

SURREY COUNTY COUNCIL

CABINET



DATE: 31 OCTOBER 2023

REPORT OF CABINET MEMBER: MATT FURNISS, CABINET MEMBER FOR HIGHWAYS, TRANSPORT AND ECONOMIC GROWTH

LEAD OFFICER: MICHAEL COUGHLIN, EXECUTIVE DIRECTOR FOR PARTNERSHIPS, PROSPERITY & GROWTH

SUBJECT: CONVERGENT SCREEN TECHNOLOGIES AND PERFORMANCE IN REALTIME (COSTAR): DRIVING INNOVATION AND CREATIVITY IN THE UK'S SCREEN AND PERFORMANCE INDUSTRIES - CAPITAL FUNDING APPROVAL

ORGANISATION STRATEGY PRIORITY AREA: NO ONE LEFT BEHIND/GROWING A SUSTAINABLE ECONOMY

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Purpose of the Report:

This report seeks Cabinet approval for a one-off £3m (plus a SCC held contingency of £0.3m) capital contribution to a successful CoSTAR (Convergent Screen Technologies and Performance in Realtime) National Lab grant application. This will co-fund a Satellite Studio and Incubator Space in Surrey.

Recommendations:

It is recommended that Cabinet:

1. Note the significant economic and social benefits of the CoSTAR Satellite Studio and Incubator Space as set out in the report, achieved through the County Council's proposed capital contribution,
2. Approve the transfer of £3.3m from the CoSTAR pipeline to capital budget for a £3m contribution to the construction of the CoSTAR Satellite Studio and Incubator Space and a SCC held contingency of £0.3m.

Reason for Recommendations:

- The CoSTAR Satellite Studio and Incubator Space proposed to be co-funded by the County Council will directly contribute to achieving the Council's strategic priority of *Growing a Sustainable Economy from which everyone can benefit* through the economic outcomes it will deliver for Surrey. These include: c300 jobs

created over 6 years with a 10-year NPV net GVA¹ contribution of £29.6m (including construction jobs) to Surrey's economy; 200 businesses assisted including incorporating 10 new start-ups; 10 relocating businesses and 180 businesses supported through the CoSTAR programme. These outcomes have been agreed with Royal Holloway University of London (RHUL) and will be monitored through a benefits realisation project management process (see Risk Management Section below).

- Other social and non-financial benefits arising from CoSTAR include practical application of immersive technologies in service provision that will enable wider participation, especially for hard-to-reach groups, which aligns with the Council's underlying principle of *No One Left Behind*. For example, the potential to expand the libraries' service ongoing work to bring Virtual Reality into Surrey's libraries from Autumn 2023. CoSTAR will also contribute to Surrey's Skills Plan objectives, for example, enabling collaboration between skills providers, businesses, and anchor institutions and leveraging createch skills development through the Local Skills Improvement Fund and Skills Bootcamp funding opportunities.

Executive Summary:

What is CoSTAR?

1. CoSTAR is the Government's flagship Research, Development, and Innovation (RD&I) infrastructure funding programme for the UK's screen and performance industries and has been developed to support the UK to remain competitive in the face of increasing global competition. Its purpose is to:
 - Invest in RD&I infrastructure
 - Maximise opportunities from future technologies
 - Deliver new business and job creation
 - Future proof immersive tech ecosystem
 - Drive innovation and collaboration
2. CoSTAR's initial call for proposals covered two Lots:
 - Lot 1: £51.1m over 6 years, to design, build, develop and test the CoSTAR national lab (and associated facilities and programme) to drive innovation and creativity in the UK's screen and performance industries.
 - Lot 2: £12.6m over 6 years for the delivery of (up to) 3 CoSTAR network labs
3. In February 2023, a successful CoSTAR National Lab grant application was submitted to the Arts and Humanities Research Council (AHRC) by StoryFutures at RHUL with SCC as a core partner. The application proposed a CoSTAR National Lab at Pinewood Studios (Buckinghamshire), and associated facilities and programme to drive innovation and creativity in the UK's screen and performance

¹ The Net Present Value (NPV) benefits in Gross Value Added (GVA) terms represent the total net (i.e. accounting for additional factors such as deadweight and leakage) GVA generated as a result of the project over the appraisal period - expressed in its present (i.e. Year 1) value. The present value is calculated through applying discounting % in accordance with HM Treasury Green Book guidance.

industries, including a CoSTAR Satellite/Incubator Space in Surrey located on the RHUL campus to be open by January 2026, to which the County Council were invited to consider making a one-off £3m capital contribution.

CoSTAR National Lab Grant Application

4. The County Council are a core civic partner in the Lot 1 CoSTAR national lab grant application submitted to the AHRC by StoryFutures at RHUL on behalf of the wider bid team². SCC's contribution to the bid included a proposed capital contribution of £3m to fund the construction of a CoSTAR Satellite Studio and Incubator Space on the RHUL campus in Surrey. This facility will be used to support the delivery of a programme of incubation and studio facilities, Research and Development and knowledge exchange and Intellectual Property/commercialisation support to Surrey-based creative businesses operating from both facilities. It will also provide a gateway to the National Lab and wider CoSTAR networked infrastructure for Surrey businesses.
5. The County Council's involvement in the bid builds on one of Surrey's key regional assets (StoryFutures based at RHUL) and our position as hosting one of only nine UK Creative Industries Clusters. It brings national and international recognition to the county as well as supporting our cluster objective to make Surrey the national centre for 'Createch' and deliver a range of direct and indirect economic benefits.
6. On 13 June 2023, DCMS announced that the consortium led by StoryFutures, RHUL (with the County Council named as a core partner) had been selected as the preferred bidder for the national CoSTAR lab.

Why is SCC supporting CoSTAR?

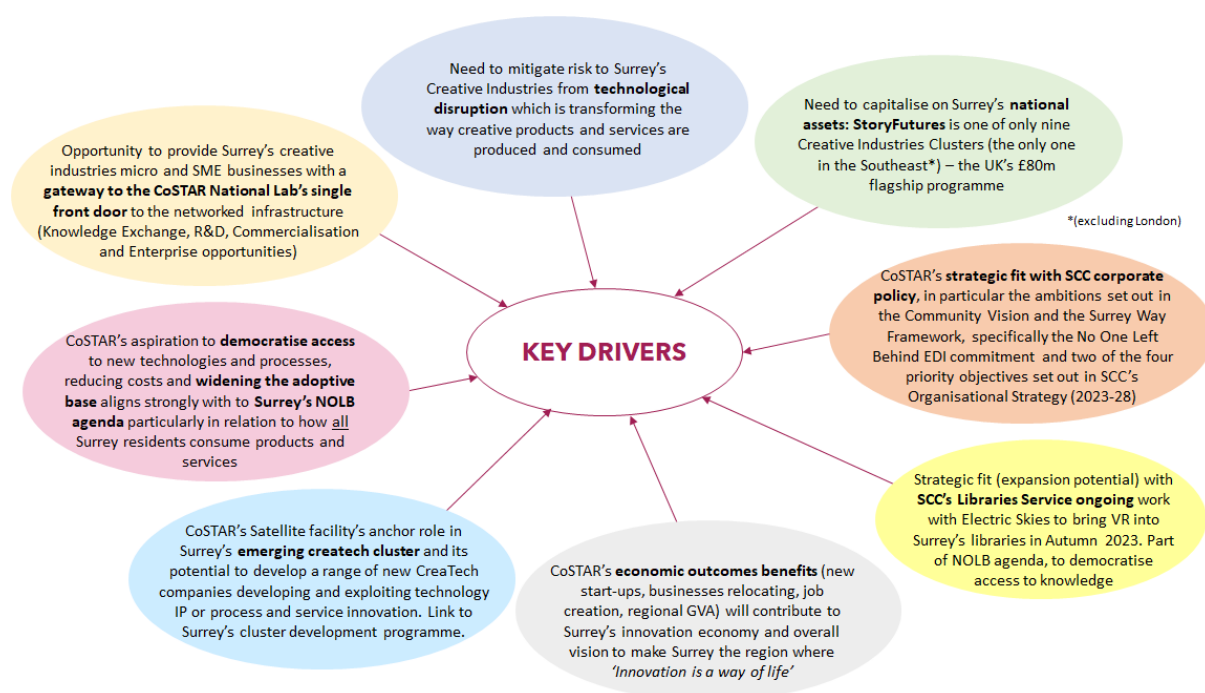
7. In accordance with the County Council's capital funding approval processes and HM Treasury's Five Case Model, an Outline Business Case (OBC) was developed (and subsequently endorsed by SCC's Capital Programme Panel (CPP)) to test the public value (when compared against alternatives (including a 'Do-nothing' scenario)) of the proposed capital contribution to the CoSTAR Satellite Studio and Incubator Space.
8. Specifically, the OBC was developed to:
 - Consider a shortlist of delivery options for SCC's involvement in the CoSTAR Satellite Studio and Incubator Space
 - Assess the extent to which these options represent value for money (VfM) as part of a wider economic appraisal of the CoSTAR application's economic costs, benefits, and risks
9. The OBC's Strategic Case identified strong alignment between CoSTAR's proposed Satellite Studio and Incubator Space objectives and potential benefits

² SCC, with Buckinghamshire Council, are core Local Authority civic partners alongside the University of Surrey and University of Abertay (Higher Education Institutes (HEI) partners), National Film and Television School (Training and Production Partner), Pinewood Group Limited (Studio Partner), and BT and Disguise (Tech Partners).

and Surrey’s strategic priorities and policy context. In particular, CoSTAR achieved strong strategic fit with the following regional strategies / policies:

- Community vision for Surrey in 2030, Surrey County Council (2018)
- The Surrey Way – our strategic framework
- ‘Surrey’s Economic Future Forward to 2030: Our Economic Strategy Statement’, Surrey County Council (November 2020)
- Surrey’s ‘Joint Innovation Delivery Plan (JIDP)’ and Cluster Development Programme (March 2023)

10. The diagram below summarises the key drivers supporting the delivery of the CoSTAR satellite studio and incubator space on the RHUL campus.



11. The OBC’s Economic Case appraised the costs and benefits of the following short- listed delivery options³:

- Option 1: Do nothing - The continuation of current arrangements as if the CoSTAR satellite facility were not to happen
- Option 2: Requested contribution - £3m capital contribution plus a £0.3m contingency to be held within SCC.

12. The table below summarises the appraisal findings for each option.

	Option 1: Do nothing	Option 2: Requested contribution
Net Present Public Value ¹ (10-year)	£0	£26.8m

³ Story Futures (RHUL) have confirmed that without SCC’s capital contribution the Surrey-based Satellite and Incubator space development will not proceed.

	Option 1: Do nothing	Option 2: Requested contribution
Benefit Cost Ratio ¹	0.00	10.5
Quantified benefits	<ul style="list-style-type: none"> • Zero 	<ul style="list-style-type: none"> • 1 new business support facility / asset • 180 businesses supported • 10 business start-ups • 10 businesses relocating to Surrey • c300 jobs created
Qualitative benefits	<ul style="list-style-type: none"> • Zero 	<ul style="list-style-type: none"> • Maximise Surrey's benefits associated with the main CoSTAR site • Significant improvement in quality/ availability of support to Surrey-based businesses • Availability of additional high-quality skills and jobs for Surrey residents
Qualitative appraisal rank	2 nd	1 st
Appraisal period	10-years	10-years

Notes: ¹The amount of benefit generated (in monetary terms) for each £1 spent, calculated by dividing the Net Present Value Benefit by the Net Present Value Cost

13. Based on the Appraisal Summary Table above, the preferred option was Option 2: £3m (100%) capital contribution plus a £0.3m contingency to be held within SCC.

Consultation:

14. The contents of this Cabinet paper and associated CoSTAR OBC have been developed in conjunction with Officers from Legal & Democratic Services, Corporate Finance, Environment, Economy and Growth as well as input from the Cabinet Member for Highways, Transport and Economic Growth.

15. The CoSTAR OBC, which tested the public value of SCC's proposed capital contribution to a CoSTAR Satellite Studio and Incubator Space, has also been reviewed, consulted, and approved by the following groups:

- Infrastructure Board – Tuesday 27 June 2023
- Cabinet / CLT Away Day – Monday 4 September 2023
- Capital Programme Panel – Tuesday 17 October 2023

Risk Management and Implications:

16. A key risk relates to the potential for capital cost overruns whereby, due to inflationary pressures, the CoSTAR Satellite Studio and Incubator Space capital costs exceeds its original budget. This risk will be mitigated by a pre-commencement legal agreement between SCC and RHUL which will confirm that RHUL are 100% liable for any increases in the capital costs associated with the construction of the CoSTAR Satellite Studio and Incubator Space. Any risk of

increased capital costs will therefore be the responsibility of RHUL and SCC will not be required to contribute further capital under any circumstance.

17. Another key risk relates to financial management of SCC's capital contribution whereby, the CoSTAR project fails to deliver the intended benefits as set out in the OBC. This risk will be mitigated by SCC's CoSTAR Management Group who will oversee benefit realisations, which will be a standing agenda item. In addition, the SCC Project Monitoring Officer will focus on benefit realisation, overseen by the SCC project sponsor. In addition, this risk will be managed through a potential clawback mechanism within SCC's contractual process with RHUL (see Legal Implications section below). This clawback mechanism will also be used to mitigate any risks regarding project failure due to cost overruns that RHUL are unable to cover as part of the original pre-commencement contractual agreement.

Financial and Value for Money Implications:

18. The total projected costs for the CoSTAR national scheme are £76.7m. SCC's contribution to the overall scheme cost is £3m (3.9%) (contingency of £0.3m to be held by SCC) of the total scheme costs (£76.7m). The current cost estimate for the CoSTAR Satellite Studio and Incubator Space is c£6.3m. Following the handover of the CoSTAR Satellite Studio and Incubator Space, the asset will be owned and managed by RHUL, therefore, there will be zero on-going management or maintenance liabilities for SCC.

19. Comparatively, to achieve like-for-like economic outcomes and associated social / non-financial benefits without the CoSTAR national grant would cost considerably more. For example, the cost per job (£10,000) is extremely competitive. A comparative figure shows average public sector cost per net additional job as being £13,309 (average unit cost). SCC's share of CoSTAR's economic benefits also represent a strong VfM performance. For example, Surrey is benefiting from 15% of the total jobs created (300 from 2,000) but contributing only 3.9% (£3m) of the total scheme costs (£76.7m).

20. Capital budget is being utilised to provide a grant for the creation of an asset not under the control of SCC for which there will be benefits to SCC in terms of job creation; this will be accounted for as revenue expenditure allowed to be funded by capital under statute (REFCUS).

21. SCC's capital contribution will be funded from SCC's agreed capital programme. As set out in the business case this investment would be funded by borrowing. The annual revenue cost of borrowing and minimum revenue provision is £10k this year increasing gradually each year to £150k per year in 2028/29. There are no direct financial benefits to SCC to fund this borrowing.

Section 151 Officer Commentary:

22. Significant progress has been made in recent years to improve the Council's financial resilience and the financial management capabilities across the organisation. Whilst this has built a stronger financial base from which to deliver our services, the increased cost of living, global financial uncertainty, high inflation, and government policy changes mean we continue to face challenges to our financial position. This requires an increased focus on financial management to protect service delivery, a continuation of the need to be forward looking in the medium term, as well as the delivery of the efficiencies to achieve a balanced budget position each year.
23. In addition to these immediate challenges, the medium-term financial outlook beyond 2023/24 remains uncertain. With no clarity on central government funding in the medium term, our working assumption is that financial resources will continue to be constrained, as they have been for the majority of the past decade. This places an onus on the Council to continue to consider issues of financial sustainability as a priority, in order to ensure the stable provision of services in the medium term.
24. The proposed investment will be funded by borrowing, this cost is included in the current MTFs assumptions. Although there is no direct Council financial benefit to offset the cost of borrowing, the recommended investment should benefit the economy in Surrey by creating jobs and assisting local businesses. As such the Section 151 Officer supports the recommendation.

Legal Implications – Monitoring Officer:

25. As to recommendation 1, no legal implications arise. As to recommendation 2, if the contribution is to take the form of a grant, officers must consider whether the rules on Subsidy Control will be engaged and if so be satisfied that the contribution is made in compliance with these rules.
26. Legal advice was sought during the development of the CoSTAR OBC, specifically around the question of potential clawback mechanisms to be included in any contractual process to protect the Council should there be any implementation issues impacting benefits delivery associated with the proposed satellite studio and incubator space.
27. The following guidance was received which was included within the Commercial Case section of the OBC:

'In line with good practice and to manage risk to the Council we would of course engage legal services to draft legal agreements setting out the conditions of the capital contribution. The agreement will expressly state clear requirements pertaining to the output and outcomes we expect to be achieved by the recipient(s) having utilised Surrey's contribution. The agreement will also contain provisions to ensure the progress of the project is closely

monitored by reference to key dates and progress reports on the achievement of agreed milestones. Failure to spend the funding as detailed in the conditions will be linked to clawback provisions which the Council can enforce.'

28. Alternatively, such contribution would need to be in compliance with The Public Contracts Regulations 2015, as amended, and the Council's Procurement and Contract Standing Orders.

Equalities and Diversity:

29. Equal access to the CoSTAR Satellite Studio and Incubator Space is a critical enabler of the Council's service objectives around supporting residents and businesses with different protected characteristics.

30. Where required, Equality Impact Assessments will be completed for specific elements of the CoSTAR project and any potential negative (or positive) impact addressed or mitigated.

Other Implications:

31. The potential implications for the following council priorities and policy areas have been considered. Where the impact is potentially significant a summary of the issues is set out in detail below.

Area assessed:	Direct Implications:
Corporate Parenting/Looked After Children	No significant implications arising from this report at this stage.
Safeguarding responsibilities for vulnerable children and adults	No significant implications arising from this report at this stage.
Environmental sustainability Compliance against net-zero emissions target and future climate compatibility/resilience	The CoSTAR Satellite Studio and Incubator Facility will need to align with the objectives of SCC's policy: 'Achieving Greener Futures in Building and Infrastructure Projects'.
Public Health	No significant implications arising from this report at this stage.

What Happens Next:

32. Next steps for the CoSTAR Satellite Studio and Incubator Space are as follows:

- E&G Officers and Legal Services establish legal agreements with RHUL regarding specific conditions for SCC's CoSTAR capital contribution
- December 2023 - CoSTAR pre-construction commences
- January 2025 - Construction and fit out of CoSTAR Satellite Studio and Incubator Space starts

- January 2026 - CoSTAR Satellite Studio and Incubator Space opens

33. Cabinet Members are invited to continue to engage with the CoSTAR project through direct discussions with the Director for Economy and Growth or the Report Author.

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Consulted:

Matt Furniss, Cabinet Member for Highways, Transport and Economic Growth

SCC Infrastructure Board

Cabinet / CLT Away Day

SCC Capital Programme Panel

Sources/background papers:

N/A

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