



GLOUCESTERSHIRE INCUBATION NETWORK

FEASIBILITY STUDY FINDINGS

WINTER 2008

COMMISSIONED BY:



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FOREWORD

IMA Enterprises Ltd was commissioned by Gloucestershire First and the South West Regional Development Agency to ascertain the viability and economic merit of establishing a Gloucestershire Incubation Network [GIN].

Gloucestershire First is the countywide economic partnership established to develop and support the economic well-being of the county. It brings together partners in the field of economic development to contribute to an overall strategic plan for the county.

The South West Regional Development Agency was established in 1999. Its most important role is to ensure the long-term economic success of the whole South West region.

IMA Enterprises Ltd was set up in 2003 to provide professional research, business plan writing and finance raising support services to businesses in the South West.

IMA's Managing Director, Ami Baker (MA Oxon.), has experience of the incubator model dating back eight years. At venture capital firm Capricorn Ventures International Ami was one of the executives responsible for running a virtual Internet incubator in 2000-2001. Her practical experience of this market has continued in the context of IMA, which as a company has a track record of working with the clients of seven incubators/innovation centres in the South West.

IMA's work has a very high standing amongst the Universities in the South West, who use the company to undertake critical market research consultancy activities.

Recent clients include the Vice-Vice Chancellor of Bristol University, and the Director of Innovation Centres for the University of Bath. Other repeat clients include The University of the South West of England, Exeter University and Cardiff University.

A steering group comprising Gloucestershire First, the South West of England Regional Development Agency, the Learning Skills Council and the University of Gloucestershire has been overseeing the project.



www.imaenterprises.co.uk

1. EXECUTIVE SUMMARY

OVERVIEW

IMA Enterprises Ltd has been commissioned by the Gloucestershire First and the South West Regional Development Agency, whose objective is developing and supporting the economic well-being of the county, to ascertain whether establishing a Gloucestershire Incubation Network [GIN], will stimulate a sufficient increase in economic development across the county to warrant the investment.

A steering group comprising Gloucestershire First, the South West of England Regional Development Agency, the Learning Skills Council and the University of Gloucestershire has been overseeing the project.

A business incubation network is an infrastructure spread across a number of sites, either real or virtual, with a focus on providing high quality and intensive business support, thus maximising business survival rates and accelerating growth. Business Incubation is an established part of Government (local, regional and national) policy to support young and growing businesses. National studies¹ demonstrated that businesses supported by incubation grew more quickly, were more attractive to investors and survived better.

The research carried out by IMA Enterprises has three particular aims:

¹ Seminal document was "Growing Success", report by Enterprise Panel, 1996

- ascertaining if there is a market for incubation in the county and then quantifying this market, if appropriate,
- advising on the appropriate model to be used to meet the identified market needs,
- defining a clear action plan for implementation of the network.

This document is a summary of the findings.

THE ECONOMIC CONTEXT

Gloucestershire lags behind Bristol, Swindon and the nation in enterprise growth and survival rates, albeit that it is on a par with the South West region as a whole.

	Bristol	Swindon	England	GLOS	South West
Reg	10.8%	10.2%	9.3%	8.6%	8.6%
De-reg	7.6%	7.1%	7.3%	6.7%	6.6%

VAT Registrations & De-registrations rates 2006, DTI data

Source: DTI statistics 2007

VAT-registered small businesses count for 44.6% of all South West small businesses and for 44.8% of all small UK businesses. An estimate of 45% is used for the percentage of Gloucestershire small businesses that are VAT registered to the total number of enterprises. It can therefore be assumed that the total number of enterprises in Gloucestershire in 2006 was 51,400.

With a population of 575,225, Gloucestershire's relationship of small enterprise to population exceeds both the South West and

England: there were approximately 1100 small enterprises per 10,000 adults in 2005.

There were an estimated 2,963 high-growth SMEs in Gloucestershire in 2005 and almost 15,000 residents are estimated to have wished to start a business in that year. Again, VAT data yield approximately 1840 new VAT registrations and an estimated total of 3950 new enterprises that year.²

The county has a highly qualified workforce (level 3 qualifications or better) and is among the best skilled in the region, but it also has the highest proportion in the region of working age residents with no qualifications whatsoever.³

Earnings outperformed regional and national averages.⁴

WHAT IS INCUBATION?

Incubation is a highly flexible combination of business development processes, hard and soft infrastructure and entrepreneurial and knowledgeable people. Incubators are hubs for innovation and enterprise, combining high level, flexible, integrated support with a physical home for the majority of their clients. They have an explicit objective to accelerate business growth with dynamic staff actively assisting clients and working with local, regional and national networks.⁵

Incubators can support the growth of sub-regional economies by acting as local hubs for enterprise and innovation and as nodes in regional networks, contributing to business support simplification.

² Office of National Statistics

³ The Economy of Gloucestershire, GLMIU, 2007

⁴ The Economy of Gloucestershire, GLMIU, 2007

⁵ Source: Incubation guidance for partners, SWRDA 2007

Business incubation, whether it takes the form of a “within-walls” facility is proven to significantly increase the chances of a new business succeeding.

Several studies have shown that between 75 and 87 percent of incubator graduates remain in business for more than three years. The general three year survival rate for businesses in the UK is only 65%.

WHAT MAKES A GOOD INCUBATOR?

UK Business Incubation⁶ and UK Science Parks Association^{7,8} have produced best practice guides on incubation and science park projects. Good incubators help to develop enterprising and innovative sub-regional economies by:

- working with entrepreneurs, helping their businesses survive and thrive, acting as a “critical friend”, providing peer-to-peer mentoring and a knowledgeable sounding board;
- simplifying clients’ access to help and resources from wherever they are needed with seamless and integrated delivery to clients;
- being a “home” for businesses, run by entrepreneurs for entrepreneurs;
- being entrepreneurial, flexible and responsive;
- actively driving network development, both as a highly visible sub-regional hub for enterprise and innovation and as a node in regional and national networks;
- providing leadership locally, working in partnership to develop enterprise and innovation activity with, and interaction between business, investors and intermediaries.

⁶ UKBI, Business Incubation Framework (Annex A)

⁷ UKSPA, The Planning, Development and Operation of Science Parks, Aug 2006

⁸ Professor John Allen, UKSPA Conference 2007, “Stages of Science Park Development” (Annex B)

WHAT ARE THE CRITICAL SUCCESS FACTORS?

The critical success factors for incubation include many of those necessary for the success of any incubation partnership project. These are as follows:

- sustained leadership combined with a strong partnership with a shared vision and appropriate ownership, governance and corporate structures,
- the drive, skills and empathy of the incubation team, determined by the calibre and entrepreneurialism of the operational leader (the “Director” or “Manager”), is the major success factor for any incubator once operational,
- financial viability - investment decisions must be based on a realistic, sustainable business plan, taking into account the economic context in which the project will operate: generally, incubators must generate £60-100k per annum of income over and above any property costs to sustain a minimum incubation team,
- networks providing the incubator with links and relationships that will provide the expertise to sustain client companies – specifically encompassing university links.
- It is common practice to link incubators to a University, public or private research institute. In this way the individual unit can benefit from access to quality academic research, leadership support and a larger network with national, if not global reach.

RESEARCH METHODOLOGY AND PARAMETERS

The research brief was defined in accordance with the understanding by the commissioning partners of the fundamentals of incubation as described above.

The research activity has therefore been focused on locations where some of the key success factors for incubation are already in

existence. In the case of Gloucestershire this meant the site of Higher and Further Education institutions.

While free rein was given to consider all other potential sites within the county, for example the Cheltenham Film Studios, and some time was spent in looking at these other potentials, it still emerged during the course of the project that the HE/FE structure provided the most appropriate home for the network.

Primary data

Interviews were conducted both in person and by telephone, and grouped by key objective as follows.

- **To determine viability of various locations as defined by the research focus and of other potential sites:**

Interviews were conducted with potential delivery partners, who were asked about their understanding of innovation, available facilities for potential incubation in their site and their view of the role their institution or facility might play in the creation of an incubation network.

- **To gather evidence as to the type and volume as well as likely catchment area for particular locations:**

Interviews were conducted with a wide variety of local business participants including: professionals currently serving growing businesses including Business Link advisors, private professional service providers and individuals with an understanding of the micro economic climate of an area, such as local council employees.

- To gain an understanding of the property market need/demand scenario for each location with regard to the existing office provision:

Property agents with an understanding of the demand levels and rental prices for quality office space, in each location, were consulted.

Secondary data sources

An extensive review of documents and data was completed. Key sources include the following:

- MAIDEN database data analyses
- The South West Competitiveness Operational Programme
- Exploiting the knowledge base of the South West of England – Arthur D. Little
- The Gloucestershire Economic Strategy (drafts)
- Gloucestershire Story 2006 Report (prepared by Gloucestershire County Council Research Team)
- Stroud College at Dursley Detailed Investment Proposal,
- Dursley shopper survey
- The Economy of Gloucestershire 2006-7 – Employment Land
- The Gloucester Prospectus, Gloucester Heritage Urban Regeneration Company
- Further sources of surveys and consultations including BERR's Enterprise and Growth Discussion Paper 2007, analyses from the Small Business Service Analytical Unit of BERR, GEM UK, The Federation for Small Business, the Statistical Framework Division of National Statistics and further resources.

NEED/DEMAND ANALYSIS CONCLUSIONS

Cheltenham scores highly under the demand rationale criteria. It has the highest density of businesses, the most highly skilled population and the highest number of professional services practitioners.

However Cheltenham in terms of small/micro business growth is not performing as well as it should. Growth in the stock of VAT registering businesses over the last seven years was lower than every other district excepting Gloucester.

Cheltenham therefore makes a good demand and need case for incubation. There is a good level of small business activity capable of providing a market for an incubation centre, yet it is also clear that Cheltenham is underperforming relative to its potential. There is therefore a rationale for an incubator as a means for effecting and promoting a more active enterprise culture.

Gloucester is clearly an area of need. It has experienced a net drop in overall business stock over the last seven years, it has the lowest percentage of skilled individuals in the county, the lowest percentage of enterprises per head of population and the highest number of deprived wards.

From a demand perspective Gloucester has the second highest density of small and micro businesses of all the districts and the second highest full time average earnings, while a density of professional services proves a demand for business support.

Gloucester therefore has a need for an incubator. With a reasonable density of existing business there is also evidence that a market for services must exist. However this market will not be of the same quantum as Cheltenham. Accordingly a smaller centre with the flexibility to grow would be a better fit for Gloucester.

Given that it is a rural district, **Stroud** has a high density of businesses per kilometre and a large business stock. It also has a higher than average percentage of the population with level NVQ4+ skills and yet the worst ratio of skills level to new business creation. Stroud therefore, like Cheltenham, is underperforming.

In terms of deprivation Stroud is a mixed district with some wards of high deprivation and other more substantial areas of low to no deprivation. Average earnings are also not as high as in the urban districts or Tewkesbury.

A case can therefore be made for incubation being required in Stroud to stimulate new business growth. The question is, with an older business stock, is there sufficient demand for an incubator?

Cotswold has the least deprivation of all the districts, and it has contributed more newly registered businesses than any other district. It has the second highest percentage of population with degree-level qualifications and the highest number of enterprises per head of population.

As Cotswold is such a good performer the question, therefore, becomes: is there a rationale for investing public money?

On the other hand it could be argued that a well functioning economy, further stimulated by an incubator, could produce even more significant growth.

There is also the issue with Cotswold regarding the specific location of a centre, given that it is a large and rural district. A location is needed that would provide a sufficient density of population within the travel-to-work catchment area of a centre to sustain it.

Forest of Dean has the second lowest density of businesses, it has average but inconsistent growth of VAT registered stock and the lowest skills profile of all the rural districts.

Earnings in the Forest are also lower than in any other district and, along with Tewkesbury, it has the lowest density of professional service providers, suggesting there is little demand for business support.

Forest evidently does not have an established market into which an incubator could slot. While incubation could stimulate business growth in a district such as Forest and therefore there is a need, it has to be done sustainably to have an impact. Incubation is not sustainable in isolation and does require sufficient market activity to support it. The best approach for Forest may therefore be to have a small centre to act as a proof of concept, with the potential for further sites if and once market volume has been established.

Tewkesbury has the lowest density of businesses in the county; it has the third highest skilled population and contributes to the percentage of new business stock in line with this.

It is proportionally the least deprived of the districts, and earnings in Tewkesbury are higher than for any other of the rural areas.

RECOMMENDATIONS

The overall recommendation is that a Gloucestershire Incubation Network would be of economic benefit to the county.

Incubation would have a more meaningful impact in some districts than in others.

The network as a whole needs to be flexible in order to meet not just the needs of the locations in which it has a physical presence, but of the whole county.

While there is clearly a market for incubation in Gloucestershire, there aren't any examples of a network like this stretching across a mixed urban and rural area in quite the same way.

There is therefore a requirement both to initiate and to prove the concept simultaneously.

The most prudent way to go about this would be to start small and grow. This would allow the market to be tested with minimal risk and provide valuable learning which will inform the development of the rest of the network.

Accordingly a two phase development is proposed.

Phase I will consist of a mix of rural and urban locations across four districts: Cheltenham, Gloucester, Stroud and Forest of Dean.

Phase II will seek to grow the network with a minimum of three further locations.

All network sites will share the same management team, administration and governance structure.

NEXT STEPS

In order to take the project forward the actions listed below need to be immediately taken.

Commission a business plan

A detailed business plan is required in order to specify and detail the project vision, strategy, operational actions, costs and outputs as well as to demonstrate the project's sustainability.

Approach relevant host institution partners

There is a need to establish extent of partner contribution commitment and identify specifics of physical infrastructure at each location.

Draw up accurate costing model of work required

The business plan will include a financial model for the ongoing operating income and cost of the network, however additional work will be required to scope out the initial capital cost of the project.

2. INCUBATION

02.1 WHAT IS INCUBATION?

Incubation is the process by which a business' growth is accelerated and its chance of survival increased through the provision of intensive and targeted business support.

It can take the form of a "within-walls" facility or a virtual mentoring and support network.

Incubation centres are hubs for enterprise, integrating the required high level of business support with physical business premises.

An incubation centre has the benefit over a virtual support network of a more visible local presence, and facilities with which to attract both local businesses and those from further afield.

Incubators act as catalysts for the growth of local and sub-regional economies, and as nodes in regional networks.⁹

02.2 WHAT SORT OF BUSINESSES SUIT INCUBATION?

Incubation is usually only most relevantly applied to early stage, and even pre-start-up enterprises.

Incubated businesses need to have strong growth aspirations and develop sound business models.

Incubated businesses need not have an innovative or technology component to their products, services, or business models.

9 Source: Incubation guidance for partners, SWRDA 2007

02.3 WHAT MAKES A GOOD INCUBATOR?

UK Business Incubation¹⁰ and UK Science Parks Association¹¹ have produced best practice guides on incubation and science park projects. Good incubators help to develop enterprising and innovative sub-regional economies by:

- working with entrepreneurs, helping their businesses survive and thrive, acting as a "critical friend", providing peer-to-peer mentoring and a knowledgeable sounding board;
- simplifying clients' access to help and resources from wherever they are needed with seamless and integrated delivery to clients;
- being a "home" for businesses, run by entrepreneurs for entrepreneurs;
- being entrepreneurial, flexible and responsive;
- actively driving network development, both as a highly visible sub-regional hub for enterprise and innovation and a node in regional and national networks;
- providing leadership locally, working in partnership to develop enterprise and innovation activity with and interaction between business, investors and intermediaries.¹²

10 UKBI, Business Incubation Framework (Annex A)

11 UKSPA, The Planning, Development and Operation of Science Parks, Aug 2006

12 Professor John Allen, UKSPA Conference 2007, "Stages of Science Park Development" (Annex B)

02.4 INCUBATION CENTRES: CRITICAL SUCCESS FACTORS

For an incubator to be successful on a long term basis it needs to be well managed, financially sustainable and a component part of the wider economic life of an area. Specifically it requires:

- a location with sufficient critical mass to provide a starter pipeline of potential clients,
- a high calibre management team with the skills and drive to genuinely assist clients, working in conjunction with a strong partnership that has a shared vision,
- financial viability - investment decisions must be based on a realistic, sustainable business plan, taking into account the economic context in which the project will operate. Generally, incubators must generate £60-100k per annum of income over and above any property costs to sustain a minimum incubation team,
- access to high quality, intensive and focused business support,
- networks providing it with links and relationships that will provide the expertise to sustain client companies – specifically encompassing university links
- appropriate ownership, governance and corporate structures.

For an incubator to have a significant impact on economic growth in an area it needs to become the physical manifestation of a unified strategy to develop business within that area.

The core to this strategy will be adopting a holistic approach with full partner and surrounding agency participation.

02.5 PROVEN TO WORK

Business incubation is proven to significantly increase the chances of a new business succeeding.

Several studies have shown that between 75% and 87% of incubator graduates remain in business for more than three years.¹³ In the general population of UK businesses between 65% and 72% are still trading after the same three year period.¹⁴

Over the last nine years, UK Business Incubation (the international membership and best practice body) has measured the impact that incubators have on the local economy and workforce.

The research proves that an incubator's client businesses provided an average of 167 jobs (full time equivalents) per incubator and are home to an average of 30 client businesses.¹⁵

Most incubators (60%) also operate "outreach" services, helping and advising companies outside the incubator. Those operating outreach activities support an average of 150 additional businesses.

The business incubation model is also being proven to work in a local context. Between 2002 and 2006, Carpenter House Innovation Centre in Bath stimulated 22 high growth start-ups and created 71 new jobs (seven businesses and 14 jobs in 2005/6).¹⁶

The North Devon Incubator opened in February 2006 and was at capacity (15 businesses) by the autumn of 2007. Most tenants have come from within a 5 miles radius. Further, it is on track to incubate 30 knowledge-based businesses in three years,³ proving that rural incubators can work.

13 Growing Success: helping companies to generate wealth and create jobs through Business Incubation, The Enterprise Panel (1996).

14 Survival Rates of VAT-Registered Enterprises, 1995-2004 , Key Results , DTI Small Business Service, February 2007

15 UKBI : <http://www.ukbi.co.uk>

16 SWRDA

3. GLOUCESTERSHIRE ECONOMIC POLICY FRAMEWORK

The key guiding policy document in reference to the economy is ***The Gloucestershire Economic Strategy 2003-2014.***

This Strategy draws together a consensus of ideas for the economic well-being of the County over the next decade or so (the 'Vision') and the 'route-map' (strategic priorities).

Its purpose is to act as a guide for activity both at a macro level and in the more detailed work of Gloucestershire First on sub-strategies dealing with the rural economy, workspace, ITC etc.

There are a number of key points within the strategy that relate directly to the concept of an incubation network.

The Strategy Vision states that there is a need to create *"A high value-added economy with a balance between sectors, a wide geographical spread of wealth and a highly skilled and motivated workforce."*

An incubation network open to all enterprise sectors, stimulating high value business activity and providing skilled jobs across a number of sites would seem to fit this vision.

Amongst its aims the strategy lists identifying *"the longer term economic programme that will help achieve the vision."*

An incubation network would be envisaged to be a long term project.

Within its detailed strategy, the document states, *"The need to encourage innovation."* and *"The value of partnership working."*

The former is often a by-product of incubation and the latter is an incubation model critical success factor.

Drilling down further into the specifics of the policy, the following is a list of the specific economic strategy objectives on which the Gloucestershire Innovation Network [GIN] may have an effect.

D1: To increase the levels of business innovation and creativity, and accelerate the development of new commercial opportunities.

D2: Developing and supporting an entrepreneurial culture.

D3: To increase business formation, growth and survival rates, particularly in the key wealth creating and high growth sectors.

L1: To create and maintain vibrant and sustainable local centres.

L2: To pro-actively market and promote the County as an excellent location for inward investment and existing business expansion.

L3: To create a quality of life and business environment that attracts and retains talented business entrepreneurs, innovative and creative thinkers, and academics.

J2: To maintain and strengthen existing key employment sectors.

4. INCUBATION AND THE GLOUCESTERSHIRE ECONOMY

04.1 THE ECONOMIC CONTEXT

Gloucestershire has a well educated, and in some respects affluent, population relative to the UK average.

The county has a highly qualified (NVQ level 3 qualifications or better) workforce, and is among the best skilled in the region.¹⁷

The average house price in Gloucestershire for the last quarter of 2007 was £220,122, as compared to Bristol, £204,673 and England as a whole, £215,997.¹⁸

The per-household gross disposable income in 2005 for the county was £13,656, which is higher than for Bristol, the South West generally and the UK, as well as Swindon, for which the figure is £13,842.¹⁹

With average earnings of £522 per week the county outperforms the region, at £506, but lags behind Bristol at £558, Swindon at £588, and the national average at £550.²⁰

Gloucestershire similarly lags behind Bristol and Swindon and the nation in enterprise growth and survival rates.

	Bristol	Swindon	England	GLOS	South West
Reg	10.8%	10.2%	9.3%	8.6%	8.6%
De-reg	7.6%	7.1%	7.3%	6.7%	6.6%

VAT Registrations & De-registrations rates 2006, DTI data

¹⁷ The Economy of Gloucestershire, GLMIU, 2007

¹⁸ DCLG based on Land Registry data.

¹⁹ Office of National Statistics

²⁰ Annual survey of hours and earnings ONS, 2007

CURRENT BUSINESS MAKE-UP OF THE COUNTY

Gloucestershire has a total stock of 23,100 VAT registered businesses²¹. There are a higher proportion of older businesses in the county than in the South West region. More than one fifth of business owners (22%) had started their business within the previous three years, and a further 14% had owned there business for between three and five years. In the South West 40% had owned their business for less than five years.²²

Gloucestershire business owners are also older than anywhere else in the South West, with a higher proportion of small business owners in the 65+ age group and a lower proportion in the 22-34 age groups.

The home-based business is becoming a key trend among small business owners in the county; 39% of businesses are operated from home. Home based businesses more often take the form of sole traderships rather than limited companies.

In a recent Federation of Small Businesses survey the main motivations for working from home were cost and convenience. However business owners in Gloucestershire also identified problems with operating from home including work invading family time, no boundaries between work and leisure, and storage problems.

²¹ Enterprise Directorate Analytical Unit, BERR 2007

²² Federation of Small Businesses survey 'Lifting the Barriers to Growth in UK Small Businesses 2006'

11% of respondents in Gloucestershire to the same survey were seeking to rapidly grow their businesses.

Gloucestershire also has a comparatively high percentage of self-employed individuals as shown by the table below.

Comparison of self employment levels %'s and GVA

	Employees %	Self-employed %	GVA £ head UK=100
Devon	79.1	19.0	78
Cornwall & Isles of Scilly	81.5	17.9	65
Torbay	81.5	17.6	62
Dorset	83.1	15.4	72
Somerset	84.4	14.9	80
SOUTH WEST	85.0	14.2	94
Wiltshire	85.8	13.9	90
Gloucestershire	86.5	13.1	113
UNITED KINGDOM	86.3	13.1	100
Bournemouth & Poole	87.1	12.7	96
Swindon	87.8	11.9	157
S. Gloucestershire	88.7	10.8	113
Bristol	89.8	9.5	140
Plymouth	91.5	8.5	84

The table also demonstrates an interesting trend. In general sub-regions with higher percentages of self-employed workers (the top half of the table) have a lower than UK average GVA per head, that is to say they are not as economically vibrant.

Gloucestershire is unusual being the only county in the South West with a higher than average rate of self-employment and a higher than UK average GVA per head.

04.2 INCUBATION AND ITS SUITABILITY FOR THE COUNTY

From the economic data we can see that Gloucestershire based on a number of indicators is relatively prosperous. However this prosperity relates more to the personal than to the business sphere.

In terms of enterprise growth, as a county Gloucestershire has a way to go to catch up with Bristol and Swindon.

It is also clear from the data that the existing business stock is older in character than that of the wider region. While this is positive as far as business sustainability is concerned, it also indicates the county is underperforming in terms of new business start-ups. This fact could have a detrimental effect on its future economic life.

There is a higher percentage of self-employed people in Gloucestershire than in Bristol or Swindon. It may be assumed therefore that there is an appetite, or a need amongst the population for self-employment. Yet the fact that this has not translated into a higher proportion of VAT registering business would suggest that there is a gap to bridge between independent working and the next stage; a full-fledged business capable of growth.

This study is not capable of delving into why this gap exists, however it is clear that incubation as a model is perfectly positioned to help provide a solution.

How much of assistance incubation will be in meeting this gap will depend very much on the model applied. When considering the model emphasis needs to be given to the rural nature of the county as it may well be the biggest impacting factor.

04.3 THE INCUBATION MODEL

In order for incubation to address the business development gap and increase economic activity as a whole it will need to:

- provide a sustainable focus for increasing business formation, growth and survival rates across the county,
- allow for county-wide access to incubation services, specifically by providing virtual services to businesses who can significantly benefit from the high quality support services but are either rurally located or prefer to continue to work from home. Note that 55% of incubator tenants come from within a five mile radius of a new centre; 20% within a 30 mile radius²³
- offer business owners the right sort of affordable premises within reasonable travel distances of their homes
- promote the concepts of enterprise and entrepreneurship to the wider community as well as to active participants.

A network model incorporating a range of sites at locations throughout the county would naturally best meet these requirements. A network would have the benefit of:

- providing services to a number of communities,
- being constructed with different elements in such a way that it becomes greater than the sum of its parts,
- having a wider marketing reach and hence better dissemination for the enterprise and economic message,
- being sufficiently flexible to grow with demand.

²³ Arthur D. Little, "Exploiting the knowledge base of the South West of England Part 2: Incubators and Science Parks"

The need to site the network across the county to maximise these benefits also creates a problem in that the likely highest density of clients will be found in the two largest urban locations. These have the greatest populations within the five-mile radius and therefore the biggest potential market. Between them Gloucester and Cheltenham account for nearly 50% of the County's employees.²⁴

While the more remote areas of the county may have just as strong a case for having an incubation network site at their location there is more of an inherent risk in that the market in these locations may not be sufficiently large to sustain a centre.

The solution to this is to start small and flexibly in areas where demand is less readily able to be proven at the outset. Accordingly an innovation network which develops in two phases is being proposed.

Phase 1 will consist of larger sites where a market can be demonstrated at a given location and smaller more flexible spaces at locations where a need for incubation is evident, but sufficient market demand is yet to be proven. Phase II will then both expand the floor space at locations which Phase I has proved successful, and seek to extend the network to new sites.

In this way the network will be smaller at the outset to maximise potential occupancy levels at early stage where demand is lowest, thus increasing financial sustainability from the outset, and yet have the capacity to grow at sites where demand becomes most evident.

It also crucial that at neither phase any one site in the network dominates the rest, as this would undermine the county-wide benefit objective of the project.

²⁴ The Economy of Gloucestershire 2007

5. STUDY METHODOLOGY

05.1 FOCUS

The research brief was defined in accordance with the direction given by the commissioning partners. Implicit in the brief were a number of assumptions which are given below.

ASSUMPTION 01: incubation should take the form of a network model, for the reasons described above.

ASSUMPTION 02: incubation is not synonymous with innovation. It is often thought that incubation is a process which can only be applied to businesses with an innovative component or protectable piece of intellectual property. The incubator model however is about targeting intensive business support at enterprises with the potential and ambition to grow. Some of the most successful and fastest growing companies in the UK have not invented revolutionary technology, but simply have a strong business model and deliver it well.

ASSUMPTION 03: the network should not have a sector bias. Keeping the network entry criteria open has the effect of broadening the marketplace from which clients may be drawn. Having a wider pipeline will lead to more successful incubator results as managers will be able to pick and choose the best businesses to incubate, rather than just the ones from the “right” sector. Quality, not sector, becomes the lead decision-making factor. This policy will thus facilitate the best economic development results.

ASSUMPTION 04: The research activity should be focused on locations where some of the key success factors for incubation are

already in existence. In the case of Gloucestershire this meant the site of Higher and Further Education institutions. This did not mean other locations were excluded from the research. Free rein was given to consider all other potential sites within the county, for example the Cheltenham Film Studios. Some time was therefore spent in looking at these other potentials, however, for reasons that will be discussed in full later it still emerged during the course of the project that the HE/FE structure provided the most appropriate home for the network.

05.2 METHODOLOGY

The project was conducted using the classic methodology of combining primary and secondary research.

The first step was to conduct a statistical data review at county level in order to facilitate an understanding of the overall economic landscape.

Particular focus was given to comparing key economic indicators across the six Gloucestershire districts. This analysis provided a steer as to which areas were most likely to provide the right market environment for incubation to work successfully.

Primary research was then used to extrapolate the findings from statistical analysis, and to drill down into the detail of specific locations.

SECONDARY RESEARCH

An extensive review of documents and statistical data was undertaken. Key sources include the following:

- MAIDEN database data analyses
- The South West Competitiveness Operational Programme
- Exploiting the knowledge base of the South West of England – Arthur D. Little
- The Gloucestershire Economic Strategy (drafts)
- Gloucestershire Story 2006 Report (prepared by Gloucestershire County Council Research Team)
- The Economy of Gloucestershire 2006-7
- The Gloucester Prospectus, Gloucester Heritage Urban Regeneration Company
- BERR's Enterprise and Growth Discussion Paper 2007, analyses from the Small Business Service Analytical Unit of BERR, GEM UK, The Federation for Small Business, the Statistical Framework Division of National Statistics and further resources.

A full list can be found in appendix A.

PRIMARY DATA

Interviews were conducted both in person and by telephone and grouped by key objective as follows.

OBJECTIVE: To ascertain whether there is a market for incubation in the county.

ACTIVITY: An analysis was conducted of the county's SME economic activity in comparison with national averages, the South West region and of the local marketplaces to which Gloucestershire aspires: Bristol and Swindon.

OBJECTIVE: To define the areas of the county for which incubation would work best.

ACTIVITY: A need/demand analysis was undertaken and a matrix produced which ranked each district according to its suitability as an incubation centre location.

OBJECTIVE: To determine viability of various network sites.

ACTIVITY: Interviews were conducted with potential delivery partners, who were asked about their understanding of innovation, available facilities for potential incubation in their site, and their view of the role their institution or facility might play in the creation of an incubation network.

OBJECTIVE: To gather evidence as to the type and volume as well as likely catchment area for particular potential sites:

ACTIVITY: Interviews were conducted with a wide variety of local business participants including: professionals currently serving growing businesses including Business Link advisors, private professional service providers, and individuals with an understanding of the micro economic climate of an area, such as local council employees.

OBJECTIVE: To gain an understanding of the property market need/demand scenario for each location with regard to the existing office provision.

ACTIVITY: Property agents with an understanding of the demand levels and rental prices for quality office space, in each location, were consulted.

A full list of interviewees can be found in appendix B.

6. LOCATION EVALUATION CRITERIA

In order to ascertain the structure of the Gloucestershire Innovation Network in terms of size, positioning and number of locations, a methodology needed to be developed that would evaluate the market for the project both across the county and at all potential locations.

The methodology was derived by applying the current thinking on incubation success factors as defined by SWRDA, the Department for Business Enterprises and Regulatory Reform, UK Business Incubation, UK Science Park Association and academic papers on the subject to the data available on each Gloucestershire district.

This approach has enabled each district to be evaluated according to whether there was an identifiable demand or justifiable need for an incubation centre at given locations, which was in turn established by benchmarking the districts against both objective and subjective criteria.

06.1 NEED/DEMAND ANALYSIS

DEMAND is found to be present where there is evidence of a reasonable sized market already in existence for incubation services within a district and/or at a particular location, alongside evidence that an incubation centre would make a large enough contribution to the economic life of that location and/or the county to justify the expense of setting up the site.

Typically areas with a demand for incubation would be those with a higher density of existing businesses and vibrancy of economic life providing a ready market for a local incubator.

The question then becomes: if the area is already performing well economically, is there really a need for public sector funds to be spent on supplying an incubator at that location?

NEED is defined as existing in a given area when it is clear that economic underperformance is occurring comparative to the potential of that area.

Need is not synonymous with economic deprivation. In fact it has been understood by academics that an area needs to have at least some level of underlying affluence and critical economic mass for public sector stimulation of SME business activity to be meaningful.

David Storey, Director at the Centre for Small and Medium-Sized Enterprises at Warwick University, states that 'entrepreneurs respond to rising living standards by becoming more ambitious and creating businesses that outperform. This then raises living standards further, and so on. If an area is not an appealing place to live then entrepreneurs are not going to grin and bear it. They are going to move to Buckinghamshire.'²⁵

25. <http://blogs.telegraph.co.uk/business/yourbusiness/jan08/teesside.htm>

06.2 CRITERIA

The following is a list of criteria which were used to inform the need/demand analysis.

DEMAND-RATIONALE CRITERIA

CRITERIA 01: Existing SME activity on which to build

The first key indicator of potential demand for an incubator in an area is the number of SME and micro businesses already existing and the pace at which new businesses are coming into existence.

Measured by:

0A. Density of micro/small enterprises

A comparatively high density of small and micro business in an area means: a). there exists a ready made market for incubation b) the area is attractive to the core incubator client market.

0B. Speed of growth in stock of VAT registered businesses

Start-ups and existing micro businesses with growth ambitions have a tendency to both incorporate and register for VAT. The number of VAT registrations at a location is therefore a good indicator of the right type of SME activity.

0C. Density of professional services

Professional services firms, such as lawyers and accountants, will locate themselves where there is the most work. A density of these types of professionals demonstrates a requirement for business support and therefore incubation services.

CRITERIA 02: Population with the skills to initiate enterprises.

Business initiators of companies with growth ambitions will more often than not be of a reasonably high skill level already.

The 2005 BERR Household Survey found that 11% of households in the South West have an individual who is thinking about starting a business.

An area which has a high proportion of individuals with the higher skill levels will therefore most likely produce a higher number of these business initiators.

Measured by:

0D. Skills profile compared across the county

CRITERIA 03: Economic prosperity

An economically prosperous area will have a higher head count of individuals with the financial capability of start-up in business than a more deprived area with the same population density. The area in the UK with the highest density of businesses and highest growth in new business is the same area of the UK that is most prosperous: the South East. Relocating entrepreneurs are also more likely to be attracted to an area which is prosperous which will facilitate them with a ready market on their doorstep.

Measured by:

0E. average gross earnings

0F. GVA per head

NEED-RATIONALE CRITERIA

CRITERIA 04: Economic underperformance

As defined by this study economic underperformance has a very precise meaning. It refers to an area which has underlying new business development factors, such as relatively skilled population, and yet has not seen the sort of business growth that would therefore be expected.

Measured by:

- OG. % of population with skills NVQ4+ as compared to rate of new business registrations
- OH. number of enterprises per head of population

These measures are however meaningless without an understanding of the underlying extent of economic deprivation in an area, which will help to inform an analysis of the scores.

Measured by:

- OI. Rate of unemployment
- OJ. Income deprivation

SITE SPECIFIC RATIONALE CRITERIA

As the old adage, "location, location, location," so clearly illustrates, the success of any given project can be very much affected by its exact location. Within each given area it was also necessary to identify the right specific locations. The following criteria were therefore applied to choice of site.

CRITERIA 05: Availability of an appropriate site.

If GIN is to be brought into existence within a sensible timeframe and budget, then there is an implicit requirement to be practical about site choice, and this means slotting into existing infrastructure at least in the first Phase.

CRITERIA 06: Appropriate HE/FE presence.

A higher education partner with a research component and/or enterprise applicable subject is accepted by the incubation community as being a key way of engendering and promoting the success of an incubator.

CRITERIA 07: Site attractiveness

A site needs to be somewhere where ambitious entrepreneurs are happy to work and to invite important clients to.

CRITERIA 08: Office property market: interviews with estate agents

A high demand for office space at a location indicates a potential demand for incubation space.

CRITERIA 09: Travel infrastructure and patterns.

Travel-to-work times are shorter in the South West than in any other region in England; if the location of an incubator is not easily accessible it has a far higher chance of failing.

CRITERIA 10: Competitor incubators: existing or envisioned

While in principle it is better to think of co-operation rather than competition for a new incubator a significant close competitor could have a marked impact on its development.

7. RESULTS

07.1 LOCATION EVALUATION

The following is an analysis of how each district compares according to the criteria defined.

CRITERIA 01: Existing SME activity on which to build

MEASURE 0A. Density of micro/small enterprises

Incubators' core clients are small and micro businesses* within a five mile radius of a given site. An area with a proportionally high density of these businesses will provide a better potential market for an incubator than one with a low density.

No. of VAT registered businesses with less than 10 employees 2007

Cotswold	Stroud	Cheltenham	Gloucester	FoD	Twekesbury	GC
4,660	4,005	3,280	2,520	3,170	2,885	20,520

Size of each district by sq kilometres

Cotswold	Stroud	Cheltenham	Gloucester	FoD	Twekesbury	GC
1,164	460	46	43	526	414	2,653

No of businesses per sq kilometre

Cotswold	Stroud	Cheltenham	Gloucester	FoD	Twekesbury	GC
4.0	8.7	71.3	58.6	6.0	7.0	7.7

* For the purpose of this report a micro/small business is defined as having less than 10 employees

In Gloucestershire with 71.3 **Cheltenham** has by far the highest density of small/micro businesses.

Cotswold while it has the highest stock of businesses overall also has the lowest density of business with only four per square kilometre. This is not surprising given that Cotswold is a relatively prosperous, but rural district.

Gloucester also has a comparatively high density of small businesses which is reflective of its make-up.

Stroud is interesting: in comparison with the other rural districts of **Forest of Dean** and **Tewkesbury**, it has both the highest density of businesses as well as the second highest number of businesses overall.²⁶

MEASURE 0B. Speed of growth in stock of VAT registered businesses

Speed of VAT stock growth measures the difference between the number of VAT registrations and de-registrations in a given time period, in this case seven years.

Registration data is reflective of how many businesses are reaching the critical mass where limited company and VAT registration become applicable.

26. Small Business Service Statistics Team, www.sbs.gov.uk and Office of National Statistics

De-registration data is a measure of the number of businesses which have gone into involuntary or voluntary closure: those which have failed.

Comparing the net effect over time of the two provides a measure of the health of the SME business market.⁺

% growth in business VAT stock by district 200-2006

	2000	2001	2002	2003	2004	2005	2006	CAGR
Tewkesbury	1.9%	2.6%	2.2%	0.5%	0.2%	1.9%	1.6%	1.3%
Stroud	1.8%	1.0%	0.9%	1.4%	1.7%	1.0%	2.2%	1.2%
Cotswold	1.6%	2.5%	0.8%	1.2%	1.8%	1.7%	0.1%	1.1%
Forest of Dean	0.2%	0.0%	0.8%	1.1%	0.8%	1.9%	0.5%	0.7%
Cheltenham	4.2%	2.5%	0.1%	-0.4%	0.4%	1.2%	0.7%	0.6%
Gloucester	-1.6%	-3.9%	-3.5%	-2.6%	0.2%	1.2%	0.6%	-1.2%
GC	1.5%	1.0%	0.4%	0.4%	1.0%	1.4%	1.0%	0.7%

Source: Office of National Statistics

GC: Gloucestershire County

CAGR: Compound Annual Growth Rate: net growth over 7 years

On this measure the rural districts perform better than the urban ones; all have equal or above county average growth in business stock.

Conversely **Gloucester** performs very poorly on this measure. Looking at the historical trend data it can be seen that the net reduction in VAT stock is a result of a significant downturn from 2000 to 2003. This is a trend that seems to have reversed in the last three years shown.

⁺ There are so relatively few large businesses which emerge from a standing start or go completely bust in a given year, that for this analysis while the only data available is for total VAT stock and not VAT stock broken down by business size, that the effect of including large businesses is negligible

That **Cheltenham's** business stock growth is half that of **Stroud's** may be explained by the fact that **Cheltenham** is a more mature business market, and therefore growth has slowed comparatively. Alternatively it could be that **Cheltenham** is not performing as well as Stroud due to relatively high rental costs, lack of office space, or other factors.

Tewkesbury is the county's top performing region in terms of business stock growth over seven years. However it is worth noting firstly that it has the lowest number of businesses in the first place, and therefore the VAT registration of one business has a greater impact on the trend, than in other districts. Secondly the overall percentage has been increased by the high growth trend of 2000 to 2002, which has subsequently dissipated in 2003 and 2004, and then reappeared. Without looking at why this might have been, something not feasible within the confines of this report, it is prudent to rather take this data as being anomalous.

MEASURE 0C. Density of professional services

Count of professionals by district 2008

	Cheltenham	Gloucester	Cotswold	Stroud	FoD	Tewkesbury
Solicitors	48	25	20	9	9	7
Accountants	63	50	38	25	12	8
Total	111	75	58	34	21	15
Per sq kilometre	2.41	1.74	0.05	0.07	0.04	0.04

Source: www.yell.co.uk and online industry business directories

Unsurprisingly the urban districts have a far higher density of professionals than the rural districts. Nor can it be unexpected that **Cheltenham**, with nearly 800 more small businesses than **Gloucester**, scores comparatively better on this measure.

What is of more interest in this analysis is how the rural districts compare with one another.

Stroud, Forest of Dean, and Tewkesbury are not of dissimilar sizes and yet Stroud has 21% more small businesses than **Forest of Dean** and 28% more the **Tewkesbury**. It also has close to double the density of professionals than either of the other districts.

CRITERIA 02: Existence of population with skill base to initiate enterprises.

MEASURE 0D. Skills profile compared across the county

Higher level skills profile by district and level of qualification

	Cheltenham	Stroud	Tewkesbury	Cotswold	FoD	Gloucester
NVQ Level 4 +	36.0%	31.9%	29.9%	29.7%	21.7%	20.1%
Degree level +	26.5%	22.9%	21.1%	24.0%	16.4%	14.9%

This data set shows that there is a real split in the higher qualification levels of **Cheltenham** and **Gloucester**, two districts with almost exactly the same size of population.²⁷

Stroud again scores well in comparison to the other rural districts, in fact in terms of skill levels it is only slightly behind **Cheltenham**.

Cotswold is interesting in that it ranks much better in terms of degree level qualifications than it does for NVQ Level 4 and above.

Forest of Dean has a level of skills akin to **Gloucester** and significantly below that of the other districts excepting **Gloucester**.

27. Source : 2001 Census Summary Profile for GLOS, and NOMIS database

CRITERIA 03: Economic prosperity

MEASURE 0E. average gross earnings

Average per week gross earnings per district 2007

Cheltenham	Gloucester	Tewkesbury	Stroud	Cotswold	FoD	GC
£552.60	£546.40	£534.50	£486.80	£475.60	£469.00	£522.50

There is a reasonably significant amount of variance between the average weekly earnings of full time employees at their highest in **Cheltenham** and lowest in **Forest of Dean**. From this it can be inferred that there is a disparity of affluence between the areas.

It is interesting that **Gloucester**, despite its ranking lowest on the skill profile measure, has the second highest average earnings rate in the county.

MEASURE 0F. GVA per head

	Tewkesbury	Gloucester	Cheltenham	Cotswolds	Stroud	F o Dean
GVA	1,677,480	1,652,851	1,565,959	1,006,227	1,217,849	583,801
Per head	22.0	15.0	14.2	12.5	11.3	7.3

GVA is highest in **Tewkesbury** because there are a high number of large companies with substantial businesses located in the district. Conversely GVA is lowest in the Forest because there is comparatively little there, with a much higher proportion of the workforce having to out-commute to work. As urban centres **Gloucester** and **Cheltenham** with denser business populations have higher GVA's than the rural districts.

Stroud performs surprising badly on this measure given the size of its business stock.

CRITERIA 04: Economic underperformance

MEASURE 0G. % of population with skills NVQ4+ as compared to rate of new business registrations

Working on the assumption that most high growth business start-ups are initiated by individuals with high level skills, there will be a relationship between the proportion of a population with high level skills and the rate of high growth business start-ups.

Also assuming the majority of these growing businesses will choose to register for VAT, then for areas where there is a higher percentage of the population with high level skills, one would expect to see a higher level of VAT registrations.

The following table therefore compares the percentage of higher skilled individuals each district contributes to the county total with the percentage contribution each district makes to the total number of businesses newly registering for VAT each year.

	Cotswold	FoD	Gloucester	Tewkesbury	Stroud	Cheltenham
% contribution to GC high level skill base	14.9%	10.8%	13.8%	14.3%	21.5%	24.7%
% contribution to GC new VAT registrations	21.2%	13.0%	12.8%	19.5%	12.5%	21.0%
Relationship ratio	1.42	1.20	0.92	1.37	0.58	0.85

Analysis derived from ONS and NOMIS data
Based on company VAT registrations for the period 2000-2005

Cotswold has the highest ratio of business creation to skill levels. More than one fifth of newly registered companies in

Gloucestershire from 2000-05 were located in the district despite the fact that one sixth of its population have a high skill level.

In comparison a quarter of the county's skilled population reside in **Cheltenham**, yet only a fifth of new VAT registrations occur in the district. **Stroud** similarly could perform better under this measure.

Forest of Dean and **Tewkesbury** initially appear to do better under this measure. However looking more closely, it becomes apparent that this is because their smaller populations are consistent with a lower level of business registrations.

MEASURE 0H. Number of enterprises per head of population

No of enterprises per head of population per district

Cotswold	Stroud	FoD	Tewkesbury	Gloucester	Cheltenham	GC
0.129	0.082	0.088	0.084	0.051	0.07	0.081

Cheltenham again scores low on this measure. Relative to its population size it has a lower number of enterprises. This is also true of the other urban district, **Gloucester**.

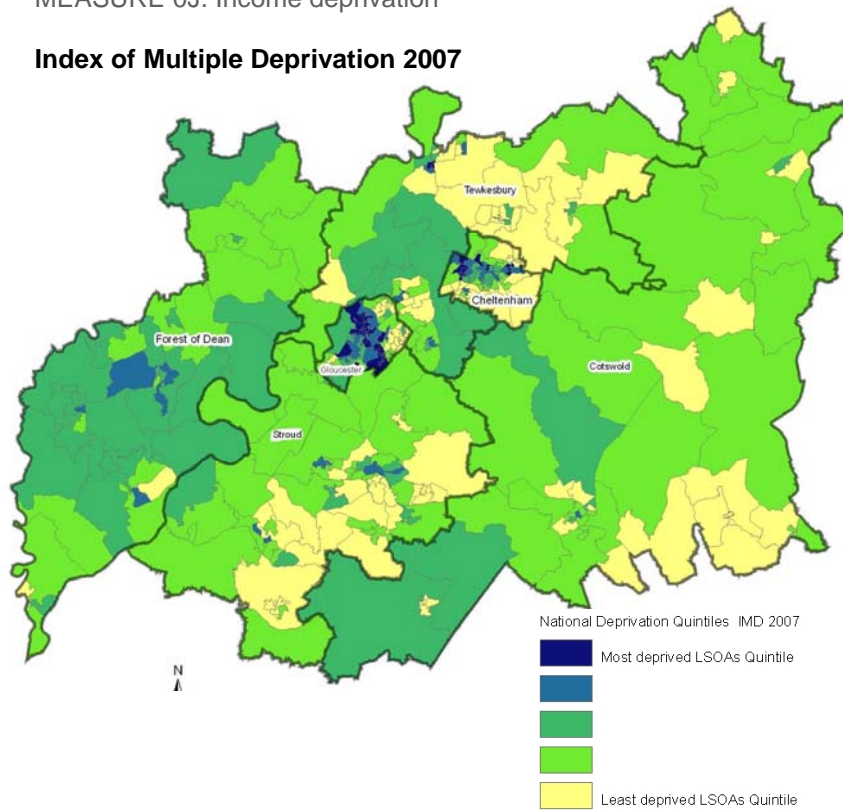
With 0.13 enterprises per head of population, **Cotswold** has the most positive ratio of companies to people.

Forest of Dean, Tewkesbury and **Stroud** score very similarly with between 0.08 and 0.09 enterprises per member of the population.

Note: the fact that the rural districts have a higher ratio of businesses to people than the urban districts is not just a function of their comparatively lower populations. **Stroud's** population at just under 108,000 is on a par with both urban areas and yet its score equals that of the lower population districts. The results from this measure should therefore not be disregarded.

MEASURE 0J. Income deprivation

Index of Multiple Deprivation 2007



Source: Department of Communities and Local Government

The above map is a pictorial representation of Gloucestershire according to the accepted standard measures of deprivation.

The most deprived areas are dark blue and the least light yellow.

The district with the most deprived wards is **Gloucester**; **Cheltenham** has the next highest number.

Wards within **Forest of Dean** and **Stroud** are light blue meaning there is deprivation in these districts but not to the same extent as occurs in the urban areas.

Tewkesbury and **Cotswold**, mainly coloured green or light yellow, are the least deprived wards.

NEED/DEMAND ANALYSIS CONCLUSIONS

Cheltenham scores highly under the demand rationale criteria. It has the highest density of businesses, the most highly skilled population and the highest number of professional services practitioners.

However Cheltenham in terms of small/micro business growth is not performing as well as it should. Growth in the stock of VAT registering businesses over the last seven years was lower than every other district excepting Gloucester.

Cheltenham therefore makes a good demand and need case for incubation. There is a good level of small business activity capable of providing a market for an incubation centre, yet it is also clear that Cheltenham is underperforming relative to its potential. There is therefore a rationale for an incubator as a means for effecting and promoting a more active enterprise culture.

Gloucester is clearly an area of need. It has experienced a net drop in overall business stock over the last seven years, it has the lowest percentage of skilled individuals in the county, the lowest percentage of enterprises per head of population and the highest number of deprived wards.

From a demand perspective, Gloucester has the second highest density of small and micro businesses of all the districts and the second highest full time average earnings, while a density of professional services proves a demand for business support.

Gloucester therefore has a need for an incubator. With a reasonable density of existing business there is also evidence that a market for services must exist. However this market will not be of the same quantum as Cheltenham. Accordingly a smaller centre with the flexibility to grow would be a better fit for Gloucester.

Given that it is a rural district, **Stroud** has a high density of businesses per kilometre and a large business stock. It also has a higher than average percentage of the population with level NVQ4+ skills and yet the worst ratio of skills level to new business creation. Stroud therefore, like Cheltenham, is underperforming.

In terms of deprivation, Stroud is a mixed district with some wards of high deprivation and other more substantial areas of low to no deprivation. Average earnings are also not as high as in the urban districts or Tewkesbury.

A case can therefore be made for incubation being required in Stroud to stimulate new business growth. The question is, with an older business stock, is there sufficient demand for an incubator?

Cotswold has the least deprivation of all the districts; it contributes more newly registered business to the county total than any other district. It has the second highest percentage of population with degree level qualifications+ and the highest number of enterprises per head of population.

As Cotswold is such a good performer the question therefore becomes: is there a rationale for investing public money?

On the other hand it could be argued that a well functioning economy further stimulated by an incubator, could produce even more significant growth.

There is also the issue with Cotswold regarding the specific location of a centre, given that it is a large and rural district. A location is needed that would provide a sufficient density of population within the travel to work catchment area of a centre to sustain it.

Forest of Dean has the second lowest density of businesses, it has average but inconsistent growth of VAT registered stock and the lowest skills profile of all the rural districts.

Earnings in the Forest are also lower than in any other district and, along with Tewkesbury, it has the lowest density of professional service providers, suggesting there is little demand for business support.

Forest evidently does not have an established market into which an incubator could slot. While incubation could stimulate business growth in a district such as Forest and therefore there is a need, it has to be done sustainably to have an impact. Incubation is not sustainable in isolation and does require sufficient market activity to support it. The best approach for Forest may therefore be to have a small centre to act as a proof of concept, with the potential for further sites if and once market volume has been established.

Tewkesbury has the lowest density of businesses in the county, it has the third highest skilled population and contributes to the percentage of new business stock in line with this.

It is proportionally the least deprived of the districts, and earnings in Tewkesbury are higher than for any other of the rural areas.

So somewhat like Cotswold, Tewkesbury is a well performing district, albeit with the potential to do better.

The questions are also the same as for Cotswold, is it the best target for public money intervention in the first instance, comparative to other areas, and is there a location sufficiently suitable.

CRITERIA 05: Availability of an appropriate site

CRITERIA 06: Appropriate HE/FE presence

CRITERIA 07: Site attractiveness

The need/demand analysis gave a good steer as to which districts would be most suitable for incubation on the basis of benefit derived and existence of a potential market.

The next stage was to look at the feasibility of incubation in these districts according to site and location suitability.

As has already been stated if GIN is to be brought into existence within a sensible timeframe and budget, then there is an implicit requirement, at least in Phase I, for the incubators to slot into existing available sites.

Sites were therefore sought across the county which would meet this requirement.

Particular emphasis was given to higher and further education campuses as:

- the incubation education mix model is proven to work

- HE/FE partners would be capable of contributing to the project with funds and/or resources
- a number of HE and FE institutions had already expressed an interest in the concept.

Other public sector owned and controlled locations were also options considered. Then again, there would have to be a benefit rationale for the site-owning organisations to want to sacrifice space to the project. This rationale is only really strong for higher level educational institutions.

Privately owned sites around the county were also borne in mind. However a site for which a full price commercial rent would have to be paid would not be a feasible option. Incubation centres rely on the profits from rental income over time to fund the provision of business support services. Paying a full commercial rent would not allow any profit to be realised and thus cause the model to fall down. For a private site to work a deal would have to be made by which space could be obtained for little or no rent in exchange for some other commensurate benefit.

The attractiveness of both the particulars of sites and their surrounding areas were also given careful thought. For business initiators to be attracted to a building that building would need to have a business-appropriate look, feel and atmosphere. Incubator clients like any other business owners will also be seeking a site which is in the right general location: one which is convenient to get to, pleasant to be in and within reach of amenities.

The table on the following page is a summary of the results of evaluating each of these districts according to the site specific criteria. Information for this evaluation was taken not just from statistical data but from the results of extensive interviews with senior management at potential sites.

	CRITERIA 05,06 & 07 site availability	CRITERIA 08 the property market	CRITERIA 09 travel infrastructure	CRITERIA 10: competition
Cheltenham	<p>There are three HE/FE sites</p> <p>University of Gloucestershire</p> <ol style="list-style-type: none"> 1. Park Campus 2. Pittville Campus* 3. The National Star Centre College of Further Education - a national resource serving students with physical disabilities and secondary handicaps <p>*To be closed and moved to Gloucester.</p> <p>The borough does not have any major business parks or enterprise parks.</p> <p>Major development is taking place at the Cheltenham Film Studios. However it was not clear from the management interview whether a suitable rent agreement could be achieved.</p>	<p>There is an under supply of suitable commercial property in the district.</p> <ul style="list-style-type: none"> • “Supply is very poor – under-provisioned.” S.P.A Commercial Property Consultants • “For Cheltenham, the key issues include accommodating further economic activity... there is growing competition between employment, housing and retail development to achieve their relative aspirations in a finite physical area.” <i>Regional Spatial Strategy</i> • “There is a clear demand in Cheltenham for modern, flexible, multipurpose units in good locations that can be adapted for occupation by all business sectors.” <i>Employment Land review July 2007</i> <p>Rental prices for quality office space are £13-£15 sq ft p.a. <i>Source Commercial Property Ltd</i></p>	<p>Cheltenham is located off junctions 10 and 11 of the M5 motorway and on the A40 from London and Oxford.</p> <p>Access to the UK road network is therefore good.</p> <p>Cheltenham town centre however suffers from significant traffic congestion.</p>	<p>No competition within a relevant area.</p>

	CRITERIA 05,06 & 07 site availability	CRITERIA 08 The property market	CRITERIA 09 travel infrastructure	CRITERIA 10: competition
Gloucester	<p>The site availability in Gloucester is very broad.</p> <p>There is one HE and one FE site.</p> <p>HE: University of Gloucestershire, Oxstalls Campus</p> <p>FE: Gloucester College, Docks campus.</p> <p>There are a wide variety of business parks and industrial estates including the very popular Gloucester Business Park which is located in Brockworth, south of Gloucester near the M5.</p> <p>Significant regeneration is being effected across seven sites in Gloucester City by the Gloucester Heritage Urban Regeneration Company. This is taking place across seven sites:</p> <ul style="list-style-type: none"> • Blackfriars • Gloucester Docks • Canal Corridor • Gloucester Quays • Kings Quarter • Greyfriars • Railway Triangle 	<p>The market has been characterised by out-of-town developments, particularly in the Quedgeley area with Olympus Park, Green Farm and Waterwell's Business Park. The road improvements at junction 12 of the M5 have made this area an even more attractive location.</p> <p>Developers and occupiers have historically been attracted to sites at the edge of the city, hence the need to direct investment towards the city centre and the URC area to enable a balance to be created.</p> <p>Rental prices are lower than in Cheltenham. Most office space is located at the out-of-town developments where average prices are £10-£12 per sq. ft p.a. <i>Web research.</i></p>	<p>The town has a number of locational assets such as its strategic position along the M5 with access to the M4 via the A417/9.</p> <p>Gloucester is a net-importer of workers from all areas of the county apart from Cheltenham. It also reinforces the important role Gloucester has as an employment centre for Forest of Dean and Stroud residents.</p> <p>The clear picture to emerge here is that most people drive their cars to work.</p> <p><i>Gloucestershire Workspace Strategy</i></p>	<p>No competition within a relevant area.</p>

	CRITERIA 05,06 & 07 site availability	CRITERIA 08 the property market	CRITERIA 09 travel infrastructure	CRITERIA 10: competition
Stroud	<p>Stroud has one FE site: Stroud College, Stroud campus.</p> <p>However a second campus location in Dursley is to be built.</p> <p>The majority of commercial sites in Stroud are industrial only.</p>	<p>Stroud has the lowest available office floor space stock for any district within Gloucestershire.</p> <p>The demand in smaller market towns such as Stroud is for small office suites of up to 2,000 sq. ft.</p> <p>Period buildings dominate with a general lack of quality office buildings.</p> <p>There is a real differential in market rents. Local agents report that Stroud area office rents can be as low as £3 per sq. ft rising to up to £15 per sq. ft.</p> <p><i>Gloucestershire Workspace Strategy</i></p>	<p>Stroud district with its location to the east of the county and good access to the motorway network has "...high accessibility to major transport routes, particularly the strategic road network." <i>Regional Spatial Strategy</i></p> <p>Stroud residents travel shorter distances to work than residents of other districts. 67.4 % commute less than six miles <i>Census 2001</i></p>	<p>No competition within a relevant area.</p>

	CRITERIA 05,06 & 07 site availability	CRITERIA 08 the property market	CRITERIA 09 travel infrastructure	CRITERIA 10: competition
Cotswold	<p>There are two HE sites in Cotswold, both in Cirencester.</p> <ul style="list-style-type: none"> • The Royal Agricultural College, Cirencester • Cirencester College <p>There are a limited number of commercial sites in the district, with the emphasis on the industrial.</p>	<p>The principal commercial market is Cirencester, where there continues to be good demand for small units to cater for the local market</p> <p>Sites within the town need to be brought forward over the period up to 2016 to enable the development of the small business base in the town.</p>	<p>The largest town in the district is Cirencester. It benefits from being the most easterly town in the county and therefore its relative proximity to London. While it has a good connection to Swindon via the A417 it is not well located for the motorway network.</p> <p>Accessibility is weak which restricts employment opportunities in the smaller towns and villages.</p> <p>In addition, there are housing affordability issues with high incomes not keeping pace with very high house prices. Average house prices in the District are the highest in the County.</p> <p><i>Gloucestershire Workspace Strategy</i></p>	<p>There is a competitor in this district. The Cotswold Innovation Centre at Upper Rissington Oxford Innovation Ltd, connecting into the Cambridge-Oxford Arc of Innovation.</p>

	CRITERIA 05,06 & 07 site availability	CRITERIA 08 the property market	CRITERIA 09 travel infrastructure	CRITERIA 10: competition
Forest of Dean	<p>There is one HE/FE site in the Forest: Hartpury College. It is located in the south of the district near to Gloucester.</p> <p>There is a good commercial offering in the district. Specifically: Vantage Point Business Village has an occupancy rate of 90%. The Mitcheldean Enterprise Workshops based at Vantage Point offers 44 starter units with business mentoring on hand from Business Link Gloucestershire.</p>	<p>The commercial property market in the Forest of Dean is generally weaker than the prime markets centred on Gloucester, Cheltenham, Tewkesbury and Stroud. It does however have the benefit of competitive labour and property costs; but this means the key driver is price.</p> <p>There is also a relative shortage of small office space.</p>	<p>The Forest suffers from major road accessibility issues. Access to the motorway network is via Gloucester or Chepstow.</p> <p>The market towns of Coleford, Cinderford and surrounding areas are particularly inaccessible.</p>	<p>No competition within a relevant area.</p>
Tewkesbury	<p>There are no FE/HE sites in Tewkesbury.</p>	<p>The supply of high quality business park accommodation and land for development is a key asset that other districts, such as Cheltenham do not possess.</p> <p>The supply focus in Tewkesbury however is towards large employers rather than small businesses.</p> <p><i>Gloucestershire Workspace Strategy</i></p>	<p>Tewkesbury is in close proximity to Cheltenham and Gloucester. It also has direct access to the M5 and M50.</p>	<p>No competition within a relevant area.</p>

SUMMARY

Combining the need demand analysis with the site search activity as outlined in the tables above, four sites emerged as viable locations for placement of incubators in Phase I. These four locations are: University of Gloucestershire: Park Campus, University of Gloucestershire: Oxstalls Campus, Stroud College, Dursley Campus and Hartpury College in the Forest of Dean. Note the rationale underpinning these choices is discussed further in the recommendations section of this document. The next step was to establish what size each incubator should be. This was done by evaluating the market potential at each site.

07.2 POTENTIAL MARKET BY SITE

Incubation clients for all of the sites will come from one of three potential sources:

- 0A Alumni of the HE or FE institution.
- 0B Local businesses within the district/within a 5 mile radius
- 0C Highly skilled individuals currently in employment.

0A Two of the key reasons for locating incubation centres at or adjacent to educational institutions is to motivate a proportion of graduating students to stay in the area and start their own business, and equally to entice older alumni to do the same. This has proven a successful strategy at other centres such as Carpenter House in Bath. By combining data from established centres attached to HE sites with data gathered from interviews with the educational establishments for the chosen sites it has been possible to estimate for each location the number of clients that will come from this source.

0B A method needed to be derived to ascertain what the potential client base of local businesses would be at each site. The best available indicator for growth activity is VAT registration data. Accordingly it was decided that a good estimate of market size could be derived by looking at the mean number of new registrations per annum for the last six years and assuming that a percentage of these would become network clients. The percentage that was chosen was between 1% and 3% depending on location specific factors.

Note for the purpose of this analysis a decision has been made to exclude any assumptions on potential clients from further afield. From the data collected from comparable sites at Taunton and Devon; it seems that while there is always a possibility that

businesses may relocate from outside the 30 mile radius in order to take space in a given incubator, this is in fact a fairly rare occurrence. Accordingly, for conservatism, it has been assumed that the count for inward-investment businesses is zero.

0C No empirical study has been conducted which answers the question as to what percentage of a given population in employment will choose instead to go into business for themselves as a result of an incubator opening in their local area. From interviews with incubator centre managers, it can be confirmed, albeit anecdotally, that it does happen. In regard to the following analysis some assumptions have therefore had to be made regarding the number of clients that may come from this source. These assumptions are made relative to the population of higher level skilled individuals within travel distance of the given site.

Once the number of enterprises likely to use each incubator had been established using the methods described above, it then became possible to calculate the size of space that would be required for each.

This was done by assuming that each incubator tenant would require 150sq ft of space: equivalent to a small office.

A further assumption was then made in reference to the number of employees each enterprise would have. Given the early stage nature of incubation, it was assumed that the majority of businesses would have one or two members only. This weighting has been revised upwards as time goes on to reflect the fact that business within the incubator should be growing.

Finally attrition has not been included in these assumptions as it was felt that this would over complicate what is an early stage rough-cut sizing estimation, especially given that the attrition rates at this early stage of the network are likely to be very low.

CHELTENHAM: Park campus University of Gloucestershire

ABOUT THE CAMPUS

The Park Campus comprises 24 acres of landscaped grounds and gardens approximately 10 minutes from the City Centre.

The campus combines older architecture and modern high quality fit-for-purpose buildings to create an aesthetically pleasing result.

Central Reception at the Park Campus Cheltenham



THE INCUBATOR MARKET

The table opposite shows the expected occupancy of a Park Campus incubator over the first five years of its life.

As Cheltenham is the market with the biggest potential for an incubator according to the results of the demand study, a fairly high assumption of a number equivalent to 2%-3% of the new VAT registered stock becoming clients has been presumed.

The analysis therefore shows that there is potential for 11,220 square foot of space being required in the first five years of operation.

After five years a really successful centre would expect to have between 70% and 80% of its space occupied. It may then be that it reaches closer to capacity in five to ten years after opening.

CLIENT PIPELINE ESTIMATES

physical incubation

No of new client businesses per year

PIPELINES	Year 1	Year 2	Year 3	Year 4	Year 5
University of Gloucestershire alumni	3	3	3	3	3
local businesses - existng	5	4	5	6	6
Local business - start-ups	0	2	2	4	4
Cumulative total of tenant businesses	8	17	27	40	53
average no of employees*	1.5	1.2	1.3	1.4	1.6
total space requirement**	1800	3420	5370	8100	11220
Occupancy %	11%	21%	34%	51%	70%
As a % of p. a. VAT registrations***	2%	2%	3%	3%	3%

*Number includes business owner; estimated based on comparison existing incubators and forecasts of expected business types.

** Assumes 150 sq. ft required per person as this is the standard size of a small one person office.

*** Based on an average of new VAT registrations for the district over the last six years.

If 11,220 sq ft equates 70% occupancy then the total rentable space will need to equate to 16,000 sq ft.

To contextualise this, the rentable space available at Carpenter House in Bath which is at near 100% occupancy and has a waiting list, is 11,000 sq ft.

GLOUCESTER: Oxstalls Campus University of Gloucestershire



Oxstalls campus is located in the heart of Gloucester, only five minutes drive from the city centre. The campus opened in 2002.

The table opposite shows the space requirement for a Gloucester incubator. As Gloucester has more need and less proven demand for incubation than Cheltenham a lower percentage attraction assumption of 1%-2% has been made.

In these estimations however the effect of the incubator stimulating the market has been taken into account.

This causes a step-up to occur in the space required for years four and five, which would therefore seem to demand a much bigger incubator.

CLIENT PIPELINE ESTIMATES

physical incubation

PIPELINES	No of new client businesses per year				
	Year 1	Year 2	Year 3	Year 4	Year 5
University of Gloucestershire alumni	2	2	2	2	2
local businesses - existing	1	2	2	2	2
Local business - start-ups	0	1	1	3	3
Cumulative total of tenant businesses	3	8	13	20	27
average no of employees*	1.5	1.2	1.3	1.4	1.6
total space requirement**	675	1575	2550	4020	5700
Occupancy %	17%	39%	64%	34%	48%
As a % of p. a. VAT registrations***	1%	2%	2%	2%	2%

*Number includes business owner; estimated based on comparison existing incubators and forecasts of expected business types.

** Assumes 150 sq. ft required per person, as this is the standard size of a small one person office.

*** Based on an average of new VAT registrations for the district over the last six years.

Given this stimulation effect is as yet to be seen, it seems somewhat risky to make provision for a large incubator at the outset. It is therefore proposed that incubation at Gloucester is rolled out across two phases. Phase I space could be located at Oxstalls with a second site added for Phase II.

Using the same capacity extrapolation method as for Cheltenham this would mean a space requirement of 4,000 sq ft for Phase I and possibly as much as 8,000 sq ft at a Phase II location.

Note the occupancy percentages drop in the table above at year four as it has been assumed that this is when Phase II opens, and therefore the occupancy percentage is referring to a much bigger space.

STROUD: Dursley campus, Stroud College

The new Dursley Campus combines a modern build with existing infrastructure in the form of Drake House.

The table below shows the expected occupancy for this particular incubator over the first five years of its life. What follows is a far more detailed discussion on the way in which these numbers were compiled. This level of detail has been required for two reasons:

- The market picture for the Stroud district is more complex and warrants more explanation.
- The plan for the Dursley Campus build is currently being finalised. This means a final and exacting decision needs to be made straight away in regard to the space required for the incubator. For the other sites further discussion and investigation can continue.

PIPELINES	Second phase No of new client businesses per year				
	Year 1	Year 2	Year 3	Year 4	Year 5
Stroud College alumni	0	1	1	1	1
local businesses - existing	2	3	1	1	2
Local business - start-ups	0	1	1	1	1
Cumulative total of tenant businesses	2	7	10	13	17
average no of employees*	1.5	1.2	1.3	1.4	1.6
total space requirement**	240	672	1040	1456	2176
Occupancy %	20%	56%	30%	42%	62%
As a % of p. a. VAT registrations***	1%	2%	1%	1%	1%

*Number includes business owner; estimated based on comparison existing incubators and forecasts of expected business types.

**Assumes 80 sq. ft required per person. Due to nature of businesses in the area it has been assumed more flexibility and less set office space will be required.

There were 1200 Stroud College students enrolled in 2007 with the majority enrolled as full-time students. The college expects student numbers to increase to 6000 in 2008-2009 as a result of physical expansion and marketing efforts.

Based on information provided by the college in an IMA interview, one Stroud College graduate may be expected to set up a business per year. This number is expected to rise to at least three over the course of five years, due to growth in student numbers, and as incubation stimulates more start-up enterprise.

Popular Stroud College curricula that may form the basis for a business start-up include: HND in Business; Foundation Degree in Fine Art/Crafts; Web site development and Electronic Publication Design; Certification and NVQ2 & 3 in Computer Aided Design, Carpentry, Electrical Installation, Painting and Decorating, Plumbing and related courses; OCN Levels 2 & 3 and Diplomas in Drawing and Painting, Stained Glass, Ceramics and Pottery.

Businesses started in construction, beauty, fine arts or crafts fields are unlikely to require office facilities.

This segment of start-ups can be served, via membership subscription, by a large drop-in space with wireless access, computer stations, meeting room availability and full business support services.

The Stroud College pipeline may also offer the opportunity to expand reach and increase participation with discounted affiliate memberships to a limited number of carefully selected students interested in enterprise, which would allow them to attend workshops and events and use the drop-in space for enterprise-related activity.

Anticipated profile of incubation clients from the Stroud College pipeline:

	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5
Drop-in users	1	1	1	2	2
Office tenants	-	1	1	1	1
Affiliate members	1	2	3	4	5

LOCAL BUSINESSES

An area roughly bounded by Thornbury, Stonehouse and Nailsworth, and excluding Stroud Town, was assessed as the most likely client source, with the greatest percentage of clients expected to come from Dursley.

Before the closure of several industries, Dursley was characterised by a highly local workforce; enterprise regeneration is likely to be supported by a local population wishing to return to this pattern.

A combination of a few highly specialised high-tech enterprises, like Renishaw's in Wotton Under Edge, with some resident skilled workforce and Rednock School's science specialism may provide a foundation from which Dursley-area innovation may arise.²⁸

Thornbury accountants surveyed believed it was likely that one or more of their commercial clients might wish to use incubation services located in Dursley;

- A senior partner of a Stroud solicitors firm believed that some demand for Dursley-based business support would be likely to come from Stonehouse;

²⁸ IMA interview with Geoff Wheeler, Dursley Council, 2007 (first two bullets)

- A representative of a Nailsworth accountancy firm perceived Dursley as being on the verge of 'a significant commercial upturn' and viewed the likelihood of Nailsworth residential out-commute to split between Dursley, Stroud and Cirencester.²⁹

Though businesses from any location could potentially be incubated, data for the main towns in the area were reviewed as most relevant.

In 2007, there were approximately 2620 businesses in the identified area with 0-4 employees³⁰

- 367 in Dursley – approximately 85%
- 945 in Thornbury – approximately 70%
- 645 in Stonehouse – approximately 65%
- 667 in Nailsworth – approximately 80%

Around 73% of these businesses, or just over 1900, have 0-4 employees.

In the total area, almost 17% of all businesses are less than two years old and businesses of this age make up the following portions of local totals:

- 15.2% of Dursley businesses
- 15.3% of Thornbury businesses
- 19% of Stonehouse businesses
- 18.3% of Nailsworth businesses

²⁹ IMA interview with Kate Springer, Tax savers; Norman Clark; John Russel, Goldinghams; Margaret Brown, Penleys, 2007 (last three bullets)

³⁰ National Statistics data for VAT registered businesses expanded by standard factor for relationship of 45 VAT-registered businesses : 100 total enterprises

People running businesses from home are potential incubation clients:

- Some 'artistic' residents of Dursley are seeking business premises.³¹
- 92% of Gloucestershire-based media and creative sector entrepreneurs surveyed in a recent study were working from home due to the costs of renting office space.³²
- Underestimating demand for incubation from start-up or working-from-home businesses is common.³³

Dursley is a potentially attractive location for business and employment:³⁴ Dursley-based recruitment company representative reported past success recruiting in-commuting workers and positive perception of Dursley as a work destination by workers from as far as Bristol.

A Stroud solicitor handling commercial property reports that Dursley commercial properties are in growing demand and that the low market prices make Dursley enterprise property attractive.

Based on survey responses indicative of interest in business incubation in Dursley, IMA estimates that a Drake House incubation unit may realistically expect annually to serve a minimum of 0.2% smaller and/or younger businesses in the overall identified area with office-based incubation and about 0.4% with drop-in/virtual services.

³¹ IMA interview with Geoff Wheeler, Dursley Council, 2007

³² AMA, Potential for the Development of Incubator Units in Media, 2006

³³ Gavin Wonnacott interview, RDA, 2007; North Devon incubator example: tenant waiting list required after less than two years.

³⁴ IMA interviews with John Russel, Goldinghams; Pauline Cabbage, Westech IT Recruitment, 2007

Local-business clients are expected to fragment as follows:

- businesses moving from existing premises and having more than one staff member (1+ employees),
- start-ups requiring office space, or
- new or existing businesses requiring only drop-in facility and membership services by subscription.

Anticipated volume and breakdown of area start-up and existing business clients:

	Year 1	Year 2	Year 3	Year 4	Year 5
Moved business average of 2 staff	1	2	1	1	1
Start-up tenants	1	2	1	1	2
Drop-in clients	2	5	6	7	8

FOREST OF DEAN: Hartpury College campus



The table opposite shows the space requirement for a Forest of Dean incubator. As Forest of Dean, like Gloucester, has a higher need than demand weighting in the analysis a lower percentage attraction assumption of 1%-2% has also been assumed.

As demand is less proven there is a strong rationale behind using a phased approach here as well.

The model assumes Hartpury is to be a small and specialist site which will have strong linkages to the Gloucester site.

PIPELINES	Second phase				
	No of new client businesses per year				
	Year 1	Year 2	Year 3	Year 4	Year 5
Hartpury alumni	1	0	1	0	1
local businesses - existing	1	1	2	2	2
Local business - start-ups	0	1	1	2	2
Cumulative total of tenant businesses	2	4	8	12	17
average no of employees*	1.5	1.2	1.3	1.4	1.6
total space requirement**	450	810	1590	2430	3630
Occupancy %	38%	68%	19%	29%	43%
As a % of p. a. VAT registrations***	1%	1%	2%	2%	2%

*Number includes business owner; estimated based on comparison existing incubators and forecasts of expected business types.

** Assumes 150 sq. ft required per person as this is the standard size of a small one person office.

*** Based on an average of new VAT registrations for the district over the last six years.

8. RECOMMENDATIONS

The overall recommendation is that a Gloucestershire Incubation Network would be of economic benefit to the county.

Incubation would have a more meaningful impact in some districts than in others.

The network as a whole needs to be flexible in order to meet not just the needs of the locations in which it has a physical presence, but of the whole county.

While there is clearly a market for incubation in Gloucestershire, there aren't any examples of a network like this stretching across a mixed urban and rural area in quite the same way.

There is therefore a requirement to both initiate and prove the concept simultaneously.

The most prudent way to go about this would be to start small and grow. This would allow the market to be tested with minimal risk and provide valuable learning which will inform the development of the rest of the network.

Accordingly a two phase development is proposed.

Phase I will consist of a mix of rural and urban locations across four districts: Cheltenham, Gloucester, Stroud and Forest of Dean.

Phase II will seek to grow the network with a minimum of three further locations.

All network sites will share the same management team, administration and governance structure.

0.71 PHASE I SUMMARY

Site 1: Cheltenham, University of Gloucestershire, Park Campus

Description

A relatively large unit, 16,000 square feet, divided principally into one- and two-man offices, situated within the existing physical infrastructure of the Park campus

Rationale

Cheltenham is an important economic hub for the county. Cheltenham's GVA per head has been consistently higher than the national average over the ten years since 1993.³⁵ Placing a site in Cheltenham will have two crucial benefits to the network as a whole. 1. Rent per square foot for office space is high: rent of the site is therefore likely to generate a profit which will help support other network sites where local market rates will not support the costs associated with running an incubator. 2. It will act as a marketing funnel for GIN, drawing in potential clients who can then be dispersed where appropriate across the network.

Site 2: Gloucester, University of Gloucestershire, Oxstalls Campus

Description

An initially small site of 4,000 square feet, most likely comprising a partitioned space capable of meeting the privacy needs of individual resident tenants and virtual members

³⁵ The Economy of Cheltenham, Cheltenham Borough Council

Rationale

Gloucester shows a distinct market need for incubation. The fact that so much regeneration activity has been targeted at the city indicates the need for additional stimulators of economic growth.

Initially the campus site has been chosen for three key reasons.

1. Space can be made available on the site without the immediate requirement for the capital outlay associated with a new build.
2. The unit can start out small, ideal for testing the water in a locale where need is obvious but market demand unproven.
3. Incubators will not succeed in a vacuum; the campus is the only publicly owned site in Gloucester currently with enough impetus as a network hub for an incubator to sit within.

Site 3: Dursley, Stroud College new campus

Description

A room of 800 to 1,000 square foot which will be divided into a consultation area, internet action points and networking space.

Rationale

The Dursley market is currently typified by two types of enterprises micro service businesses, started by ex-Stroud College students; creative or craft home based business. Neither of these types of business is in need of, nor can afford, traditional office-space. A drop-in style set-up allowing enterprise owners to benefit from business support, good ITC and networking opportunities would be a better initial fit for this market.

Site 4: Forest of Dean, Hartpury College

Description

A 1,200 square foot facility sub-divided into small offices. Tenants will also benefit from access to specialist research equipment located on-site.

Rationale

Hartpury College engages in a component of research that means it has the potential of generating a small amount of innovation in its existing specialist sectors. It also has a demonstrable, if small, track record of engendering new business. It is envisaged that the Hartpury space will be used by college spin-off enterprises or businesses seeking access to the specific niche expertise and equipment available on site.

Cotswold and Tewkesbury

Sites were not chosen in the two remaining districts of Cotswold and Tewkesbury.

The rationale for not choosing a Cotswold site for Phase I development was three-fold. Firstly Cotswold scored very well on the business development criteria, meaning that it was performing well anyway and therefore less in need of immediate public intervention as some of the other areas. There is still an argument to say that this good performance should therefore be capitalised and pushed forward all the more. This still left the issue however of there not being a suitable public sector location, with the necessary certain estate base to provide a certain and sustainable future for an incubator. Were this to change there would certainly be a rationale for looking at a Phase II site in the Cotswold. One also has to consider that to a certain extent the districts need is already being met by the Oxford Innovation-run centre.

Tewkesbury was also put aside for Phase I. Principally, there is no suitable publicly owned premises. Also, Tewkesbury is also within travel to work distance of Cheltenham, Gloucester and even Hartpury, and existing commuter patterns show heavy out-commute from Tewkesbury to both Gloucester and Cheltenham – it is

assumed that the incubation market in Tewkesbury will be well served by the Gloucester and Cheltenham facilities.

0.8.2 PHASE II SUMMARY

Phase II will seek to build on what will be an established network base. The existence of the network itself will help to stimulate market demand for its services, resulting in an increased requirement for physical space within the network. At the Phase II stage progress will therefore be reviewed and space expansion sought at sites which are in the process of proving successful.

Based on the report findings to date, it is envisaged currently that there will be a necessity for expansion as described below.

- Office space will become a requirement at the Stroud site. This will facilitate either micro businesses with the correct support to reach sufficient critical mass to warrant premises, or prospective skilled entrepreneurs living within easy travel who, as a result of promotion by the existence of the network, will seek to leave employment and start up their own enterprise.
- As Hartpury incubator square footage in Phase I has been limited to that which is feasibly available on campus, should this site be popular, Phase II may warrant a case for capital investment in a Phase II build, or the possibility of investigating Vantage Point Business Village as a private partner to bring more incubation space on line.
- The regeneration programmes currently in progress in Gloucester will provide sufficient market stimulation to create the opportunity for more incubation space in the city. Of the seven regeneration areas, Blackfriars has been identified as most suitable.

Should Phase I prove successful, there will be a case for investigating other potential sites, particularly in the east of the

county and in central Forest of Dean, as Phase I delivers lesser coverage to these areas.

While it is very early stage to assert meaningfully where the most suitable sites for Phase II expansion could be, some thought has been given to various locations.

Gloucester: Blackfriars

Blackfriars, located in the centre of the city behind the main retail centre, is one of the seven Urban Regeneration Areas.

The regeneration has four components:

- Cultural: Blackfriars Priory will become a major new cultural centre and tourist attraction
- Leisure: a new square, overlooked by a flagship hotel, cafés, bars and speciality shopping, is being built
- Business and residential: the development will link through to new offices and apartments fronting the River Severn
- Educational: the art, media and communications faculty of the University of Gloucestershire is being relocated to Blackfriars: up to 2,000 students currently taught there would move to the city.

University bosses say it is part of a bigger plan to expand and double the number of students from 9,500 to 15,000 by 2012.

Once the regeneration build projects are complete, Blackfriars will prove a vibrant and engaging location of which an incubator can be part.

It is therefore proposed that at this point either 8,000 sq ft of additional space is found for a second GIN Gloucester site in Blackfriars, or the whole incubator is moved from Oxstalls and expanded to 12,000 sq ft.

Cirencester

The principal commercial market for Cotswold is Cirencester. Currently the availability of small office units matches the local demand.

The Gloucestershire Workspace Strategy however does suggest that this will not always be the case. By 2016 there will need to be further development to accommodate small business.

Should a suitable site be found there is no reason why a Phase II incubator centre could not be initiated.

Another approach may be to view the current Cotswold Innovation Centre not as a competitor but as a potential network partner.

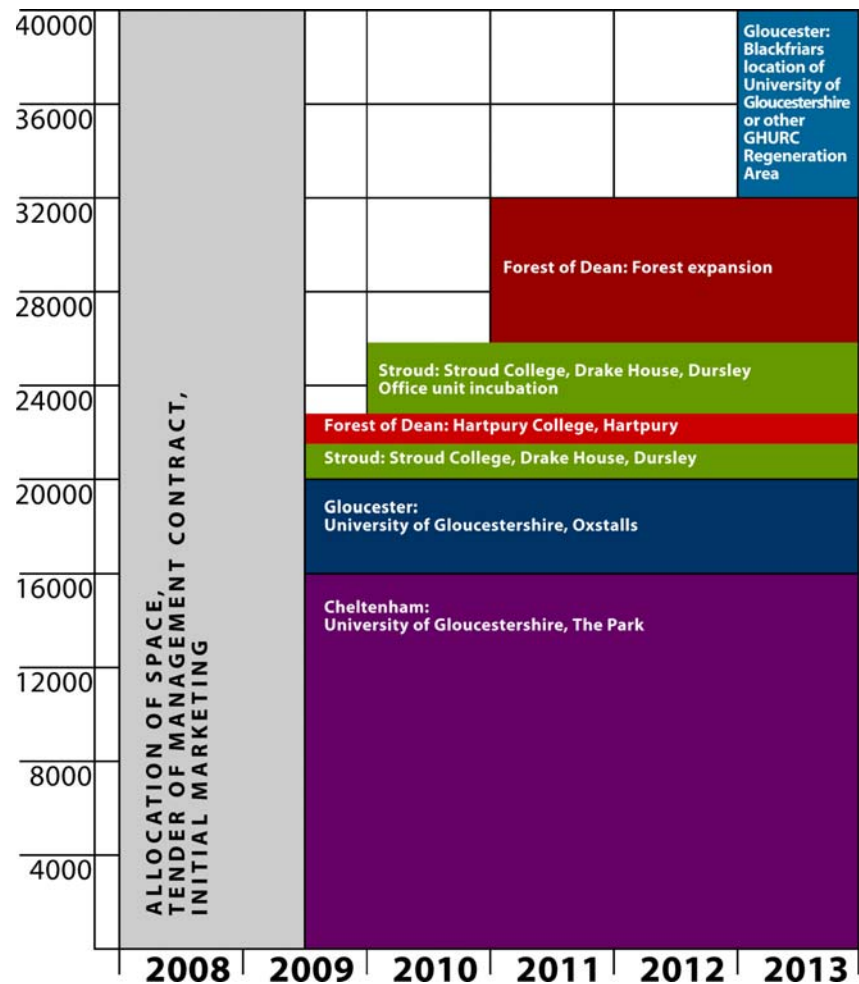
Forest of Dean

The Forest is the least proven of the potential markets. Accordingly there is the biggest case for factoring the majority of incubator space into phase II of the network, thus allowing the quantum of the market to be better understood before any significant capital investment is made.

Forest also suffers from an obvious lack of site choices and poor accessibility to a lot of areas. If a larger centre is to work in the Forest site choice will be all important. For incubation to gather momentum in the Forest the Phase II site will need to be of a certain size. The model therefore budgets for a centre of 7,300 sq ft, bringing the total incubator space in the district to 8,000 sq ft.

In total, but excluding Cirencester, as shown by the diagram opposite, if these proposals are followed an incubation network of at least 40,000 sq ft will exist in Gloucestershire by 2013.

THE GLOUCESTERSHIRE INNOVATION NETWORK ROLLOUT PHASE I AND II



0.83 BUSINESS SUPPORT

The business support services required to deliver the model need to be identified and put into place according to budget and service priorities.

Existing resources in Gloucestershire are:

Business Link representatives,
HE and FE institutional resources, especially linking certain skills and training among students and recent graduates with start-ups,
Potential private-sector partners, especially those who participate actively in public-sector steering bodies concerned with area regeneration – for example, existing high-growth/innovative companies that participate in community-growth and educational activities.

Recent shifts in the Business Link delivery model may mean that additional support is called for from Business Link in the form of extra personnel, in addition to the consultants already in the field in Gloucestershire.

Either via the activities of a Network Manager or Business Link, tangible business service resources must be identified and established as official resources.

These include all traditional services, like:

- sales and marketing,
- business planning,
- legal services,
- finance and accounting

These services, or links with providers, should be developed as far as possible in the pre-launch period for each incubator unit.

To enhance the profile of the network, virtual support needs to be robust, of top specification and purpose built both to serve the incubation clients to the highest standard and to add marketing power to the network. Particular care should go into identifying the proper partners or resources for the development of virtual support services.

Comment [MSOffice1]: I deleted this because I remember a note from our original report meeting that I took in which several people wanted there not to be specific suggestions of businesses or students here – something like that.

9. GOVERNANCE

INTRODUCTION

The proposed model of ownership and governance described below has been developed taking into account the learning the SWRDA has on structuring these types of projects. This model includes a number of inter-linking layers of governance and a robust monitoring process.

The agency designed and piloted this model drawing on UK experience. The emphasis has been on ensuring sufficient protection of the project integrity, while ensuring the operator has an appropriate time-scale, autonomy and certainty to make a real success of the project.

GOVERNANCE

The steering group comprising Gloucestershire First, the South West of England Regional Development Agency, the Learning Skills Council and the University of Gloucestershire has appointed The University of Gloucestershire [UOG] as lead partner on the project.

The UOG meets the requirements of a lead partner in that it has both the resources, financial and human, and the appetite to take the project forward. It also has a balance sheet sufficient in size to allow it to act as accountable body for the network.

The accountable body on a publicly funded project of this nature underwrites the financial liability of project failure. For example if the total income from running the network plus any income support funding provided does not meet the costs of running the network, it

will be the accountable body who will be liable to meet the difference over the lifetime of the project.

On completion of the physical infrastructure of Phase I of the network SWRDA will grant the lease to the lead partner, University OF Gloucestershire [UOG], who from that point will act as the accountable body for GIN.

UOG will then grant a sub-lease to a management operating company [MOC]. The MOC will be responsible for managing the Centre and delivering the business plan.

The tender for the MOC will be carried out in accordance with European Union regulations. The invitation will be published in The Official Journal of the European Union as well as other places such as local press.

The MOC will be required to meet the output targets which will be prescribed by the UOG in accordance with SWRDA guidelines, and the specific project's target outputs. In case of significant MOC failure, UOG will have the power to replace the MOC.

UOG, in conjunction with SWRDA, will have the responsibility for monitoring and reporting on the project expenditure and project progress against the milestones and outputs, and accordingly will be expected to produce Annual Project Performance Monitoring Reports and a Final Evaluation Report.

10. ACTION PLAN

The table below outlines the key steps required to take the Gloucestershire Incubation Network from current proposal to completion. It is presumptive of each stage concluding with a positive result.

The suggested timeframe is conditional on the Partnership taking the project forward immediately.

	Action	Detail	Timeframe
1.	Commission a business plan	A detailed business plan is required in order to specify and detail the project vision, strategy, operational actions, cost, outputs and to demonstrate the project's sustainability.	Feb 2008 -
2.	Approach relevant host institution partners	In order for the network to progress with any certainty agreements will need to be reached with the site partners. These agreements will need to include both institutional Board level sign-off and Estate Management Department buy-in for the following: <ul style="list-style-type: none"> - extent of partner contribution commitment, potentially including: buildings and infrastructure, fixtures and fittings, ICT services, administration and client support - capital outlay contribution, if any - acceptable governance structure. 	Apr 2008 - Jul 2008
3.	Architect evaluation of building modifications required, if any	For sites at which significant building conversion work is required, an architect or other suitable professional will need to confirm the feasibility of the proposal and scope out work detail.	Jul 2008 - Aug 2008
4.	Concurrently and in conjunction with the architectural evaluation a project initiation costing model needs to be undertaken	The business plan will include a financial model for the ongoing operating income and cost of the network, however additional work will be required to scope out the initial cost of the project, specifically:	Jul 2008 - Sep 2008

		<ul style="list-style-type: none"> - capital outlay associated with building conversion / any required construction - fixtures and fittings requirements - legal and other professional costs <p>A consultant with suitable property experience will need to be engaged. It may be that the same individual/organisation can conduct both the architectural evaluation and the conversion costing.</p>	
5.	Establish a funding structure	Once a quantum of the capital required to effect the project is understood, how funding is provided and in what proportion by whom will need to be established with the relevant potential funding partners.	Sep 2008 - Oct 2008
6.	Business plan completion	Only once actions 2 to 5 are completed can a meaningful business plan be signed off.	Nov 2008
7.	Make funding applications	The complete business plan will act as the core of the applications.	Dec 2008
8.	Funding approval		Feb 2009

Subsequent to this inception phase, work proper on the GIN construction will need to begin; actions for this phase are detailed below.

Given that these actions are reliant on factors currently unknown, for example the schedule of Board meetings for relevant partner organisations, time-frame specifics are not given. There should however be an overall aim of establishing the network prior to the end of year 2009.

	Action	Detail
9.	Preparation and signature of partnership agreements	A central project/partner agreement framework needs to be established that, while giving parity to all the host partner institutions, also allows sufficient flexibility to accommodate differences relevant to each circumstance.
10.	Tender for construction work	A tender that complies with EU regulations will need to be initiated, and a suitable business contracted to conduct the work required.
11.	Tender for the management operating	Similarly an entity will need to be appointed to run the network on an on-going basis. Note staff will need to be appointed and marketing undertaken at least three months before the first site opens.
12.	Complete work and network launch	Operation proper begins.