

Dear Member

CORPORATE OVERVIEW AND SCRUTINY PANEL - THURSDAY, 19TH NOVEMBER, 2020

Please find attached, for consideration at the next meeting of the Corporate Overview and Scrutiny Panel, taking place on Thursday, 19th November, 2020, an additional document that was unavailable when the agenda was printed.

Please bring this document with you to the meeting.

Agenda No Item

4. **Review of Progress at the Centre For Social Innovation CIC Business Centre, Everton (ADDENDUM TO MAIN REPORT) (Pages 3 - 8)**

Yours sincerely

Andy Rogers
Committee Administrator

Encs

This page is intentionally left blank



COVID-19 - FINANCIAL IMPACT AND ROAD TO ACCELERATED GROWTH

Overview:

49 is the Centre for Social innovation and we are based out of our business-led open innovation facility in the New Forest. We are focused on boosting productivity and helping start-up and early stage businesses to grow, here in the New Forest and across the wider Hampshire region. The project was developed as a long-term strategic private-public partnership to ensure that 49 becomes a hub for innovation and programme delivery in the New Forest and wider Hampshire region.

We launched in January 2019 and whilst we have delivered significant outcomes in a short space of time the macro and micro political landscape has significantly changed and has naturally resulted in delays around discussing long-term sustainable funding for 49 with central and regional partners. In summary the issues include but are not limited to Brexit, LEP change, General Election, COVID-19 and the aligning of local Economic Development strategy and implementation etc.

Investment Model:

- Private-led investment (Founder-led)
- Public sector funding – grant (seed revenue) & social loan (capital for refit)
- No follow-on investment too date

49 Space:

A 7000sq.ft high-spec and high-tech Centre made up of large, medium and small incubator and accelerator spaces.

Space & Incubator Model:

We operate a flexible, easy-in & easy-out affordable model providing an environment and support to encourage start-up and early stage businesses to invest in their first affordable space and to employ staff whilst growing, scaling and graduating. 49 formal programmes were due to commence in Q2 2020 to boost productivity and accelerate New Forest business growth working with regional partners including NFDC, Hampshire County Council, Solent LEP, NFBP and others. Phase 1 priority from January 2019 was to fill space to ensure commercial viability and to then focus on incubating and growing business at Phase 2 and beyond. Just prior to lockdown we had 20+ start-up and early stage businesses based out of 49, either on a monthly rolling licence or within our co-working facility, which is a month-by-month arrangement.

In order to mobilise the 49 incubator model and funded programmes framework in Phase 2 further public sector investment will be required to deliver this.

Outcomes:

We have created 26 indirect jobs so far and have achieved all other agreed outcomes associated with the initial funding round.

Financial Impact – Space & Rent:

From opening in January 2019 to March 2020 49 has delivered increased occupancy on a quarter-by-quarter basis. However, the flexible model operated by 49, agreed as part of initial funding, requires significantly more intense management, investment and Marketing as the flexible nature of the model provides drawbacks, as highlighted from the lockdown. The 49 founder has financially supported the initial start-up phase and has continued to, throughout COVID-19, although this is no longer possible. The start-up phase has required significant cash investment and in-kind contribution. The CIC has no business rates relief as NFDC policy does not allow for support for non-profits through Discretionary Rate Relief and there has been no Govt support through business rates holidays from HM Government for the incubation / flexible sector. The rateable value for South Efford House is currently £105k with Business Rates set at c.50p in the £, resulting in a liability of c£52k per year.

Where residents occupy an office under licence the business rates are met by them or they are granted SBRR subject to conditions. However, if there are unoccupied offices or spaces, or indeed when residents leave, the liability falls back on the CIC. This has had a major effect since opening and through lockdown and will remain significant as we move forward if residents cannot remain and market demand continues to collapse. As a result of the PM's announcement of a further national lockdown (31.10.20) we are currently working to assess the additional impact of this lockdown on the business.

A £220k Government social loan funded the refit of South Efford House and repayments kick-in from September 2020. As per discussions the model of funding utilised to fund the refit via a capital loan, albeit a social loan, was a less than ideal option given the high financial risk through start-up, COVID-19 impact and indeed the fact that South Efford House is not owned by the CIC. As part of the recovery phase and our long-term core funding model the social loan will continue to be a major issue to sustainable recovery so we would welcome discussions around the loan being converted to grant, equity or quasi-equity.

COVID-19 Financial Impact Overview:

- April – June 2020 forecast rent vs actual received rent = <98%
- Jul – Sept 2020 forecast rent vs actual received rent = <87%
- Oct – Dec 2020 -TBC

49 action:

49 plays a key role in the New Forest and wider Hampshire ecosystem and this remains crucial to supporting businesses going forward. Whilst our own cashflow has been devastated during COVID-19 as illustrated, with the required long-term structural funding, we will help to drive the emerging Government support directly into New Forest and wider Hampshire businesses. It will also allow us to accelerate our own innovation and programme activity post the COVID-19 pandemic. 49 has also been central to developing strategy and implementing change in the region, including but not limited to:

- GNF spin-out from NFDC (review & strategy paper, negotiations, CIC structuring, strategy development)
- NFBP Implementation Group (latterly Funding Group) resulted in a co-ordinated regional strategy for growth. This work resulted in bids for Coastal Communities Fund, New Milton Towns Fund reshaping and the successful ERDF bid (Axis 3 Productivity) bringing together

the New Forest and Isle of Wight for the first time (programmes commence from January 21 – NFBP delivering ERDF in partnership with NFDC)

- 5G Rural Test-Bed Fund – 49 Founder co-ordinated on-site meeting with senior manager from Central Government and senior NFDC staff to discuss multi-million pound investment into the New Forest as a test-bed (June 19) – unfortunately a bid was not submitted
- NFBP conversion to CIC and Board members (49 Founder is Investment Director) – the CIC will be a delivery partner focused on implementing funded programmes including productivity, growth, skills etc. The CIC will operate as part of consortia and as consortia leads going forward dependent on funding opportunity. The NFBP CIC partnership is made up of key local and regional partners including NFDC, Hampshire CC, Solent LEP and others so alignment of strategy and implementation of priorities is assured

Discussions are also underway with on-site owners in terms of ongoing partnership including the potential for next phase on-site development of the 49 project, subject to feasibility.

COVID-19 response:

Whilst we have been decisive in supporting our existing resident businesses, we of course must also focus on the impact on our organisation and we will seek all available Government support whilst maximising revenue and private investment. Notwithstanding our financial needs, 49 is a social enterprise and a leader in the region. Within days of the initial lockdown we rapidly pivoted to support the regional fight against COVID-19 and ‘gave-over’ the centre to the NHS following a request for assistance from NHS midwives who were required to urgently move out of Lymington Hospital. We worked with the NHS to mobilise their entire team into a fully operational clinical environment within 48-hours.

On-site clinicians are now assessing significant numbers of pregnant patients on a daily basis, assessing the health of new-born babies, ear specialists are separately testing babies and District Nurses will soon be supporting the vulnerable and frail. 49 has now become a crucial strategic facility and asset in the regional fight against COVID-19 and we are proud of our key role. This is a demonstration of private and public sector working together, at pace, to innovate and pivot in order to support the needs of our communities in a crisis. Moreover, the potential to combine 49 innovation and healthcare is significant and early discussions have commenced to explore the possibilities.

We also mobilised our open-innovation resources during July and August. Partners are aware of the highly successful social distancing design challenge which resulted in winners aged 12-24 from the New Forest, Rotherham and Ipswich. This further demonstrates our ability to pivot to address social challenges, whilst also scaling 49.

The scaling of our work cannot continue without the next round of public-sector co-investment along with which we will leverage private investment. We therefore now look to agree an investment plan that delivers social return on investment (SROI) for local authority partners whilst scaling 49 to continue to deliver as we have throughout the pandemic.

49 Strategy – (3i's):

At 49 we have a fundamental belief that if you call yourself an innovation centre you need to be delivering innovation. Innovation, in our opinion does not mean letting and managing affordable space to innovative companies and 49 did not invest heavily to be a commercial landlord or a space player. We invested as part of a long-term private-public partnership to ensure sustainable funding to deliver funded programmes, innovation, investment and impact.

We have remained highly active in the market during COVID-19 and so, given our experiences through COVID-19, we have taken the opportunity to review and refine our core strategy and priorities. Whilst the pandemic has caused major social issues and challenges 49 is ready and manifestly able, subject to funding, to continue to play a key and expanded role in mitigating social, economic and environmental challenges as a partner of local, regional and Central Government. Our strategy is focused in 3 core areas:

- **Innovation** – business-led innovation (e.g. 49 open-innovation global challenge delivered in August 2020) / tech disruption – 49 is now a tech hothouse (see below) / 49³ pre-invested incubator & accelerator (market ready) / R&D&C Centre (Research, Development & Commercialisation) / Intelligent Regeneration (disruptive 49 model to help authorities to sustainably build affordable homes within the intelligent mixed-use communities of the future)
- **Investment** – early discussions have commenced to create a 49 JV investment fund, driving de-risked investment in start-up and early stage businesses through 49³ - the objective is a private-public-social impact investment proposition
- **Impact** – as social innovators we are focused on gold-standard evidence. The framework we are developing will result in a SROI / social value for all of 49's work. This will measure our impact across economic, social and environmental ROI, otherwise known as triple-bottom line

49 – R&D:

The CIC is now a vehicle through which all R&D activities will be driven. We have been active in developing disruptive innovations since operations commenced in September 2018.

49 Technology Development:

We have developed an in-house rapid app development (RAD) process combined with a series of sprints. We have a number of development projects within our Tech Dev Portfolio (TDP) and we have pleasure in announcing our 1st disruptive APP. We estimate that MyTravatar alone will create 20+ high-skilled and high-skilled jobs here in the New Forest, post investment.

MyTravatar www.mytravatar.com – directly links destination businesses with travelling and resident consumers. The web-APP is now lights-on for BETA testing with rollout planned shortly and investment discussions will also commence in tandem. MyTravatar will be relevant during and post COVID-19 as our vision is to help grow economies and strengthen local communities everywhere. We are currently reviewing its adaptability to other sectors e.g. retail for the post COVID-19 recovery phase. MyTravatar will also donate 25% of their profits directly back to the communities that help raise the revenue, a game-changer in the delivery of social impact and value.

What does 49 need?

Scale-up investment for the CIC in order to accelerate our R&D activity. Through our work with universities we will also look to partner with them to focus on commercialising their R&D in a shared benefit arrangement (e.g. tech and knowledge transfer). Our funding need is **£400,000** (over 2-years) to further develop and accelerate our R&D capability whilst rapid commercialising market ready product. Profit contribution will be made annually from our private vehicle into the CIC to ensure sustainable funding of our R&D arm, ala MyTravatar.

We are open to a flexible funding mix of grants for our R&D activity, as well as quasi-equity and equity through our private vehicle structure. We are passionate about delivering social value but also ensuring a best-in-class tax-payer ROI.

Regional Innovation Investment Strategy:

Although we are focused on scaling the work of 49 we have also been pro-active in attempting to pull together innovation actors across the region to align thinking and priorities. The prize would be significant and we look forward to working with partners to achieve this crucial objective. However, to enable the outcomes this would achieve partners must be ready and willing to invest at-scale. Innovation too date has been mostly driven through public-led investment via academic R&D and space investments at a regional level.

With the emergence of business-led innovators (entrepreneurs and risk-takers), this must be supported in order to ensure that a) innovation is not seen through the lens of growing space occupancy but with a greater focus on innovation and investment activity within the space b) knowledge transfer and business adoption actually happens, including technology and c) the meeting of research, development and commercialisation (R, D & C) comes to pass with a business focus on commercialisation working with partner businesses, supply chains and Universities. At a national level commercialisation is of significant concern to HM Government given the evidence and this must be addressed by investing in those business-led organisations capable of moving the dial.

49 would advise and recommend that if alignment of regional innovation actors is achieved then a regional investment strategy should directly support the scaling of private-led business innovation such as delivered by 49, Incuhive and others, including Fawley in the future. This is the future of innovation and we urge our partners to support this thinking going forward. It should not be a case of public co-investment in 49 only, but public co-investment in all risk-taking innovators and actors who are arguably likely to deliver a significantly higher ROI in the long-term if risk investment is understood and deployed. In the New Forest this should also specifically include Incuhive and Fawley in our opinion.

Investment Fund:

We have commenced discussions to develop a co-branded investment fund in JV. Whilst COVID-19 has affected timescales we will recommence discussions in early 2021. The fund will align with Government (Central, Regional and Local) priorities, will have a regional focus and the equity investments will be from pre-seed to scale-up. The fund will invest businesses coming through our in-house, pre-invested combined incubator / accelerator, 49³.

Summary:

We all know the challenges that we face and 49's No.1 priority remains the fight against COVID-19 and supporting our NHS partners. However, as strategic partners we all need to continue to innovate, lead and assist entrepreneurs and businesses to step-up and bounce back stronger. 49 are rising and will continue to rise to that challenge.

49 has delivered significant outcomes, social value and ROI in a short space of time but this is a fraction of the potential. We continue to deliver research, development and commercialisation and our long-term plans are ambitious in order to benefit the region as a whole. The initial public sector follow-on funding was gratefully received and without it the project would not have been implemented by 49. However, we are now at a critical juncture for the partnership and sustainable funding is the key to aligning and delivering regional priorities, outcomes and social impact.

The scaling of our work cannot continue without a follow-on round of public-sector investment and we look forward to agreeing an investment plan that delivers social return on investment (SROI) for local authority investors whilst scaling 49 to continue to deliver and lead at a regional level as we have throughout the pandemic.

Paul Sherry

Founder & CEO