

Appendix 1 Background Paper

A definition of incubation, the wider case for incubation and a summary history of this project.

Definition

“Incubation is a unique and highly flexible combination of business development processes, infrastructure and people, designed to nurture and grow new and small businesses by supporting them through the early stages of development and change.” (United Kingdom Business Incubation)

Why is incubation important in Harrow?

Harrow has long prided itself on having a high business start up rate and resident entrepreneurial base¹ but suffers from a shortage of appropriate affordable premises space. These conditions typically lead to growth stagnation and or an exodus of businesses from the Harrow area as they grow and develop.

For the past year officers have been researching the feasibility of establishing an incubator base to provide premises and to grow and retain business stock. The case for this is set out in June 2005 CMT paper which gave permission to establish the feasibility project.

Last September United Kingdom Business (UKBI) was commissioned to carry out a feasibility study into setting up an incubator in Harrow. (The initial phase of the study was paid for by the London Development Agency.) Phase 1 of the report demonstrated that there is sufficient demand for an incubator to be established.

Initial discussions with Kodak to set up an incubator base predate the Harrow Council negotiations to acquire part of the site and focussed on another redundant building, which on closer inspection proved unsuitable for conversion into an incubator. Subsequently during the land sale negotiations Building 168 proved a more suitable prospect, however as the accompanying report states work on acquiring the Kodak site is currently in abeyance.

Wider Context

Local Authorities were given wider powers to ‘promote economic well being’ in 2001. This has resulted in wide range of interventions including the development of incubators, as it is acknowledged that incubation significantly reduces the failure rate of new businesses and speeds the growth of companies, which will become generators of employment and growth. **Over 75% of businesses that start up in incubation projects are in business after five years compared to average business survival rates of 33%.**

Regional

The London Plan sets out to provide the mechanism to enable London to continue to be a truly global city in terms of business and employment growth and also to accommodate an increasing population. Increased housing targets are producing acute pressure on land, particularly employment land.

¹ This has been detailed in the CMT paper – June 2005. In Aug 2006 – Harrow was placed 4th across London for growth of business VAT registrations levels over the last ten years.

Employment in outer London is in general falling, and real growth only in the Thames Gateway and Central London. In West London there is some growth predicted, outstripping employment projections. This could mean in the long term increasing levels of commuting into the city. From a sustainability point of view, neither this or falling employment rates is desirable. Further loss of employment land will lead to a decrease in economic vitality and could lead to Harrow becoming more of a 'dormitory' suburban area. (This is expanded on in more detail in the Economic Development and Regeneration Review Paper Oct 2006.)

The London Development Agency in their recent review of business support are prioritising support for ethnic minority and women led businesses. Harrow through its partners has a long experience and track record of supporting ethnic minorities and growing expertise in working with women led businesses². With an ethnic minority population of 42% already hosts a high number of small ethnic minority businesses.

Local

Over the last four years, we have witnessed the impact of corporate and global decision making on the larger businesses in Harrow, with BAE Systems leaving the borough and Kodak reducing employment by 400.

In terms of future inward investment, Harrow has few attractive large sites to offer.

Housing development provides greater potential for profit than speculative industrial and commercial building this coupled with governments housing policy means there is continuing pressure to convert brownfield land over to housing use.

Over 90% of the businesses in Harrow employ less than 10, a higher percentage than any of the other boroughs in the sub-region, these businesses account for a third of the total of borough's employment.

Whilst work to retain our existing large business base needs to continue, the argument above predicates more of an emphasis on growing our own business stock, and building stronger relationships with the private sector for move on or next step premises.

Incubators are now being developed across the country, although there are still relatively few and a particular shortage of this type of facility and space in London.

When successful, incubation's long term impact can be substantial.

As detailed in the paper prepared for June 2005 CMT, national, regional (the London Development Agency) and sub-regional strategies all encourage the development of incubation space. Plans in the sub-region for other incubator space are not well advanced, (apart from small scale youth incubator projects attached to schools in the Heathrow growth city region). Thus if a local incubator is developed this will provide a welcome resource for the sub-region and a substantial opportunity for Harrow.

The benefits of business incubators are numerous. Amongst other things, they can:

- act as a catalyst for economic change development;
- help young companies to negotiate the hurdles that often lead to their early downfall;
- help entrepreneurs overcome the isolation and stress of starting a business;

² Starting with a round 1 SRB.

- provide access to an array of expertise, mentors, investors and specialist advisors etc ;
- provide visibility and credibility in the marketplace;
- facilitate linkages with and the commercialisation of university or corporate research and new ideas utilising research and development expertise and proof of concept functions;
- encourage faster sustainable growth and greater survival rates of new trading companies;
- assist in job creation and tackle specific urban or rural economic development issues.
- enable growing companies to become stand alone entities within the community

Difference between managed work space and incubator provision

Unlike serviced office space provision businesses engaged in an incubation are usually subject to meeting entry criteria (ability to demonstrate potential growth) or are usually based in an incubator for set period of time (1-3 years), when they are encouraged by stepped rents to move into other premises, thereby enabling the next tranche of new businesses access to the incubator. What particularly differentiates an incubator from managed work space is the intensive on site business support that is provided.

Managed work space always needs to cover costs by maximising income, having no entry conditions or graduation policy. Space is occupied by a wide range of businesses who simply have the ability to pay many of which will not be growth orientated.

It is acknowledged that providing intensive business support increases the costs of incubator provision, it therefore takes longer to break even. Financial planning needs to acknowledge this in the first three years of operating.