impact motivation and aspiration amongst young people.

Taking account of these benefits an overall estimated cost/benefit ratio of 1: 14 results

CONSULTATION

16. Due to the commercial in confidence nature of the proposals, consultation regarding the project has been limited to the leader, relevant Executive members, recruitment and training support partners and council staff.

SCRUTINY COMMITTEE OR PANEL VIEW

17. Due to the timescales involved, driven by the investors urgent need to service their new contracts leading to its decision to pursue an Island location for their investment the proposal has not been able to be included for the required timescale in the Council's Forward Plan. The subject of the report has been discussed with chair of the Scrutiny Committee and all members have been advised of the proposal given its significance and its timescale, requiring decision during the transition period between the outgoing and new administrations.

FINANCIAL / BUDGET IMPLICATIONS

18. There are two potential options connected to this project set out below A and B to E.
19. A financial appraisal is being undertaken which considers the financial implications on the Council of Options B to E. This can only be completed once the final commercial property negotiations have been concluded.
20. The financial evaluation considers the total capital and revenue costs associated with the proposals as well as the potential incremental business rates that might be achieved over the period to 2020¹. The financial appraisal does not consider the potential positive effect that the additional 400 to 600 jobs may have on the Council Tax base in the longer term through either additional home occupation or a reduction in the Local Council Tax Support Scheme cost.
21. The financial appraisal is being prepared to cover a ten year period to coincide with the expected lease period and therefore the period over which the Council would expect to consider the return (savings) for its Capital Investment. The appraisal is being undertaken on a Net Present Value basis which is a technique that considers all of the cashflows (capital and revenue) associated with each option on a "like for like" basis.
22. It is possible that the evaluation will demonstrate that over ten years, that the recommended Option B to E will result in an overall additional cost compared to Option A. This however, will need to be considered alongside the following positive impacts which are also embedded within the Council's approved Medium Term Financial Strategy:

¹ A business rate "reset" is expected in 2020 which will have the effect of removing any incremental business rate uplift

- The wider impact of the inward investment and creation of 400 to 600 jobs for the Island economy and the potential for this to be a catalyst for future investment and jobs.
 - The potential for the annual savings to accrue for a period longer than the appraisal period of ten years and therefore improve the overall financial position of Option B to E compared with Option A.
 - The likely longer term positive impact on the Council's Council Tax Base.
23. The financial appraisal will also consider the annual revenue budget impact of each option over the next ten years in order to establish affordability.
24. In addition, the appraisal will consider the key financial risks by undertaking a "Sensitivity Analysis" of the key financial variables in order to establish the range of likely financial outcomes.
25. So long as the financial appraisal can demonstrate (considering the Sensitivity Analysis also) that Option B to E is either more favourable than Option A or that is not significantly less favourable and will generate revenue savings for the Council in the short to medium term, then Option B will be a satisfactory option.
26. In the event that the financial appraisal is concluded to the satisfaction of the Director of Finance and relevant Executive members, it is recommended that the necessary Capital Investment required be funded from the approved Capital Programme and should any additional short term revenue funding be required, that this be funded from the Council's Transformation Reserve.

OPTIONS

- (a) Not to enter into any lease agreement nor commit any capital expenditure to the refurbishment of the buildings in question.
- (b) To approve the capital investment (set out below) in the commercial office space identified to secure a minimum 400 new call centre jobs for the Isle of Wight, subject to the conclusion of the property and funding agreements to the satisfaction of the Director of Finance and the relevant Executive members.
- (c) Enter into a ten year head lease (as set out in the draft heads of terms provided in confidential Appendices 2 and 3) and commit to capital investment of circa £2.1m to include the costs of relocating Council operations from two existing leased buildings and agree grant terms to undertake capital refurbishment works to facilitate the establishment of the new contact centre on the Island by the end of August 2017.
- (d) The necessary Capital Investment required be funded from the approved Capital Programme relating to equipment costs associated with property rationalisation and the capital resources held back for contingent items and match funding opportunities to be released under the delegated authority of the Director of Finance in consultation with the Leader of the Council.

- (e) Should any additional short term revenue funding be required, that this be funded from the Council's Transformation Reserve.

CARBON EMISSIONS

- 27. The designs for the refurbished heating and electrical systems proposed to bring the building back into use will result in a significantly more efficient and carbon friendly solution being implemented. The site is located on a main bus route and is in close proximity to the Island's cycle network. As a result the site will be the subject of a sustainable travel plan resulting in minimum necessary increases in carbon emissions as a result of reopening the building.

LEGAL IMPLICATIONS

- 28. Section 1 of the Localism Act 2011, the General Power of Competence -makes provision for powers for primary authorities to "do anything individuals generally may do". Concluding an agreement to bring new jobs and investment by investing in the refurbishment of an office building bringing benefits to Island residents is an appropriate use of this power.
- 29. The provision of aid to enable the project can be made under the General Block Exemption Regulations (Commission Regulation EU No. 651 / 2014 declaring certain categories of aid compatible with the internal market in application of Articles 107 and 108 of the Treaty (general block exemption regulation, GBER).
- 30. The area within which the project takes place is a designated Assisted Area for EU Regional Aid funding purposes. This allows public bodies to contribute up to at least ten per cent aid intensity of a projects cost from public funds. Given the proposed support represents less than five per cent of the total investment the GBER applies in this case.

EQUALITY AND DIVERSITY

- 31. Provision of the support proposed in this report represents a positive impact on equality and diversity on the Isle of Wight. By attracting investment which brings up to 600 jobs for Island residents in a sector which is noted for providing flexible working hours and conditions peoples life choices and personal development opportunities will be greatly enhanced.
- 32. The inward investing company operates an up to date equal opportunities policy and takes an active part in supporting local charitable and community causes.

PROPERTY IMPLICATIONS

- 33. The property implications of this report centre on the Council entering into a ten year lease agreement with current Head Leasee for the building with a potential break clause being enacted by them in 2024. This would then result in the Council agreeing a shadow ten year sub lease with the contact centre organisation on similar terms as detailed in the confidential appendix.

34. The building also presents opportunities for the relocation of Council services currently based in other rent bearing properties with resulting savings to council property budgets.
35. The building in question has been empty for up to four years and as a result requires investment in mechanical and electrical systems to make it operational again for large scale office use. It is proposed the Council takes a ten year head lease on the building in question and initially leases 50 per cent of the space to the contact centre provider.
36. In the very near future, the Council will require additional office capacity, as its leases on two office buildings are due to end. This opportunity would allow the Council to transfer its functions to the remainder of this building proposed for acquisition, and in the short term it would be used as a decamp base for other Council departments as part of the accommodation strategy. It also has the potential for a shared service space with other public sector organisations.
37. There is also the potential to develop a business innovation centre in another building on the same site, which would be the subject of separate future report.

RISK MANAGEMENT

38. The main risks associated with project are summarised below. The most significant risk connected with this proposal is the ability to achieve the necessary capital improvements to the building within the timescales required by the investor.

Risk	Impact	Score	Mitigation
Not to agree support in a timely way	Loss of c.400 jobs	Medium	This report
Failure to conclude agreements with third parties	Failure to conclude agreement with head leasee/contact centre will prevent the project from proceeding	Low	Active negotiations continuing
Failure to complete capital improvements with in the timescales and budget required	Investor seeks compensation for resulting business impact	Medium	Investor assumes risk via grant/loan arrangement to undertake necessary works
Failure by investor to recruit sufficiently qualified staff	Investor will limit recruitment to first phase and not achieve project job targets	Low	Support from Isle of Wight College and Department for Work and Pensions

Failure to secure rental income savings from relocated services or partner organisations	Rent and rates costs beyond any agreed rent free period	Medium	Updated accommodation strategy includes project as default decamp option
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39. A detailed project risk register will be developed and a designated project manager will be allocated to ensure Council objectives connected with the project are achieved.

EVALUATION

40. Subject to a final detailed appraisal of the relative costs and benefits associated with this project, the recommended option which sees the Council enabling £35million of private sector investment on the Island, creating up to 600 new jobs resulting in increased business rates, a potential catalyst for further inward investment and a likely longer term improvement to the Council Tax base provides indicative value for money for the capital investment involved.
41. The Council's overall approach to supporting regeneration is grounded in attracting private sector investment and support for this project of this scale reinforces the message that we are "open for business".
42. The investment needs to be considered in terms of the wider impact and achieve the right balance of risk and reward.

RECOMMENDATION

43. In the event that the financial appraisal is concluded to the satisfaction of the Director of Finance and relevant Executive members, that option (b) to (e) be approved
- (b) To approve capital investment of £2.1m in the commercial office space identified to secure a minimum 400 new call centre jobs for the Isle of Wight, subject to the conclusion of the property and funding agreements and full financial appraisal to the satisfaction of the Director of Finance and the relevant Executive members which considers the overall capital and revenue affordability to the Council.
- (c) Enter into a ten year head lease (as set out in the draft heads of terms provided in confidential Appendices 2 and 3) and commit to agree grant terms to undertake capital refurbishment works to facilitate the establishment of the new contact centre on the Island by the end of August 2017.
- (d) The necessary Capital Investment required be funded from the approved Capital Programme relating to equipment costs associated with property rationalisation and the capital resources held back for contingent items and match funding opportunities to be released under the delegated authority of the Director of

Finance in consultation with the Leader of the Council.

(e) Should any additional short term revenue funding be required, that this be funded from the Council's Transformation Reserve.

APPENDICES ATTACHED

The following appendices (1,2 and 3) are exempt from publication s defined in paragraph 3 of Part 1 of Schedule 12A of the Act, because it “relates to financial or business affairs of any particular person” (including the authority holding that information) and the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

Appendix 1 - Property details

Appendix 2 – confidential summary Heads of terms

Appendix 3 – confidential summary Heads of terms

Appendix 4 – financial appraisal (to follow on completion of negotiations)

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