Exeter Science Park

Report of the Head of Economy and Enterprise

Please note that the following recommendations are subject to consideration and determination by the Cabinet (and confirmation under the provisions of the Council’s Constitution) before taking effect.

Recommendation:
(a) that Cabinet approves the remaining package of infrastructure projects as set out in section 3 of the report utilising the Growth Deal 1 grant award of £2.5m;
(b) that Cabinet endorses the change of delivery strategy for Exeter Science Park Limited (EPSL) and notes the impact on the loan guarantee facility;
(c) that Cabinet approves the County Council acts as agent for the development of Growth Deal 2 projects on behalf of Exeter Science Park Company Limited and enters into an Agreement to this effect.

1. Summary

The report sets out the progress being made on the Science Park following the last report to Cabinet in January 2013 and seeks approval from the County Council to deliver a number of key elements.

2. Background/Introduction

The development of a Science Park in Devon has been a strategic priority for the County Council for a significant period of time. The creation of a cluster of knowledge based businesses at the Exeter Science Park supports the County Council’s ambition to create a flourishing and balanced economy. The development of the site has the potential to create 5,000 jobs by 2032.

An obligation of the original Regional Development Agency £18.7m grant award was for the County Council to enter into a further agreement with partner organisations (University of Exeter, East Devon District Council, Exeter City Council, Exeter Science Park Company and the HCA) to govern arrangements for the development, marketing and management of the Science Park to such serve such purpose. The further agreement was completed in December 2013.

Following Cabinet approval to support the funding and project management in 2013 of the Science Park Centre, this was completed in May 2015 and is being managed by Peninsular Enterprise Limited (PIL) on a 15 year lease. PIL is a wholly owned subsidiary of the University of Exeter and manages the existing Innovation Centre on the main university campus. Since opening in June 2015, the Centre has hosted a number of important events and secured three businesses with a number of enquiries in the pipeline. The County Council has also procured and managed the installation of a 1 gigabit dual resilient broadband which will provide a unique selling point for the Science Park.

In March 2014, the Met Office confirmed the Science Park as their preferred location for a new £100m supercomputer and collaboration building. As their preferred location was within
phase 2 of the Science Park, a revision to the s106 agreement and outline planning
permission was obtained to allow the development of phase 2 approximately 3 years ahead
of programme. Further, site infrastructure including road and utilities had to be delivered
within a very short timescale in order to meet the Met Office requirements. A number of the
infrastructure projects have been successfully delivered by the County Council by securing
£1.4m from the Regional Growth Fund approved by Cabinet in October 2014. Planning
permission has been obtained for a further package of essential infrastructure works which
are to be funded with £2.5m Growth Deal Funding which is the subject of this report.

The utilisation of the main Science Park estate road as a temporary through route linking to
the recently upgraded Tithebarn Link Road was vital to unlocking the Met Office site which
has required close working between the Economy and Highways Teams.

The Met Office development has led to the creation of the Exeter Global Environmental
Futures Campus (GEFC) which represents an opportunity to co-locate world-leading
researchers with key commercial partners around what will be Europe’s biggest
environmental supercomputer centre. It is anticipated that the new campus will act as a
nucleus for world-leading science, business innovation and impact, attracting scientists,
technologists, companies and thought leaders to deliver long-term growth in the private
sector and maintain the UK’s number one position in environmental science. This project
has been identified by the Heart of the South West Local Enterprise Partnership (HoTSW) as
one of three transformational opportunities within Devon and Somerset.

Previous reports presented to Cabinet have highlighted difficult market conditions stalling
development on the Science Park. This effect has been compounded by a restricted market
associated with the Science Gateway Policy together with high construction costs and land
values. Recently, there have been tangible signs of market improvement with a number of
new enquires for standalone buildings and space within the Science Park Centre. Viability
will however continue to present a considerable challenge for future development on the
Science Park, which has provided the rationale for further public sector intervention to
maintain progress of a key strategic project.

3. Proposal

Growth Deal 1 – GEFC Infrastructure

The GEFC will occupy a prominent site overlooking the M5 next to the Redhayes Bridge –
please refer to plans and computer generated images in Appendix A. The Met Office has
acquired 3 acres for the development of a supercomputer complex and the campus will be
formed by development on the 2 adjacent masterplan clusters, Ridgetop and Redhayes.

To bring the campus to fruition a number of infrastructure packages will be required to
service the GEFC campus, which are summarised in the table below:
A £2.5 million Growth Deal funding bid was made by the County Council to the HoTSW LEP in January 2015 and approval given in April 2015 by the LEP Board. Following a competitive procurement exercise, South West Highways were appointed to deliver projects 1, 2, 3 and 4, which have been completed and delivered on time and budget. A further procurement exercise will be undertaken for the remaining projects which will be completed by May 2016.

The benefit of grant funding has had a major benefit to the project as the current ESPL business plan assumes that all infrastructure on phase 2 will be funded through land sales.

Authorisation for spend on projects 1, 2, and 4 has been obtained through a Cabinet Member decision (31st July 2015) and Cabinet approved funding for project 3 in February 2015. Cabinet approval is now sought to commence works for the remaining projects (5, 6, 7, 8 and 9) which for clarity will all be 100% externally grant funded without any recourse to the finances of the County Council.

Science Park Centre Stage 1

In January 2013, Cabinet approved a guarantee to underwrite 50% of a £4.5m Growing Places Fund (GPF) loan issued by the HoTSW LEP to ESPL for the construction of the Science Park Centre Stage 1 (SPC 1). The approved underwriting facility in a worst case scenario amounts to £3.025m for both capital and accrued interest and is provided to the ESPL on a full reimbursement basis. The other 50% is underwritten by the University.

To support ongoing revenue costs and development of the Science Park, ESPL has drawn two further approved loans from Exeter City Council (ECC) and East Devon District Council (EDDC) totalling £2m. With the approval of the LEP’s Strategic Investment Panel, the loans have been used to replace shareholder funds locked into the SPC1 project which will be used as a source of revenue for the long term running of ESPL, development of the Science Park and repayment of accumulated loan interest charges.

As a consequence of this change and slower than forecast land sales, it is anticipated that ESPL will utilise a larger percentage of the approved underwriting facility to cover any

<table>
<thead>
<tr>
<th>Project Number</th>
<th>Infrastructure item</th>
<th>Purpose</th>
<th>Budget £k</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Complete Upper Richardson Estate Road</td>
<td>Road access and utilities for the Met Office site and GEFC and Redhayes Clusters</td>
<td>311</td>
<td>Complete</td>
</tr>
<tr>
<td>2</td>
<td>Redhayes Cluster car park</td>
<td>Car parking for GEFC cluster</td>
<td>506</td>
<td>Complete</td>
</tr>
<tr>
<td>3</td>
<td>Anning Road upgrades</td>
<td>Works to the main spine road to bring it to adoptable standard required to meet the requirements of the s106 for opening phase 2 of the Science Park</td>
<td>275</td>
<td>Complete</td>
</tr>
<tr>
<td>4</td>
<td>Phase 1 Visitor car park</td>
<td></td>
<td>9</td>
<td>Complete</td>
</tr>
<tr>
<td>5</td>
<td>Footpath/cycleway to Ridgetop cluster</td>
<td>Pedestrian and cycle access to the clusters</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Upgrade to Phase 2 drainage basins</td>
<td>Surface water drainage for the clusters</td>
<td>15</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Tithebarn cluster car park</td>
<td>Car parking for GEFC cluster</td>
<td>1,305</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Plot preparation of the GEFC</td>
<td>Site preparation ready for development</td>
<td>36</td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>Technical support</td>
<td>To provide technical support in the development of the GEFC</td>
<td>33</td>
<td></td>
</tr>
<tr>
<td><strong>Sub Total</strong></td>
<td></td>
<td></td>
<td><strong>1,101</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td><strong>2,500</strong></td>
<td></td>
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</table>
shortfall in GPF repayment identified in their current business plan. The new business plan currently being drafted will provide a precise figure but the County Council will need to consider the funding of the underwriting facility.

Growth Deal 2 Funding

With the advent of the GEFC, ESPL, with the support of the University and County Council submitted a funding bid to support the delivery of 3 new buildings on the Science Park – these buildings are highlighted in red on the Science Park masterplan in Appendix B. The HoTSW LEP has provisionally confirmed a grant award of £10m which will require the development of designs costs and risks to inform the preparation of detailed business cases to be submitted later this year.

The successful delivery of 3 buildings are considered vital as they will maintain a pipeline of activity on the Science Park in absence of a development partner, provide a revenue income to ESPL in support of the business plan and long term sustainability and capitalise on the opportunities presented by the Met Office.

The ESPL Board and Shareholders have approved the use of £125k ESPL core funding to begin developing detailed designs, cost plans and an overarching delivery strategy for the buildings including state aid advice.

The County Council is currently providing officer support to manage this process and would like to engage the services of NPS to deliver the feasibility work including design, cost planning, mechanical and electrical and structural engineering. As ESPL are the recipient of the GD2 grant, County Council procurement has advised that NPS could only be directly engaged through the Joint Venture arrangements if the County Council was formally appointed as agent for ESPL.

This arrangement was successfully used to deliver stage 1 of the Science Park Centre which was approved by Cabinet and enshrined in the Further Agreement referred to earlier in the report. Cabinet approval is therefore sought for the County Council to enter into an Agency agreement with ESPL to act on its behalf to deliver the design, planning and procurement of Building Contractors and Professional Advisors and the subsequent construction of the Science Park Centre Stage 2, Grow on Building and GEFC Impact Lab. This would be undertaken by NPS as our Joint Venture partner.

ESPL Business Plan and Change of Focus

ESPL is currently operating under an approved business plan which is predicated on development being delivered by a development partner on phase 2 of the Science Park. Phase 1 is being delivered by Eagle One. As a consequence of the market conditions, high construction costs and restrictive gateway policy, no privately funded property has been built to date and development appraisals produced by Eagle One have demonstrated low or negative values, particularly with the inclusion of developers’ profit. Discussions have been held with perspective development partners for phase 2 who have cited value and critical mass of development as two key issues for not investing in the project at this stage.

With the allocation of significant external grant in the form of GD2 funding, it is probable that the ESPL business model will significantly change from one of enabling land sales to property development and ownership. This does offer a unique opportunity for ESPL to maintain a pipeline of activity on the Science Park and become a more sustainable entity through rental income derived from the new properties. It will also assist in creating a critical mass of development on the Science Park which is deemed essential for attracting a future development partner.
It does however create an issue for the Directors and Shareholders of ESPL in terms of understanding and evaluating risk associated with delivering high value construction projects. ESPL is currently in the process of drafting a new business plan to formally set out a new strategy in the context of GD2 funding which will require formal approval from the Shareholders before any construction activity commences. For clarity, the County Council has a 49.9% stake in ESPL, making it the major shareholder and therefore there is a legal requirement for the County Council’s approval in signing off the new business plan.

**Eagle One Discussions**

The relationship between Eagle One and the County Council is governed by a development agreement which defines Eagle One’s role as developer for phase 1 of the Science Park and management of Eagle One’s retained land within phase 2.

For a number of reasons development on phase 1 has been considerably slower than anticipated which has led to discussions between the County Council and Eagle One to seek solutions for progressing development on phase 1. Eagle 1 also own land adjacent to the Science Park and have planning consent to develop new homes and an amount of employment use. Ensuring the integrity of the Science Park is a priority along with complementary land use. Discussions on how to achieve both progress on phase one and maintain discrete and complementary employment opportunities are currently ongoing and good progress is being made. These discussions are being supported by NPS on behalf of ESPL.

**4. Consultations/Representations/Technical Data**

This report has been developed in consultation with finance and legal colleagues and is the outcome of in depth dialogue with ESPL shareholders and Directors. Further, the Cabinet Member for Economy and Growth has been kept informed of progress and is an alternate Director on the ESPL Board. It is also based on state aid advice, procured from Burges Salmon.

**5. Financial Considerations**

Delivery of the GEFC infrastructure will be entirely funded through external grant contributions. As recipient of the grant, the County Council will be accountable for all expenditure including any cost overruns or delays which are considered in more detail in section 9.

**6. Environmental Impact Considerations**

The scheme is considered to have a largely positive combined impact. This is because it will help support the growth and expansion of the economy in key sectors and will enable the creation of new direct and indirect employment.

The Science Park is a highly sustainable project which is achieved through the following initiatives:

- All buildings on the Science Park are constructed to BREEAM Excellent standards.
- All development must have high quality landscaping in accordance with the landscaping design code.
- Commitment to the use of district heating.
- Use of recycled materials and
• All arisings form development are retained on site.
• All surface water is attenuated on site.

7. Equality Considerations

The project will create significant new local employment opportunities potentially helping to tackle socio-economic disadvantage and improve productivity. The progression of the Growth Deal 1 works package will unlock a £100m investment and create the opportunity for a further 130,000 square feet of Science Park related development connected the GEFC.

Further considerable investment will not only be made in the preparation of the site but also through the development of the Science Park. Using the Homes & Communities Agency methodology, it is anticipated that the GEFC will generate the following outputs once fully developed (based on 100% capacity):

<table>
<thead>
<tr>
<th>Output</th>
<th>Gross</th>
<th>Net</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indirect jobs</td>
<td>374</td>
<td>196</td>
<td>Cost per gross job = £6,684</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Cost per net job = £12,755</td>
</tr>
<tr>
<td>Commercial floorspace(m2)</td>
<td>9,000</td>
<td></td>
<td>Met Office 3,000 m2/private buildings 6,000m2</td>
</tr>
<tr>
<td>Private leverage (£m)</td>
<td>15</td>
<td></td>
<td>Grant gearing 1:6</td>
</tr>
<tr>
<td>Public leverage (£m)</td>
<td>80</td>
<td></td>
<td>Grant gearing 1:32</td>
</tr>
<tr>
<td>GVA pa (£m)</td>
<td>17.75</td>
<td>10.7</td>
<td>Based on Econ-l South West model</td>
</tr>
</tbody>
</table>

Based on the latest Local Enterprise Partnership Value for Money (VfM) calculation, the project delivers 1 indirect job for £6,684 of investment, comparable with the better value for money projects assessed for the Government’s Growth Deal.

Appropriate detailed assessments will be undertaken on individual schemes as they come forward.

8. Legal Considerations

As freehold owner of the Science Park, the County Council negotiated the disposal of the Met Office supercomputer site. In order to secure the Met Office, the Lease contains clauses for the County Council to deliver the GEFC infrastructure within prescribed timescales in order for the Met Office to meet challenging targets for the opening and operation of the supercomputer facility. If the infrastructure is not delivered to the agreed timescales, the Met Office has step in rights to deliver and re-charge.

These clauses were agreed in the context of having secured sufficient grant to deliver the infrastructure and to ensure the Met Office supercomputer would indeed be located on the Science Park.

Approval to act as Agent to ESPL, through NPS will require DCC to enter into an Agreement with ESPL. Approval is sought to delegate the negotiation of this agreement to the County Solicitor with support from the Head of Economy and Enterprise.
9. Risk Management Considerations

<table>
<thead>
<tr>
<th>Risk</th>
<th>Likelihood</th>
<th>Impact</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Financial</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Planning and design delays for GEFC infrastructure</td>
<td>2</td>
<td>4</td>
<td>8</td>
</tr>
<tr>
<td>Cost overruns on infrastructure works</td>
<td>2</td>
<td>5</td>
<td>10</td>
</tr>
<tr>
<td><strong>Reputational</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Demand for plots on GEFC is lower than forecast</td>
<td>1</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Job and other outputs are lower than forecast</td>
<td>2</td>
<td>5</td>
<td>10</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Risk</th>
<th>Mitigation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Planning and design delays for GEFC infrastructure</td>
<td>The park has outline planning permission and design codes are approved. Several detailed planning permissions and statutory consents already obtained for GEFC works. Adequate time for design and planning process for remainder of works built into programme for 2015/16 delivery.</td>
</tr>
<tr>
<td>Cost overruns on the infrastructure works</td>
<td>Adequate contingency allowed in the cost plan. ESPL will be responsible for any shortfall through the capital development account. In a worst case scenario, individual projects can be scaled back and finances redistributed</td>
</tr>
<tr>
<td>Demand for plots on GEFC is lower than forecast</td>
<td>Collaboration Centre will help drive demand from small companies wanting to expand into their own buildings. Gear up marketing plan by ESPL/Met Office/University to promote the campus and its benefits. Ensure attractive site options are available.</td>
</tr>
<tr>
<td>Job and other outputs are lower than forecast</td>
<td>Jobs forecast is conservative and based on the first stage only of the campus. Full development of the campus will boost job numbers. ESPL, Met Office and University to market the campus to international and national business and research organisations. Ensure competitive and attractive site ownership options are available for occupiers and developers.</td>
</tr>
</tbody>
</table>

10. Public Health Impact

There are no direct implications of these proposals for public health (services) in the area, however consideration has been given to road safety resulting from increased traffic movements, including construction traffic, and noise during construction phase and beyond. These have been evaluated and mitigated within the development travel and construction environmental management plan.

11. Discussion

The Science Park has been a strategic priority for the County Council and partner organisations. Specifically the GEFC is a priority economic development initiative in the region:

- DCC Strategy for Growth (2013-2020) highlights 7 critical issues as barriers to growth for the Devon economy. 2 of the key objectives of the strategy are to increase productivity and create a higher wage economy. Exeter Science Park is specifically referenced as a strategic priority project to achieve these outcomes and is supported at a corporate level by DCC.
• Exeter and East Devon Growth Point strategy includes Exeter Science Park as one of the strategic priority projects to provide a solid foundation for sustainable and innovative economic growth.
• The LEP has prioritised the GEFC in its Strategic Economic Plan as one of its transformational opportunities for the region (alongside Hinkley Nuclear power station and Plymouth’s marine technology industry).

The outcomes for the GEFC and development of the Science Park will be:

• creation of a world leading research campus in environmental science, weather and climate big data processing and its commercial applications and knowledge transfer
• generating high value jobs in the region, creating businesses and business growth in the environmental sector,
• building on the strengths of the Met Office and University of Exeter establishing a centre of excellence in the Exeter area which benefits from supply chain, staff expertise and an innovation hub
• the GEFC will be one of a number of specialist research clusters on the science park
• the GEFC will act as a catalyst for further development of other Science Park Clusters.

12. Options/Alternatives

Option A: Do nothing

• Development of the GEFC will be severely compromised and legal issues will arise in respect of the Met Office lease and delivery of the GEFC infrastructure. Grant award would be returned to the LEP and reputational damage would ensue.
• Major delay in the feasibility and development of the Growth Deal 2 business cases which could compromise the grant award.

Option B: ESPL procure consultants to design and prepare business case for Growth Deal 2 projects

• ESPL would have to undertake an OJEU compliant tender exercise to procure consultants for Growth Deal 2 projects. Currently, there is a lack of resource or expertise within the company to undertake this role and it is anticipated that resource and expertise would be sought from the County Council.

Option C (Preferred option): Approve the GEFC infrastructure and authorise the County Council to perform the role of agent on behalf of ESPL.

This is the recommended option as it will deliver significant economic growth through the GEFC and allow the immediate progression of the Growth Deal 2 projects.

13. Reason for Recommendation/Conclusion

The recommendations in this report comply with the County Council’s stated ambitions for economic growth outlined in the Strategic Plan and promote a unique opportunity centred around the Met Office supercomputer and GEFC.

The recommendation gives a visible statement of the County Council’s commitment to drive forward key infrastructure to support the prosperity of the local economy, at a critical time and the development of the Science Park supports the wider economic development of the Exeter and East Devon Growth Point.
**Electoral Divisions: Broadclyst and Whimple**

Cabinet Member for Economy, Growth and Cabinet Liaison for Exeter: Councillor Andrew Leadbetter

*Strategic Director, Place: Heather Barnes*

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**Local Government Act 1972: List of Background Papers**

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Tel No: (01392) 383000

<table>
<thead>
<tr>
<th>Background Paper</th>
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<th>File Reference</th>
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</thead>
<tbody>
<tr>
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hk 03 051015
The Environmental Futures Campus
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