

REPORT TO: PLACE SCRUTINY COMMITTEE
Date of Meeting: 09 June 2016
REPORT TO: EXECUTIVE
Date of Meeting: 14 June 2016
Report of: Chief Executive & Growth Director
Title: Exeter Science Park Strategic Plan 2016 /17

Is this a Key Decision?

No

Is this an Executive or Council Function?

Executive Function.

1. What is the report about?

- 1.1 To adopt a revised Strategic Plan 2016/17 in light of recent funding and business opportunities made available to Exeter Science Park.

2. Recommendations:

- 2.1 That Place Scrutiny Committee note and Executive support the report and support the proposed change in strategy set out in Strategic Plan for Exeter Science Park for the period 2016/17.

3. Reasons for the recommendation:

- 3.1 To ensure the future success of Exeter Science Park, due to Exeter City Council being a funding partner in Exeter Science.

4. What are the resource implications including non financial resources:

- 4.1 Officer time attending Exeter Science Park board meetings and officer time working with the Science Park to attract inward investment into the Park.

5. Section 151 Officer comments:

- 5.1 The Section 151 Officer is an alternate Director on Exeter Science Park Limited and as such has been involved in meetings regarding the Science Park's financial position and reviewed the Strategic Plan in both draft form and the final version. The Section 151 Officer believes that the adopted strategic plan provides a better opportunity for the company to achieve its aims and deliver the growth in jobs and businesses that the owners envisaged.

6. What are the legal aspects?

- 6.1 None identified.

7. Monitoring officer Comments

- 7.1 This report raises no issues of concern to the Monitoring Officer.

8. Background

- 8.1 The Vision for Exeter Science Park is: ***To be the destination of choice for knowledge-based businesses in South West England and a key driver of economic growth.*** The mission comprises four key strands:
- To drive growth in knowledge-based science, technology, engineering, mathematics and medicine related enterprise in the region through collaboration and open innovation;
 - To be a prime location for successful development of science-based businesses supported by very high levels of sustainability and an excellent quality of life
 - To promote the region's world-leading scientific capability and international ambition;
 - To contribute significantly to the Government's innovation agenda by encouraging knowledge transfer between the research base and innovative business.
- 8.2 It was clear that the strategy for the development of Exeter Science Park needed to be revised due to a number of external factors:
- The fall in land values accompanying the recession
 - An opportunity arose to bring forward Phase 2 developments, when the Met Office announced its intention to site its high performance computer on the Science Park
 - The construction of the Met Office high performance computer provided an opportunity to develop a plan for a Global Environmental Futures Campus on the Science Park, which could attract a significant number of businesses to the Park working within the weather and climate change data field.
- 8.3 The revised Exeter Science Park Strategic Plan 2016/17 was approved by its shareholders at a board meeting in March 2016. A copy of the Strategic Plan 2016/17 can be viewed in Appendix 2.

9. Future Position

- 9.1 Exeter City Council continues with its seat on the board of Exeter Science Park to protect its investment and to ensure the Science Park adjusts its own business model to local, national and international market conditions and opportunities put before them.

10 How does the decision contribute to the Council's Corporate Plan?

- 10.1 Even though Exeter Science Park is located outside the local authority of Exeter City Council, it contributes too many of the City Council's purposes:
- Stronger City
 - Building a stronger sustainable city
 - Help me run a successful business
 - Deliver good development
- The Science Park promotes the city as a great place to do business, supports the local economy and creates high-net worth jobs.

11. What risks are there and how can they be reduced?

- 11.1 Exeter City Council continues with its seat on the board of Exeter Science Park to help and inform the board directors.

12. What is the impact of the decision on equality and diversity; health and wellbeing; safeguarding children, young people and vulnerable adults; economy; safety and the environment?

12.1 No decision required.

13. Are there any other options?

13.1 Report is for information only. If members seek a revision or an amendment to the attached strategy officers, as shareholders, would be instructed to inform the Exeter Science Park board of our concerns.

Karime Hassan, Chief Executive & Growth Director

Local Government (Access to Information) Act 1972 (as amended)

Background papers used in compiling this report:-

None

Contact for enquires:

Democratic Services (Committees)

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Appendix 1

ESPL Strategic Plan 2016-17



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Figure 1.A: Summary of the Financial Parameters

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1. StrategicBusinessPlan

1.1 Vision

To be the destination of choice for knowledge-based businesses in South West England and a key driver of economic growth.

More specifically the mission comprises four key strands:

- To drive growth in knowledge-based science, technology, engineering, mathematics and medicine related enterprise in the region through collaboration and open innovation;
- To be a prime location for successful development of science-based businesses supported by very high levels of sustainability and an excellent quality of life;
- To promote the region's world-leading scientific capability and international ambition;
- To contribute significantly to the Government's innovation agenda by encouraging knowledge transfer between the research base and innovative business.

1.2 The Business Strategy from Dec 2013

The purchase of the land for Exeter Science Park by SWERDA and its assignment to Devon County Council formed the basis for the original strategy for the development of the Park set out in an agreement between these parties and Eagle One in 2008. It was intended that the Park be developed in two phases: Phase 1 in conjunction with Eagle One as the development partner and later Phase 2 with a newly-appointed and possibly different partner. The concept enshrined in the agreement was that income from land sales associated with the construction of buildings on Phase 1 for tenants from the knowledge base and an hotel, accrued in an account held by DCC and would be used to fund the operation of the Park and specifically the construction of a multi-occupancy Science Park Centre to house a large number of early-stage high growth businesses. This model was activated when Exeter Science Park Limited was formed in 2010 and the Further Agreement between all parties was enacted.

This initial strategy was frustrated by a combination of factors so that by December 2013 the strategy for the development of the Park needed to be fundamentally revised. Among those factors, the fall in land values accompanying the recession meant that even if the sales area originally predicted had occurred the revenue would have been inadequate to build the Science Park Centre and fund the operation of the Park. In the event, the demand for business and hotel accommodation declined so much that the predicted land sales did not occur.

From December 2013 ESPL has been operating under a revised strategy made necessary by these conditions and made possible by loan funding from the HoTSW Local Enterprise Partnership and the use of the funds of ESPL's shareholders: DCC, UoE, EDDC and ECC. In this strategy the first half of the Science Park Centre building has been primarily funded by the HoTSW loan and the terms of the loan were such that repayment can be delivered by a combination of land sales on Phase 1 and rental income from the operator of the Science Park Centre, with the whole being underwritten by shareholders. As buildings were developed in Phase 1 this would generate the momentum and brand equity to seek an external partner to fund the speculative development of Phase 2.

Under this strategy the first half of the SP Centre has been successfully built using loan funding and an operator appointed to run it: UoE's Peninsula Innovations Ltd subsidiary, PIL. PIL has signed a 15-year lease with ESPL without any service level or other attainment targets (thereby avoiding the need to go to tender) but implicit in which is the extension of the innovation support success at the UoE Innovation Centre, currently run by PIL. Take up of space in the SP Centre since its opening in May 2015 has been modest initially but there are some encouraging signs: experience elsewhere suggests the initial lag in take up is not unusual.

The Phase I developer, Eagle One, and its agent LSH, have not made any land sales since the start of Phase 1 of the Park. Their business model for Phase 1 is to construct single buildings for sale onto a third party investor upon occupation by the user. There is considerable doubt that this model will prove attractive to knowledge-based businesses undertaking high-risk, high growth development. At the same time rental rates for the existing stock of office buildings outside of the Park have provided stiff competition. Such properties are probably suitable for some knowledge-based activity and have been priced significantly below those which are deemed necessary for a new-build on Phase 1 of the Park with its special characteristics which are required to command a premium to cover costs. The obvious consequence is a loss of income and a failure to build the brand, both of which threaten the strategy.

Within this plan period an opportunity arose to bring forward the initial development of Phase 2 when the Met Office declared its intention to site its high performance computing facility and collaboration space on a Phase 2 location. That has enabled a case to be made for investment of £12.7m in the infrastructure for Phase 2 using public money ahead of other development on the Park which will increase its attractiveness to an eventual investing partner as will the presence of the Met Office. To that extent this development is consistent with the overall strategy of December 2013 although not a part of it.

Furthermore the construction by the Met Office of 2 buildings on the Park provides an opportunity to develop a plan for a wider 'Global Environmental Futures Campus' which can act

as a significant attractor of businesses working with weather & climate change data and with broader big data & data analytics and associated skills & support.

In summary, land sales have been significantly below those envisaged in the December 2013 plan and some key assumptions in the last business plan are no longer valid. If no change of strategy is implemented it is impossible to see how the Park can be developed in a reasonable timescale. Notwithstanding these difficulties a total of 60 000ft² of space in addition to Eagle House (which itself has 4 000ft² rented to a tech start-up) is in place or under construction on the Park but it is quite significant to the Board that none of this has been funded by the private sector.

1.3 The Revised Strategy

1.3.1 Background

Thus the revised strategy for the development of the Park recognises the constraints on spending and the nature of the clients which ESPL can expect to attract to the Park. It also recognises the need to strengthen the brand of the Park before ESPL seeks an external development partner. Improved understanding gained over the last two years of the nature of science park development partners suggests that there is a risk in taking on a large private sector funder too early. Unless a clear brand identity is established before a development partner is engaged there is a danger that the appetite will be for property development at the expense of the science park ideal expressed in our Gateway Policy, Appendix I, and the generation of high-quality knowledge related jobs.

The revised strategy has been developed in the light of two opportunities which have arisen since the previous plan was written:

- The provisional award to ESPL in 2015 of £10m of Growth Deal 2 (GD2) public sector grant funding for a range of projects (the detailed business cases for which have been submitted in March 2016 in anticipation of the release of funds in 2016-17);
- The designation of Exeter Science Park as part of the LEP's enterprise zone with associated business rate benefits for clients which could strengthen the revised land sales assumptions in the new plan.

The offer of GD2 grant funding has been made by the LEP as a result of shareholders' actions in bidding for the funding and will become irrevocable, subject to approval of the detailed business cases, in June 2016. This funding is to be used for the construction of buildings on Phase 1 land which will be owned or part-owned by ESPL. This will enable ESPL to generate significant rental income free from the constraints associated with income from land sales which can only be used for capital expenditure.

The designation of Exeter Science Park as a part of an Enterprise Zone results from another initiative of our Shareholders. It provides benefits to future tenants on the Park that should render the property offer from the Park, when combined with other benefits, significantly more attractive than comparable properties outside of the Park.

1.3.2 Strategy

The strategy for the development of the Park to fulfil the vision is therefore for ESPL to become an entity which owns assets in the form of buildings and land that it will develop speculatively or with private sector clients to house knowledge-based businesses. The buildings will be leased to such businesses either in stand-alone configurations or within an extended Science Park Centre. The strategic intent is that this approach generates an unencumbered revenue stream that can be used to sustain the Science Park Company in order to market the Park to clients, maintain its infrastructure and most importantly build the brand of the Park to the point where its value as a Science Park is evident to, and valued by, potential development partners for Phase 2.

1.3.3 Changing Organisation Structure

In order to adopt this strategy involving as it does building developments with clients, marketing and branding as well as asset ownership and exploitation, the exiting company structure must be further developed.

In pursuit of this goal:

- The Board has already been strengthened by the appointment of three new independent directors;
- Board members are being brought closer to the operational activity through sub-groups which have oversight and delegated decision-making;
- The formal secondment of a property specialist from DCC to ESPL has been implemented from Dec 2015;

- The company is taking advice from HR professionals about the best mechanism it should adopt to secure its workforce: the company will explore whether it should become an employer in its own right rather than rely upon the current secondment arrangements for staff.

1.3.4 Alternatives, Risks and Competition

Strategically, there are just two alternatives to the strategy proposed.

It would be possible to leave the current strategy unchanged which would see exceedingly slow development of Phase 1 of the Park with very little opportunity for marketing due to a negligible revenue income for operations. It is the view of the Board that this will fail to deliver the objectives of the Park in an acceptable timescale, ignoring the funding available from government to drive economic growth, and risking the company's viability.

It would also be possible to seek an external development partner now to enhance the financial resources being committed and deliver a property solution. This strategy puts at great risk the very rationale of the Science Park as a special area devoted to nurturing a knowledge-based economic engine to exploit the science base of the region. Experience has shown that the private sector has little appetite for investment in a science park where the gateway policy will be tightly adhered to, and would otherwise develop little more than a modestly enhanced business park with little distinctive character and which would not meet the aspirations of stakeholders: it too is not recommended.

If the ideal of the Park embodied in its Gateway Policy is maintained then the competition is international and the differentiator for ESP will be the attractiveness of the local science base relative to others. It is this notion which leads to the idea of sectoral focus for a Park driven by the expertise of the knowledge partners. The science base must therefore offer what cannot be obtained elsewhere and this rests with our stakeholders and not directly with the Park. The Park must provide the supportive environment for high-risk and high-growth businesses to flourish.

Conversely if the Gateway Policy is relaxed then the competition is from a wider spectrum of business parks locally and not nationally or internationally and the distinguishing feature will simply be the property offer and costs. This is not an option that can be contemplated because the costs for ESPL are likely to be higher than those of a straightforward business park.

1.4 Implementation

In this strategic document we present simply headline financial information based upon the best current estimates of income from land sales, development costs and operating costs and loan repayments. These headline figures arise from the implementation of the changes of strategy outlined above in order to generate revenue for the company to operate successfully and contain the following changes from the December 2013 plan:

- Actual land sales at end-2015 of £0.45m are used instead of the Dec 2013 plan number at the end-2015/16 of £1.24m;
- The use of an additional £2.0m of shareholder loans for the construction of the SP Centre in place of shareholder funds;
- The use of the £2.0m of shareholder funds for ESPL revenue costs in place of funds which were (erroneously) assumed to come from the (capital) Development Account held by DCC;
- The investment of £10m grant funding in 2016/ 17 - plus some matched funding from private sources – in three new buildings which ESPL will own and rent out;
- Higher overhead costs arising from the need to increase staff from 1.6 FTE to 3.5 and a planned increased expenditure of £60K p.a. in targeted marketing campaigns for the Park.

These changes will require careful management of:

- An accelerated rate of occupancy and use of the SP Centre;
- The development of the 3 GD2-funded building projects; Management of the associated risks such as state aid compliance;
- Rigorous work to secure the assumed rental revenues;
- Early warning on any shortfalls in capital funding;
- Greater leverage of the knowledge base in the science park offer than has currently been achieved.

There is complexity in managing some of these strategies not least because some of this work is beyond ESPL's immediate control and shareholders and stakeholders will be required to take greater responsibility for ensuring that there is, for example:

- Practical alignment of objectives between the local councils, UoE, Met Office, ESPL and local business;
- A clearer vision for the Global Environmental Futures Campus planned for the Redhayes Cluster in Phase 2 where the UoE and the Met Office can increasingly align their needs, with ESPL taking a supportive role;
- A greater involvement of the UoE and the Met Office in general in developing and connecting the knowledge base to local, national and international businesses;
- Significantly improved Science Park Centre occupancy levels based on targets: 50% by July 2016; 80% by end-2016;
- Assuming that the collaborative working required to achieve these individual plans in support of the new strategy is in place – and shareholders have given their support for this – the resulting financial performance is viable.

Gerry Shattock

6th May 2016.

1. Appendices

Appendix I Gateway Policy

1 Gateway Policy and User Clause

The Parties intend that the Site will be marketed for use as a Science Park for purposes which satisfy and fall within the UKSPA Science Park definition (and any uses ancillary thereto). The Operator may only select occupiers provided they comply with the parties' intentions for the Science Park referred to above and the Gateway Policy conditions described in points 1.1.1a)-c). All proposed tenancies must be approved by a selection committee nominated by the Sci Park Co. The Council will be obliged to grant leases to the Sci Park Co on the recommendation of the Selection Committee.

For occupiers selected on the basis of conditions 1.1.1 d)-e) the Steering Board/ SPV itself must be asked to approve eligibility.

The Gateway Policy conditions are:-

1.1 Whether or not a potential occupier's use would fall within the following:-

1.1.1 Any science related use which:-

- (a) Is knowledge-based, involving research and development of products or services, including where appropriate supportive manufacturing activities and/or relevant ancillary education, teaching, training, knowledge accumulation and development; and/or
- (b) involves active collaborations with universities, higher education, institutes, research or similar organisations and/or
- (c) Is a technology based service;
- (d) Which falls within class B1(b) of the Town and Country Planning (Use Classes) Order 1987 together with uses ancillary thereto which fall within Classes B1(a) and (c) and B2 of that Order;
- (e) and/or any other science related use or use which is complementary to or supportive of the Science Park project as approved by the Sci Park Co such as the Hotel Management Suite and Ancillary Use Accommodation proposed for Phase 1.

1.2 These criteria will also be used to determine whether or not the Council has acted reasonably in the event that its consent is withheld to an occupier selected by the Developer.

1.3 The Gateway Policy and user clauses in Long Leases which have already been granted will be reviewed and amended from time to time to include (1) such other uses as are reasonably consistent with the UKSPA Science Park Definition and (2)

such uses as would generally be acceptable on a science park in the United Kingdom (having regard also to the aspirations set out in **Clause 1.2**), (3) any other uses which are permitted on the Site by the Council .

- 1.4 Each Long Lease will contain a user clause which for the first 25 years of the term, preserves the character of the site as a Science Park by reflecting the provisions of **Clauses 1.1.1 and 1.3** of this Gateway Policy, the wording of such user clause to be agreed between the Council and the Developer (such agreement not to be unreasonably withheld).
- 1.5 The provisions of this policy shall be incorporated into the objects of the SPV and shall only be capable of being changed or relaxed if 75% (by value of their relevant interests in the Site) of the members of the SPV approve any such change or relaxation.
- 1.6 Any part of the Site which is sold to any third party (whether by the Developer or the Council and whether sold as a developed plot or an undeveloped plot and whether leasehold or freehold) and whether before or after the End Date shall be sold subject to such restrictive covenants for the benefit of the remainder of the Site as shall ensure compliance with the Gateway Policy in respect of such parts of the Site as is sold and the provisions of this **Clause 1.6** shall survive beyond the End Date.
- 1.7 Each Long Lease for a Plot shall be in an agreed Form in accordance with the Masterplan whether constructed by the Developer or a third party.
- 1.8 The parties acknowledge that the Gateway Policy can be changed varied or amended in anyway or a new policy introduced by the SPV but not in such a way that would materially change the parties objectives to develop a high quality Science Park.
- 1.9 Subject to **Clause 1.8** the parties agree that if there are any changes to the Gateway Policy by the SPV that these will be adopted by all parties in place of the Gateway Policy provided that the Developer will be under no obligation to adopt the revised Gateway Policy for Phase 2B if it is substantially more restrictive than the Gateway Policy.