



Cabinet Meeting on Wednesday 18th January 2017

Innovation Centre No. 6, Keele University

Cllr Mark Winnington, Cabinet Member for Economic Growth

“Keele University Science and Innovation Park (KUSIP) is the county’s leading site for innovation and research and we want to support its continued growth. The established innovation centres there are thriving and we are keen to see this expanded. We have an effective business partnership with Keele University which has grown stronger through the Innovation Centre No. 5 (IC5) project. In May 2016, we set out our intention to go ahead with IC6 and now we are setting out our funding commitment. We have near full employment in Staffordshire and our drive now is to create high quality, skilled jobs, which Innovation Centre No. 6 (IC6) will help to deliver.

“Our £2m investment in IC6 and the Mercia Centre for Innovation Leadership (MCIL) is part of the wider ‘Keele Deal’– a £70m investment from the University, local councils, government and the Local Enterprise Partnership to create over 700 high value jobs [on site], supporting businesses to grow and improve local health and care.

“Supporting the development of new and better jobs and more opportunities for local people is our highest priority – because thriving businesses supports thriving communities.”

Report Summary:

This report proposes making a capital investment in the proposed Mercia Centre for Innovation Leadership (MCIL) on the Science and Innovation Park for the creation of IC6 within the MCIL development.

This builds on the success of the County Council investment in IC5 on KUSIP and every indication is that the IC6 project is going to be a significant success.

Recommendation

I recommend that:

- a. Cabinet accepts and approves the investment of a maximum of £2.02m for the creation of IC6 within the Mercia Centre for Innovation Leadership (MCIL) on Keele University Science and Innovation Park subject to Keele University securing the external funding identified in the report;

- b. Cabinet accepts and approves the long term investment of the County Council controlled element of the MCIL generated business rates subject to Newcastle Borough Council and the Business Rates Pool Board allocating the business rates income from MCIL as set out in the report;
- c. Final approval to be delegated to the Cabinet Member for Economic Growth and the Director for Economy, Infrastructure and Skills.

Local Members Interest	
Cllr D. Huckfield	Newcastle – Keele, Knutton and Silverdale

Cabinet – 18 January 2017

Innovation Centre No. 6, Keele University

Recommendations of the Cabinet Member for Economic Growth

- a. Cabinet accepts and approves the investment of a maximum of £2.02m for the creation of IC6 within the Mercia Centre for Innovation Leadership (MCIL) on Keele University Science and Innovation Park (KUSIP) subject to Keele University securing the external funding identified in the report;
- b. Cabinet accepts and approves the long term investment of the County Council controlled element of the MCIL generated business rates subject to Newcastle Borough Council and the Business Rates Pool Board allocating the business rates income from MCIL as set out in the report;
- c. Final approval to be delegated to the Cabinet Member for Economic Growth and the Director for Economy, Infrastructure and Skills.

Report of the Director for Economy, Infrastructure and Skills

Reasons for Recommendation:

Background

1. KUSIP has long been recognised for its unique position in the sub-region being the only science park in Staffordshire. It is a key location for the attraction of high quality jobs to the area, being in a highly accessible location between Manchester and Birmingham, and within the Northern Gateway Development Zone (NGDZ).
2. KUSIP plays a key role in providing the right conditions for employment growth in high value added and high technology sectors within Staffordshire with associated positive spill over effects in respect to the local supply chain and graduate retention. This is in part due to the concentration of the areas medical and healthcare businesses on the park which continues to drive comparative advantages for the County. These form a key focus for Staffordshire County Council's Business Plan. As well as providing, modern and ad-hoc workshop and office space, tenants have unrivalled access to research from across the University which has been recognised as having a world-leading research University - with over 97% of research classed as world-leading or of national importance.
3. Keele's established Innovation Centres (ICs) 1 – 4 provide smaller-scale accommodation for high technology and professional services sectors and run at

a consistently high level of occupancy (95%). Even during the recession, occupancy levels remained high and although that was seen as very positive, it was recognised that ICs 1 – 4 could not provide for growth of existing tenants and has very little to offer to new businesses wishing to locate to KUSIP. This formed the rationale for the development of IC5. To date, KUSIP has attracted 40 businesses that currently employ over 600 people.

4. KUSIP has attracted a significant number of high value businesses such as Cobra Biologics, Dermal Technology Laboratory and Thea Pharmaceuticals, who have created jobs which required Degree or Masters level qualifications, with salaries significantly above the average for North Staffordshire.
5. Compared to other employment locations in North Staffordshire, KUSIP is the only location which has the potential to create significant numbers of high value jobs.
6. The development of KUSIP therefore makes a direct contribution to the County Council's focus on productivity and skills with analysis of census information showing that over 90% of people working on KUSIP also live in the Staffordshire or Stoke on Trent area. The Council's strategic plan, agreed in February 2016, sets the objective of ensuring everyone has a good job with good prospects, and that there should be an increased emphasis on productivity and skills as a priority focus for our economic growth programme.

Innovation Centre No. 5 (IC5)

7. IC5 was completed and opened to businesses on 1 August 2016. The 29,000 ft² facility was created to provide larger premises of up to 10,000 ft² to house expanding high technology and professional services companies. It was the realisation of five years of collaboration between the County Council and Keele University and it has been well received by the commercial sector. Marketing has been focussed on the Stoke-on-Trent and Staffordshire Local Enterprise Partnership's (SSLEP) Strategic Economic Plan (SEP) target sectors (i, Aero / Auto; ii, Agri-tech; iii, Applied materials; iv, Energy; v, Med tech). Two companies have already taken space on standard five year commercial leases, these being the County Council's favoured arrangement in order to provide longer-term financial stability.
8. The original business case anticipated a relatively cautious take-up of the lettable space with full letting being achieved after 18 – 24 months. It is now expected that full occupancy should be achieved after only 12-15 months:
 - a. To date two companies have already moved in occupying 4,780 ft².(444m²) or 17% of lettable space;
 - b. Heads of Terms have been agreed with a third company who require 5,000 ft² (465 m.²) of the lettable space. This company wishes to be in operation by April 2017;

- c. Discussions with two further companies are progressing well, with heads of terms being discussed and draft contracts exchanged. These two companies would occupy the remaining 19,000 ft² (1,761m²) or 65% of the building.
9. All the companies referred to above are currently based at Keele and need more space to expand and create further jobs. The rate at which space is being, and is likely to be, occupied within IC5 is a significant success when compared to the original business case.

Mercia Centre for Innovation Leadership (MCIL) & Innovation Centre No. 6

10. As the Staffordshire economy continues to strengthen, it is vitally important that we capitalise on the demand for business accommodation at KUSIP to support future employment growth and take advantage of investment enquiries. Evidence from our own Inward Investment team 'Make it Stoke-on-Trent and Staffordshire', supported by evidence from a range of commercial property agents, suggests that there is a continuing pent up demand for commercial and industrial floor space in Staffordshire, but that 'footloose' investment opportunities are often missed because of a lack of good quality, readily available and serviced employment land.
11. The level of investment being provided by Keele University is reflective of the importance they attach to the development of a more entrepreneurial economy locally and their role as a key economic anchor (reflected in the £0.2bn annual contribution the University make to the Staffordshire economy). To aid its expansion Keele is currently focusing significant investment in its research and teaching agenda with multi-million pound investments in primary care and life science laboratories in addition to plans for new student accommodation.
12. Cabinet made the decision in May 2016 to support Keele in the progression of the design, project management and delivery of infrastructure works to bring forward the IC6 Development at KUSIP.
13. MCIL is a £17.5m project focused on nurturing leadership and management skills in students, entrepreneurs and innovation-intensive developing businesses. The project aims to address current skills gaps and ultimately drive innovation and high value business growth in the SSLEP area through an intensive leadership programme. There are two main aspects to the offer: a £12m statement building to house the MCIL function and the university's delivery of the aforementioned skills agenda whilst funding the £5.5m revenue costs.
14. The capital element of the project is a 45,220 ft² (4,201m²) flagship building comprising:
- a. 12,010 ft² (1,116m²) for the relocated Keele Management School (KMS);
 - b. 21,370 ft² (1,985m²) for the Innovation Hub, an area for pre-incubation for entrepreneurship, innovation and leadership;
 - c. 11,840 ft² (1,100m²) for IC6.

15. The total cost of the project of £17.5m. will be made from four different sources:
- a. Keele University (£5.51m.). The University's governing body approved their contribution on 10th November 2016;
 - b. European Regional Development Fund (ERDF) (£6.95m.). Significant progress has been made to secure European funding although this is still to be confirmed. The ERDF investment has been identified as a strategic priority by both the SSLEP and the Department of Communities and Local Government (DCLG);
 - c. Staffordshire County Council (£2.02m.).
 - d. Growth Deal (£3m.). Growth Deal negotiations with Central Government are progressing well and the SSLEP City Deal and Growth Deal Management Board have approved the business case for the MCIL project. The money is not confirmed until the formal announcement of the Growth Deal 3 settlement figure.
16. If the full £3m is not secured from the Growth Deal, the University will have to secure any shortfall. The County Council cannot increase its proposed contribution of £2.02m.
17. The revenue component of the project is an Innovation Leadership Programme delivered through an enhanced KMS. A successful management school is increasingly being recognised as a cornerstone of leading UK universities and provides an important wider institutional role in terms of realising growth and reputation, transnational educational provision and the development of cross-boundary partnerships. The project is structured as a bespoke programme of events and masterclasses to maximise knowledge sharing whilst also providing bespoke support. Over 150 businesses will be supported and 265 higher value jobs created by 2023.
18. IC6 has an allocation of 11,840 ft² (1,100m²), of which 7,460 ft² (693m²) is lettable space. It comprises a range of high quality lettable space from experimental 'hot-desks' up to a 1,300 ft² (121m²) office hence catering for all sizes of SME business. This will create workspace for up to 77 people in the 19 offices and 24 'hot-desks'.

Market Demand Study

19. In order to verify, or otherwise, the commercial validity of the MCIL / IC6 proposal, Regeneris Consulting Ltd were commissioned by Keele University, to undertake the necessary study. The two fundamental parameters for the study were:
- a. there is a sufficient market demand (and market failure) rationale for the facilities and related support offered by the projects;
 - b. the projects will generate net additional economic impacts to justify the proposed level of public sector support.

20. The emerging conclusions from the Regeneris report are as follows:
- a. There is a need to drive innovation locally;
 - b. There is a gap in provision of incubation space;
 - c. MCIL is a distinct offer which needs to be marketed effectively.
21. "Overall, the assessment suggests there is fairly strong demand for the incubation and grow-on space, although part of this demand is latent and difficult to directly observe. As such facilities are not on offer at the moment, it is difficult to accurately predict how responsive the local business base will be to such provision. But where managed workspace is available it has proved very popular with start-ups and SMEs." The County Council has commissioned Jones Lang LaSalle (JLL) to undertake a review of the Regeneris report.

County Council Support

22. The justification for the County Council to invest in the project was set out in a report to Cabinet in May 2016:
- a. Keele is a key location for the growth and attraction of high-value jobs in the north of Staffordshire. It is the only location in the north of Staffordshire that can create large numbers of high value jobs;
 - b. Its attractiveness as a location will increase over time as plans for the Northern Gateway Development Zone progress. KUSIP is perfectly situated to take advantage of these proposals;
 - c. A key element of the County Council's business plan is to create the right conditions for growth for 'high value added' and technology based companies;
 - d. Maintaining a 'pipeline' of high quality lettable business space is critical to the success of attracting and retaining higher value business and jobs;
 - e. The co-location of the new lettable space, with the centre of entrepreneurship and leadership, and the expanded Keele Management School, will assist in the development of new business start-ups in the high technology sectors.
23. The County Council investment in the IC6 element of the building is required because:
- a. Keele University cannot fund the full £17.5m. cost alone. The University have an ambitious programme of expansion and construction, much of which is funded by the University themselves, but which also draws in external funding and partner funding. (For example; the University is investing in the expansion of the Medical School, a Medical R&D Centre and a heat network energy demonstrator, as well as a number of other capital projects.)

- b. The private sector is not investing in speculative high quality office and business space, in the north of Staffordshire. No significant projects have been completed in the north of Staffordshire since the recession in 2008.
24. Therefore, it is believed that an intervention is required in this part of the Staffordshire economy to secure higher value employment and support at an employment site identified as a priority by both Staffordshire County Council and the Local Enterprise Partnership. Furthermore, Keele University is a leading establishment nationally and an asset to Staffordshire which should continue to be supported to grow and thrive.
25. The County Council has been working closely with Keele University to develop proposals for the Mercia Centre over the last year. In May 2016, Cabinet agreed to make a contribution of up to £350,000 (towards the total costs of £700,000) to appoint a professional team, including architects and quantity surveyors, to design the MCIL up to planning application stage. This development team have made good progress and the design for the centre is now at an advanced stage.
26. Keele University are leading on the design and development of the project. They will secure all the necessary funding, commission the construction of the building and own the building once it is completed. The County Council's support for the MCIL would be to take a long lease on the IC6 element of the building. The County Council would make an initial capital payment of £2.02m with a peppercorn rent thereafter.
27. Thereafter, the County Council would enter into a management agreement with the University to market, let and manage the units in IC6 on our behalf, as they currently do in IC5.
28. The business case for the County Council's investment is based on two key factors:
- a. There is sufficient demand for this space in the market (see paragraphs 18 – 20);
 - b. That the County Council's investment in IC6 is fully supported. This means that the income generated through rents and business rates is sufficient to cover the costs of borrowing. This includes:
 - i. The net rental income from the tenants occupying IC6 taking into account voids, running costs and management costs;
 - ii. The business rates from the centre. (Two options have been developed relating to business rates, based on a contribution of either 29% or 49% of the rates payable on the MCIL.).
29. For the County Council to invest £2.02m in IC6, 49% of the business rates generated from the new building would be needed to pay the debt charges.

30. This would require:

- a. The County Council to agree to contribute its 9% of its business rates income;
- b. Newcastle-under-Lyme Borough Council to agree to contribute 20% of its business rates income;
- c. The Business Rates Pool Board would need to agree to contribute the 20% of business rates income that is currently paid into the rates pool from Newcastle-under-Lyme Borough Council.

31. Discussions have commenced with the Borough Council concerning the use of business rates but this has not yet been secured. If the 20% that currently goes to the Business Rates Pool could not be secured, then the amount that the County Council could invest in IC6 would only be £1.75m.

32. In 2020, the functioning of the local Business Rates will change with the incorporation of local retention and determination. Careful consideration will need to be given at that point to schemes such as IC6 to ensure their commercial viability is maintained.

List of Background Documents:

- Cabinet Meeting on Wednesday 18th May 2016 - Investing in Staffordshire's Economy
- Market Assessment – Mercia Centre for Innovation Leadership - A Draft Report by Regeneris Consulting
- Prosperous Staffordshire Select Committee – 15 December 2016 - Innovation Centre No. 6, Keele University

Report Commissioner: Steve Burrows

Job Title: Commissioner for Business and the Enterprise County

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Summary of Community Impact Assessment (including a Health Impact Assessment if applicable) for Innovation Centre No. 6, Keele University.

	Impact Assessment	
SCC's Priority Outcomes & Impact Areas	Impact: (positive / neutral / negative)	Provide brief detail of impact
Prosperity, knowledge, skills, aspirations	Positive	The proposal outlined will result in investment in all of these areas
Living safely	Neutral	
Supporting vulnerable people	Neutral	
Supporting healthier living	Positive	The proposals will improve the overall prosperity of Staffordshire which will have a positive impact on the health of Staffordshire people
Highways and transport networks	Neutral	
Learning, education and culture	Positive	Increased opportunity for business enhancement through investment in knowledge
Children and young people	Positive	The proposals will create new employment opportunities for young people and encourage innovation
Citizens and decision making, improved community involvement	Neutral	
Physical environment including climate change	Positive	Provision of environmentally sustainable workspace
Maximisation of use of community property portfolio	Neutral	
Equalities Impact	Impact: (positive / neutral / negative)	Provide brief detail of impact
Age	Positive	The project will provide everyone with opportunities to access new good or improved quality jobs
Disability	Positive	
Ethnicity	Positive	
Gender	Positive	
Religion / Belief	Positive	
Sexuality	Positive	
Impact / Implications		
Resource and value for money (in consultation with finance representatives)	The overarching commerciality of the proposal has been considered against standard County Council investment criteria. Scheme considered acceptable.	
Risks identified and	Lower than anticipated take-up of lettable space.	

mitigation offered (see corporate risk register categorisation)	Likelihood rating – 1. Impact rating – 1. The Void Ratio will be closely monitored and further marketing works undertaken if required.
Legal imperative to change if applicable (in consultation with legal representative)	

Report Commissioner: Steve Burrows