

SBCD Digital District Programme Change Notice

Box Village (now renamed Innovation Matrix) and Digital Literacy Facility, and Innovation Precinct (UWTSD Projects)

Executive Summary

- Box Village has become the new Innovation Matrix, a higher quality, slightly larger space that will allow for greater flexibility and use from tenants.
- The University secured a private sector partner to deliver a minimum of £1.9m of private sector investment for Box Village as part of a wider funding agreement with the University. The funding was contractually secured and would have delivered sufficient private sector investment to satisfy the requirements of the scheme. However, there is a significant risk that the funding will not be realised within the current projected timeline for the project and will thus have to be deferred. As a result, the University will need to consider alternative delivery models until private sector funding can be confirmed. This will effectively defer the £1.9m of private sector investment on to Innovation Precinct, which will not be delivered for c. 3 years.
- As a result of these two points and with VAT implications as the University will be delivering the project directly, Innovation Matrix will have an anticipated funding gap of £5.716m.
- To rectify this, the University proposes to reallocate £5.716m of existing City Deal Funding from the Innovation Precinct project enable the commencement of the Innovation Matrix.
- **This change request is not a request for additional funding. It is a reallocation of funding between the two schemes, and the total level of funding from all sources (as well as the total cost of the programme as a whole) will remain the same.**
- **All economic benefits originally outlined in the business case will at least be achieved or more likely improved upon.**
- The University is confident that any residual additional private sector investment required to deliver the Innovation Precinct project is achievable. The University is currently in discussions with Swansea Council about relocating Innovation Precinct to a new location in a future phase of the planned the City Centre re-development initiative. This will, significantly enhance the attractiveness of the project to private sector investors and partners. The University has commissioned property advisors, Carter Jonas, to provide an opinion to confirm that, based on similar private investment transactions within Swansea City Centre, it would be reasonable to anticipate that the increased private investment of £8.9M could be secured to deliver the Innovation Precinct in line with the proposed revision of business case funding requirements

- A summary of the change requested is shown below:

2016 Project Cost and Funding Allocations

Project	Original Box Village and Digital Literacy Facility	Innovation Precinct	Total
City Deal Funding	£2,351,512.00	£11,094,768.00	£13,446,280.00
Private Funding	£1,900,000.00	£7,000,000.00	£8,900,000.00
University Funding	£5,164,410.00	£3,145,867.00	£8,310,277.00
Total	£9,415,922.00	£21,240,635.00	£30,656,557.00

2021 Proposed Revised Project Cost and Funding Allocations

Project	Innovation Matrix and Digital Literacy Facility	Innovation Precinct	Total
City Deal Funding	£8,067,688.93	£5,378,591.07	£13,446,280.00
Private Funding	£-	£8,900,000.00	£8,900,000.00
University Funding	£5,164,410.00	£3,145,867.00	£8,310,277.00
Total	£13,232,098.93	£17,424,458.07	£30,656,557.00

Detailed Description of Rationale

1. The original Digital District Business Case submission to the City Deal in 2016 comprised Swansea Council's Digital Village and Digital Arena projects and two projects to be undertaken by the University – Box Village and Innovation Precinct. Box Village was to be completed first with the Innovation Precinct following on approximately 3 years later.
2. The costs and respective contributions to these projects were as follows,

Project	Box Village and Digital Literacy Facility	Innovation Precinct	Total
City Deal Funding	£ 2,351,512.00	£ 11,094,768.00	£ 13,446,280.00
Private Sector Funding	£ 1,900,000.00	£ 7,000,000.00	£ 8,900,000.00
University Funding	£ 5,164,410.00	£ 3,145,867.00	£ 8,310,277.00
Total	£ 9,415,922.00	£ 21,240,635.00	£ 30,656,557.00

The £9.4M Box Village project comprised both a £4.05M Digital Literary Facility and a £5.4M innovation, co-working 'shipping container' office facility. The Digital Literacy Facility has been completed and is now fully operational, 100% funded by the University.

3. Given the passage of time since the original Business Case submission, the University no longer felt that a 'shipping container' office would provide an acceptable solution today and is now proposing to deliver a highly flexible modular building which it has renamed the Innovation Matrix. This is not to be confused with the Innovation Precinct project which remains as originally proposed.
4. This change was agreed within the University and the rationale was confirmed by the design team that has worked on the Innovation Matrix Proposal. It is anticipated that the move from shipping containers to a modular building would more than triple the useable life of the facility and would create a higher quality and more desirable environment for prospective tenants. In addition, these changes would also result in a building that will be more durable, reducing ongoing maintenance requirements when compared to the original design. The change to Innovation Matrix would involve some additional construction cost (please see point 8 and 9 below). The design statement to support this from the principal architects (Stride Treglown) is attached as appendix 1.
5. The University believes the rationale for the revised Innovation Matrix project is strong and current economic challenges only further reinforce its importance in delivering the City Deal's objectives and the University's own current and future mission. The University is about to submit a planning application for the Innovation Matrix, with construction programmed to commence in 2021. However, the project must now address two factors in its delivery.
6. Firstly, the project business case was structured on securing a minimum of £1.9M of private sector funding. In 2018 the University entered into a conditional agreement whereby a private sector partner would invest at least £1.9m of funding for private sector capital investment for the project. This funding would have been used to partly pay for the construction of Box Village.. Whilst the University continues to seek new private partners it considers it to be highly unlikely that substantial private funding could be secured in the required timeline. At best this would create significant delay. To ensure Innovation Matrix can proceed as planned, the University is proposing to directly deliver the building itself. However, this means the University will need to find a replacement for the £1.9M of private funding alongside other financial implications, summarised in point 9 of this document.
7. Secondly, the outturn construction cost of the original Box Village scheme (and thus Innovation Matrix) has significantly increased from the original 2016 figures. There are two main reasons for this which are listed below:

- a. The increase in construction costs in the intervening period (2016 – 2021) indicate an increase in construction cost of approximately 14.1%¹
- b. As the University is not able to deliver the scheme through a private sector partner, it is likely (and at this stage has to be assumed) that the University will not be able to reclaim associated VAT spend on the project.

When these factors are combined, it becomes apparent that Box Village could not be delivered in today's market for the same cost as the original financial requirements in the 2016 Business Case. When combined, the out-turn cost for the Box Village project in 2021 would be £7.103m as shown below:

Year	2016	2021	
Project	Box Village (without Digital Literacy Facility)	Box Village 'Equivalent Cost Today'	Change
Construction Cost	£4,705,922.00	£5,369,457.00	£663,535.00
VAT	Assumed fully recoverable	£1,073,891.40	£1,073,891.40
Net Total	£4,705,922.00	£6,443,348.40	£1,737,426.40
Land Cost	£660,000.00	£660,000.00	-
Grand Total	£5,365,922.00	£7,103,348.40	£1,737,426.40

8. To accommodate these cost increases and to deliver a slightly larger facility than before (+600 sq. m) in Innovation Matrix, would result in increased construction costs of c. £2.4M with a VAT requirement of £1.42m (please see the table in Point 9) for a total of £3.82m. When the outturn cost of delivering the old Box Village today is taken into account (table in Point 7), this means that to deliver the increased floorspace and to make the change to a more sustainable, higher quality and modular building design (as per Point 4) would require an additional £1.732m of construction costs which the University feels is fully justified when taken against the additional benefit that Innovation Matrix would deliver over Box Village. As the University would be delivering Innovation Matrix by itself (and not through a private sector partner), we must assume at this stage that no VAT would be recoverable as a worst-case scenario.
9. In summary, the total impact on cost of these reasons is shown below:
 - a. **Increase in construction cost uplift since 2016** - £ 663,535.00
 - b. **Comparison between Box Village and Innovation Matrix** - £1,732,292.11
 - c. **New VAT Implications** - £1,420,349.82

Summary of construction cost increases for the Innovation Matrix compared with the original 2016 Box Village,

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<https://www.ons.gov.uk/businessindustryandtrade/constructionindustry/datasets/interimconstructionoutputpriceindices>

Year	2016	2021	2021	
Project	Box Village (without Digital Literacy Facility)	Box Village 'Equivalent Cost Today'	Innovation Matrix	Change (between 2016 and Innovation Matrix)
Construction Cost	£4,705,922.00	£5,369,457.00	£7,101,749.11	£2,395,827.11
VAT	Assumed fully recoverable	£1,073,891.40	£1,420,349.82	£1,420,349.82
Net Total	£4,705,922.00	£6,443,348.40	£8,522,098.93	£3,816,176.93
Inc. Land Cost	£5,365,922.00	£7,103,348.40	£9,182,098.93	£3,816,176.93

10. However, the amount of funding allocated for the project has not changed since the project's original submission in 2016. Therefore, in order to meet the increased construction (and VAT) costs (£3,816,176.93 from the above) and replace the £1.9M of private funding, a reprofile of £5,716,176.93 will be needed. The University is requesting that this funding is advanced into the Innovation Matrix from the £11.1M of City Deal funding currently contained within the Innovation Precinct project. This would enable the project to proceed as now envisaged and meet the current timescale.
11. This would result in revised funding allocations for Innovation Matrix and Innovation Precinct as set out below, compared with the original 2016, as follows,

2016 Project Cost and Funding Allocations

Project	Original Box Village and Digital Literacy Facility	Innovation Precinct	Total
City Deal Funding	£2,351,512.00	£11,094,768.00	£13,446,280.00
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12. As can be seen from the above table, total project costs across the two projects would remain exactly the same, as would the total City Deal, University and private sector funding inputs. The only consequences of the requested change are that a greater proportion of overall City Deal funding would be transferred to the Innovation Matrix and the entire private funding input would be secured by the Innovation Precinct. If

the proposed change is acceptable to the City Deal, it would enable the Innovation Matrix to still proceed within the current timetable, which the University believes is extremely important (please see Point 13).

- 13.** The University has worked extensively to establish alternative delivery methods to the proposal outlined in this change request notice. As a result of the risk to private sector funding, along with the University's spend on existing commitments like the Digital Literacy Facility, the University has currently been unable to establish any other viable alternatives and believes firmly that this remains the only option. Should this change not be agreed, then the project would have to be held up until the University is able to secure another Private Sector Investor (which would likely be forced to wait until the resolution of the University's existing Private Sector Partner). Whilst it is unknown how long this process could take, the University would estimate that this would delay the start of the project by at least 3 years. The University firmly believes that there is a time criticality that necessitates Innovation Matrix moving forward as soon as practicable. From expert advice, the University understands that there is a very real possibility of sharp increases in construction costs over the following years of potentially 16%², which could risk the financial viability of the scheme. In addition, as construction costs increase it is unlikely that the project would be able to achieve the same level of benefits on a pound-per-pound basis, and as with any delay, would potentially lose three years of benefits if the project is forced to be pushed back. However, should this change be agreed, the University is very confident that the project would be deliverable.
- 14.** Swansea Council (as the lead authority in the Digital District Business Case) have been consulted extensively as part of the Digital District Governance Arrangements (found in the Digital District Business Case) and are in agreement with both the necessity and the methodology of the change contained in this document. To fulfil governance requirements, the University has formally written to the Council to detail this change. Swansea Council are fully supportive of the new Innovation Matrix and the University is in regular discussion with the Council to ensure that synergies and joint opportunities are maximised between the projects within the Digital District programme.
- 15.** With regard to the Innovation Precinct, the University is currently in discussion with the City and County of Swansea about potentially changing the location to the town centre. This would provide greater impetus to the Council's town centre regeneration strategy and also support Welsh Government's Town Centre First Policy. With the Innovation Precinct scheduled to begin in 2023, the University will continue to work with the Council and will in due time begin design on the Innovation Precinct and it should be noted that the University is dependent on Swansea Council for this to be delivered. As a result, the potential changes to Innovation Precinct would be the subject of a separate change request at a timely point in the future.

² <https://www.theconstructionindex.co.uk/news/view/developers-urged-to-start-now-to-beat-build-inflation>

- 16.** However, in the context of this change request, the University transferring Innovation Precinct to a prime town centre location could be expected to increase the value and level of demand for the facility, thereby significantly enhancing the potential for private funding. Originally within the project Business Case, the Innovation Precinct was to be developed within the University's SA1 estate and commence c.2/3 years after the Innovation Matrix. Following recent discussions with Swansea Council, the University intends to relocate this project to Swansea City Centre. This locational change has been strongly welcomed by the City Council as it will both enhance the City Centre regeneration programme and is likely to generate greater economic and community benefits than in the original location. The move to a refurbishment scheme will also significantly decreasing the cost of Innovation Precinct to absorb the reduction from c. £21.2m to £17.4m outlined in Point 11 above. This will ensure that there is no overall increase in cost within the programme as a whole. Whilst it is in reality too early at this stage to comment on specifics in terms of private sector funding for Innovation Precinct, the University is putting in place a robust and effective private sector engagement plan. In order to deliver the Innovation Precinct under the new proposals, private funding of just over 50% of the total cost would be required. The University has commissioned property advisors, Carter Jonas, to advise on the viability of raising private sector finance for the Innovation Precinct. Whilst we are awaiting the formal outcome of this report, early reports strongly indicate that this level of financial investment is both achievable and attractive to the private sector.
- 17.** The University has commissioned an independent report by CPC Project Management to assess the ability of the new Innovation Matrix to deliver the outcomes originally expected of Box Village. This in-depth report covered metrics for all the original benefits and targets for Box Village, and arrived at the following conclusions:
- a) Comparing the estimated benefits for Innovation Matrix with those extrapolated for the original Box Village scheme confirms that the new scheme delivers an increased level of benefits.
 - b) Total new additional effects related to construction have increased from £2m (cost based) to £6.2m, while operational net additional benefits have increased from £5.8m (cost based) to £7.9m.