

EXETER CITY COUNCIL

SCRUTINY COMMITTEE – ECONOMY

7 JUNE 2007

EXECUTIVE

19 JUNE 2007

PROPOSED SCIENCE PARK

1. PURPOSE

- 1.1 To approve an investment of £750,000 in the development of the proposed science park as a contribution towards the equity required of at least £3 million to progress the first stage of the project.

2. BACKGROUND

- 2.1 The establishment of a science park in the Exeter economy is a priority in regional and sub-regional economic strategies. The Exeter and Heart of Devon Economic Partnership's Economic Development Strategy 2005-2008 has this as one of its main objectives, as does the Exeter Vision. This clear ambition is also the objective of the partners who have been working closely on the project for at least two years, namely the University of Exeter, East Devon District Council, Devon County Council and the Met office. The South West of England Regional Development Agency (SWERDA) has joined the partnership more recently.
- 2.2 The Devon Structure Plan 2001-2016 allocates a science park site in the vicinity of junction 29 of the M5. The Regional Economic Development Strategy prepared by the South West of England Regional Development Agency and the Regional Spatial Strategy proposed by the South West Regional Assembly both underline the importance of innovation and the exploration of knowledge to the region's economy.
- 2.3 The benefits to be derived from the development of the science park include:
- the creation of a high value employment location and the consequent injection of higher incomes and expenditure into the local economy,
 - the further positioning of the city as a serious regional business centre with specialist scientific and technological activities which have a national and international standing,
 - providing a focus for the Met Office's intention to secure scientific and commercial spin-offs from their core work, generating new business and jobs,
 - a means for the University to attract further research funding which can stimulate the commercialisation of scientific knowledge and applications,

- the development of small and medium sized science companies employing people with a range of skills from technicians (with school leaver skill levels) to high grade scientists,
 - the development of businesses providing services to science park businesses in turn sustaining existing and creating additional new employment at all levels in the sub-region,
 - the provision of grow-on space for tenants of the Innovation Centre requiring larger accommodation,
 - the potential of creating some 2,500 – 3,000 jobs in the first 15-20 years.
- 2.4 The economy of the city and sub-region is heavily dependent on the public and service sectors which may in future years suffer from economies or from restructuring, leading to loss of employment. The City's economy is also disproportionately made up of low wage employment, limiting standards of living, career opportunities and aspirations. It is important to build upon those existing assets of the city, in particular the University and the Met Office with a national and international reputation, and the city's advantageous location, as the basis for creating or attracting knowledge-based businesses that have the potential to bring higher quality employment opportunities.
- 2.5 A number of studies have supported the case for developing a science park for the city and the sub-regional economy and are listed at the end of the report. These studies have consistently concluded that there is a market for a science park in the sub-region.
- 2.6 Members of Scrutiny Economy received a report on 1 March 2007 which summarised progress with:
- the preparation of the Business Plan which sets out the vision for the science park, proposals for the structure of the delivery organisation, site and access issues, project timeline and a financial forecast setting out the initial investment required,
 - negotiating and managing the relationships with the land-owner over the use or acquisition of the preferred site,
 - progressing planning related issues of the proposal in view of the need to eventually secure planning permission and to restrict development strictly to science park related activity.
- 2.7 The Business Plan which has been prepared by a national specialist in the field of developing and running science parks confirms "that a well-managed science park in the Exeter sub-region is both opportune and feasible" if the necessary initial investment can be secured.
- 2.8 The issue of the name of the science park has been raised by Members over recent months. All the partners have different interests in what the eventual name will be, but the most important point is that whatever name is chosen will maximise the commercial prospects for the science park. The consultant working-up the business plan has been asked to work with experienced operators of parks to provide advice to the partners with a view to achieving consensus on the final choice.

3. PROPOSED INVESTMENT

- 3.1 The overall vision for the project is “to create a science park which is the key regional centre for the successful exploitation of science and technology, and which projects the quality of life, scientific and innovative capacity and ambitions of the City of Exeter and the sub-region”. The Partners share a strong consensus that the science park needs to:
- be an exemplar of sustainable development in a sensitive location,
 - encourage innovation,
 - become an engine for wealth creation not only for Exeter but for the surrounding sub-region,
 - catalyse and support the commercial exploration of new knowledge through the Innovation Centre and the University,
 - integrate with plans for the proposed new community at Cranbrook and the development of the airport,
 - be exciting in terms of its scale, visual and economic impact and concern for the environment,
 - be complementary to, rather than competitive with, other science parks in the South West.
- 3.2 The Business Plan for the science park includes a financial plan which is based on it being that of a viable business venture, whilst achieving the objectives set out above. Science Parks are inherently long-term projects taking some years to achieve full financial viability as the financial returns they generate will not be realised as quickly as more traditional development investments because of the necessary restrictions on the nature of occupants. The return on investment is also measured against economic and other benefits in terms of jobs and businesses created, investment secured, improved image and a diversified economy. A substantial initial investment will be required by the partners to enable to the science park to get started.
- 3.3 The Business Plan proposes, that in order to progress the project, the partnership should convert into a Company Limited by Shares (SPCo) and in order to pump prime the project and to be able to exercise control over the development of the park, a significant initial equity contribution should be provided by the partners as stakeholders.
- 3.4 The project requires significant capital for the purchase of the site, resolving site access and infrastructure issues, and the erection of the first building(s). In many regions, public sector organisations are prepared to grant-support such projects, often from incorporating European sources of funding. SWERDA are in the process of purchasing the land required, but no other sources of funding for construction have been identified.
- 3.5 The Business Plan is based on a first phase of development of a single “science park centre” building of around 30,000 sq ft, of lettable space for multi-occupation, including the science park’s own offices and modest meeting facilities. Excluding the cost of the land or working capital, it is estimated that some £5.8m -£6m will be required to develop and erect the first building in

SPCO's ownership. The funding will have to be found as a package of investment and borrowing. Commercial investment or bank lending will be dependant on significant investment by the partners themselves to build confidence in the proposal and to spread the financial risk.

- 3.6 The Plan recommends the raising of at least £3million from the partners including the need to fund initial operating costs until the first income streams are generated from letting the first building. The partners' equity would be used first, being injected in instalments as needed. Additional investment would be from bank finance and drawn down at a later stage to minimise unnecessary interest payments. Interest repayments would be deferred until sufficient income is being earned to repay it.
- 3.7 The efficacy and resilience of the financial forecasts in the Business Plan are based on the extensive experience of the specialist consultant and are subject to variations arising from the level of equity investment realised, rental levels and rate of occupancy eventually achieved, level of ground rent or other payments relating to the nature of site ownership and relationships with SWERDA as landowner and the prevailing interest rate. The total amount of bank borrowing will have the most significant effect on the viability of the project in its first five years. Raising as much initial equity as possible will both provide stability and certainty in taking the park through the "early proving" period of its development whilst offering protection against the vagaries of interest rate changes.

4. TIMELINE

- 4.1 If the current momentum is maintained, basic agreements could be concluded by September 2007, planning consent achieved in late 2008, building could commence early 2010, and the science park open for business early 2011.

5. RISKS

- 5.1 The Business Plan summarises the perceived risks to the project from the likely competition for its services, location and various possible situations during its development.
- 5.2 In terms of competition, the following summarises the position:
- relatively low risk from the growth of the Tamar Science Park, Plymouth or the yet to be developed S-Park at Bristol – there are probable benefits to be gained from complementary and collaborative activities
 - competition from inward investment from other parts of the UK as from abroad – low risk as they form less than 10% of the tenants on most science parks; unique features of this project may give it a competitive edge with some inward investment opportunities
 - competition from small managed workshops and other commercial property – low risk as the science park is targeted at the type of smaller businesses which need the park's special added-value services, facilities

and image; will provide grow-on space for companies outgrowing the Innovation Centre but requiring a specialist location.

6. PROPOSAL

- 6.1 It is proposed that in line with the funding target set out in the Business Plan, sufficient equity contributions of at least £3m are secured from the partners, all of whom have already stated in principle that they are prepared to consider providing equity funding. The scale of each partner's contribution is as yet unconfirmed but it is likely that it will be the University, the County Council, East Devon District Council and the City Council that will be able to make the most significant contributions.
- 6.2 It is uncertain whether SWERDA will be able to make any additional contribution over and above their anticipated investment securing the site.
- 6.3 In order to reach the target of £3m it is suggested that the City Council will need to give a commitment to invest up to £750,000.
- 6.4 This funding should be approved on the basis that:
- (i) the target of £3m is achieved together with contributions from the other partners, including the University and the County Council
 - (ii) that the City Council has representation and influence on the Board of the delivery organisation commensurate with the level of its investment

7. FINANCIAL IMPLICATIONS

- 7.1 The recommended investment is £750,000. After consultation with the Head of Treasury Services it is recommend that this is financed from the accumulated Local Authority Business Growth Incentive Grant (LABGIG) fund, demonstrating the Council's commitment to investing in future economic stability and strengthening of the city's economy.

8. RECOMMENDATION that

- 8.1 The City Council approves an investment of £750,000 in the development of the science park as a contribution towards the equity required to progress the first stage of the project.

Richard Ball
Head of Economy and Tourism

John Rigby
Director of Economy and Development

ECONOMY AND DEVELOPMENT DIRECTORATE

Local Government (Access to Information) Act 1985 (as amended)

Background papers used in compiling the report:

1. "Feasibility study for a science park in Exeter" SQW and others - 2004
2. " Report on Exeter Science Park", DNE Rowe - 2005