

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

Prosperous Staffordshire Select Committee – 15th December 2016

Innovation Centre No. 6, Keele University

Recommendation

1. The Prosperous Staffordshire Select Committee scrutinises the principles and processes being undertaken in the development of this scheme and the outcomes derived prior to SCC Cabinet being requested to make a capital investment in the project.

Report of Cllr Mark Winnington, Cabinet Member for Economic Growth

Summary

What is the Select Committee being asked to do and why?

2. This report proposes the review and affirmation, or otherwise, the SCC involvement in the proposed Mercia Centre for Innovation Leadership (MCIL) on the Keele Science & Innovation Park, Keele University, through the creation of Innovation Centre No. 6 (IC6) within the MCIL development.
3. This would build on the success of the County Council investment in Innovation Centre No. 5 (IC5) on Keele Science & Innovation Park at Keele University and every indication is that this project is going to be a significant success.

Report

Background

4. Keele University Science and Innovation Park has long been recognised for its unique position in the sub-region being the only science park in the north of Staffordshire. It is a key location for the attraction of high quality jobs to the area in a highly accessible location between Manchester and Birmingham, and within the Northern Gateway Development Zone (NGDZ).
5. The Science and Innovation Park plays a key role in providing the right conditions for employment growth in high value added and high technology sectors which form a key focus for Staffordshire County Council's Business Plan.
6. 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 the Science and Innovation Park. This formed the rationale for the development of IC5. To date, the

Science & Innovation Park has attracted 40 businesses who currently employ over 600 people.

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 when compared to the 'easy-in' 'easy-out' arrangements offered by many of the County Council's traditional enterprise centres.
8. The original business case anticipated a relatively cautious take-up of the lettable space with full letting being expected only after 18 – 24 months. Although only relatively modest, 17% of the space has been let very quickly with interest being shown in the entirety of the remaining lettable space.

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

9. It remains vitally important to proactively plan for future employment growth in this way to take advantage of investment enquiries as the Staffordshire economy continues to strengthen. 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, and ready to occupy premises.
10. Cabinet made the decision in May to progress work in the design, project management and delivery of infrastructure works to bring forward the IC6 Development at Keele University Science and Innovation Park.
11. 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. 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.
12. The capital element of the project is a 45,220 ft² 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
13. 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.). A report will be presented to the County Council's Cabinet on 18 January 2017, recommending the County Council invests in the project;
 - 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.
14. 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.
15. 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 16 offices and 24 'hot-desks'.

Market Demand Study

16. 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.
17. 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
18. "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

19. 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 Mercia Centre up to planning application stage. This development team have made good progress and the design for the centre is now at an advanced stage.
20. 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 Mercia Centre would be to take a long lease on the IC6 element of the building. The County Council would make an initial capital payment of £2.02 with a peppercorn rent thereafter.
21. 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.
22. 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 16-18).
 - 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 Mercia Centre.)
23. 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.
24. 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.
25. 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.
26. 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.

Link to Strategic Plan

27. The project builds upon the flagship Keele University Science and Business Park which has created a substantial amount of high-skills, high-wage employment opportunities for local residents. IC6 therefore directly contributes to our priority outcome for the people of Staffordshire to be able to access more good jobs and feel the benefits of economic growth.

Link to Overview and Scrutiny Activity

28. The Keele University Science and Innovation Park was last considered by Members of the Prosperous Staffordshire Select Committee at its meeting on 1st June 2015, as part of a wider report outlining the progress and performance of the economy of Staffordshire. The Science Park and IC5 were both considered as examples of schemes where the Council is working in partnership to create the right conditions for growth. The developments were also considered to be one of the leading developments of its kind, targeting innovation medical and high-technology businesses. Members were particularly pleased to note that an evaluation had shown that every job at the site was taken by a resident from Staffordshire or Stoke-on-Trent, whilst almost 80% of people working at the site had at least a NVQ level 3 qualification.

Community Impact

	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	The proposals will lead to employment opportunities in skilled occupations and encourage innovation
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	Neutral	
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 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 mitigation offered (see corporate risk register categorisation)	Lower than anticipated take-up of lettable space. 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)	

Contact Officer

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Appendices/Background papers

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