Exeter Science Park Business Plan
For a Science Park Centre:

Including Asset Value Appraisal and Economic Impact Assessment Study for the Growing Places Fund Application to the Heart of the South West Local Enterprise Partnership.

16th August 2012

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Executive Summary

There is a strong case for investment in Exeter Science Park based on the national Government requirement to derive more value from publicly-funded research and the local need to boost private sector job creation. Similar investments are underway in Cornwall, Bristol and Wiltshire but in Exeter in 2010 public sector employment was 27% of the workforce (22% nationally), there were 55% of businesses employing 1 – 4 people (70% nationally) and just 325 enterprise start-ups in 2010 to off-set the 460 enterprise closures in the same period.

Furthermore the essential contribution which innovation needs to make to economic growth cannot be over-stated with the National Endowment for Science, Technology and the Arts citing that some 63% of productivity growth comes from innovation activities (NESTA Innovation Index 2010) and the Government identifying that just 20% of innovative/ collaborative firms work with universities and other higher education institutions (BIS Science and Innovation Analysis 2012). Lord Sainsbury's 2007 report "The Race to the Top" noted that "...clusters of high technology companies can stimulate regional economic growth..." and " ...they [the top universities] promote innovation and entrepreneurship not only by spinning out companies but also by creating a micro-environment to attract innovation-based companies and foreign R&D facilities".

Exeter Science Park aims to be a hub for enabling these kinds of interactions and will comprise a central building with flexible accommodation for start-ups and small business units, and a series of stand-alone buildings across the Park. It is expected that the fully developed 700 000 ft^2 of space will take 20 years or more to develop and whilst the private sector will invest in the stand-alone buildings Exeter Science Park Limited, ESPL, will invest in the central science park centre building. Furthermore the economic activity on the Science Park will help stimulate other new developments east of junction 29 of the M5.

The original strategy was to fund the science park centre from concurrent land sales on the Science Park. However the recession has led to a reduction in land values and the slowing down of the market in general and this has meant that loan funding is now needed for the start-up period. The early establishment of the science park centre is essential in order to create a centre for a community of collaboration on the Park and is needed to underpin private sector investment on the Park by demonstrating a high standard of building specification and quality. It will also act as a focal point for wider innovation networks with shared facilities, such as a cafe and seminar space, plus excellent access and an early reputation for service and advice to innovators.

The purpose of this paper is to seek funding for the stage one 32 000 ft^2 of the science park centre and to set out how loans totalling in excess of £4.5 million can be repaid with the proceeds from land sales to the private sector developers of stand-alone buildings. The repayment schedules are spread over a significantly longer period than those shown in the March 2012 Growing Places Fund application following a more detailed appraisal of the

local market for property development and revised operating costs including interest charges. However the underlying feedback on the potential for the Park is strongly "Not if but when?".

Exeter Science Park Limited will be the recipient of the loan which will be guaranteed by its shareholders subject to agreeing interest charges over the duration of the loan period. Devon County Council as land-owner will sell plots to private-sector developers, from the proceeds of which will be deducted the operating costs for maintaining and servicing the Park and payments towards Section 106 obligations: it is estimated that £6 million of land sales will be achieved by year 12 and £14 million in total from the whole Park once fully developed. This land sales income net of Park operating costs and Section 106 payments will then pass to Exeter Science Park Limited to fund its operating costs and the remaining balance will be available to make loan repayments.

The science park centre will be leased to the University which will appoint an operator and will be responsible for funding the early years' operating deficit arising from running the Centre. It will share future surpluses with Exeter Science Park Limited once this deficit has been cleared. Therefore the SPC should not require further funding from Exeter Science Park Limited once the building is completed and fitted out to an agreed level.

Thus the business model is built around income from land sales and future SPC operating surpluses servicing a long-term loan, and income and expenditure for the period of the loan is summarised as:

£000	Receipts	Total Costs	Loan Repayment
2012/ 13	2 838	228	-
2013/ 14	5 550	8 100	-
2014/ 15	850	885	600
2015/ 16	150	155	-
2016/ 17	400	405	250
2017/ 18	1 850	1 855	1 700
2018/ 19	640	605	450
2019/20	190	205	50
2020/ 21	525	505	350
2021/ 22	317	355	200
2022/ 23	340	350	150
2023 /24	570	550	350
2024/25	690	700	500
2025/ 26	480	450	250
2026/ 27	480	331	131

Investment in the science park centre is critical to unlocking wider private sector activity across and beyond the Science Park as a whole which it is estimated will lead to: 838 additional jobs in the region over the first 10 years; gross value added from capital investment of £36 million; gross value added from earnings of £29 million. In addition there will be indirect benefits from creating a knowledge-based cluster of businesses which can develop more focussed relationships with the University of Exeter, the University of Exeter Medical School and the Met Office fostering greater entrepreneurial activity in a wider science community.

For the successful delivery of the project to ensure the achievement of targets and repayment of loans, the stakeholders provide considerable expertise. The Board of Exeter Science Park Limited is made up of highly experienced representatives of each shareholder. Devon County Council will provide senior personnel to work along-side the appointed developer, Eagle One, on construction. The University of Exeter through Peninsula Innovations Limited, the operator of its highly successful innovation centre, will help guide the fit-out and the definition of service offerings in the SPC. A number of formal agreements will govern the arrangements between Exeter Science Park Limited, Devon County Council and the University of Exeter under which the funding mechanisms operate and these are each at an advanced stage of development.

Almost without exception science parks require significant public sector investments and Exeter Science Park Limited, whilst benefiting from the purchase of the land by the South West Regional Development Agency, had requested that the Heart of the South West Local Enterprise Partnership use Growing Places Fund monies to purchase an equity stake in the Science Park Centre. However if this is not possible then a long-term loan for 12 - 14 years at zero, or a fixed low, interest rate is requested and this will be guaranteed by existing shareholders.

Exeter Science Park Limited looks forward to progressing this application and to moving closer to the achievement of the outputs which the area so clearly needs.

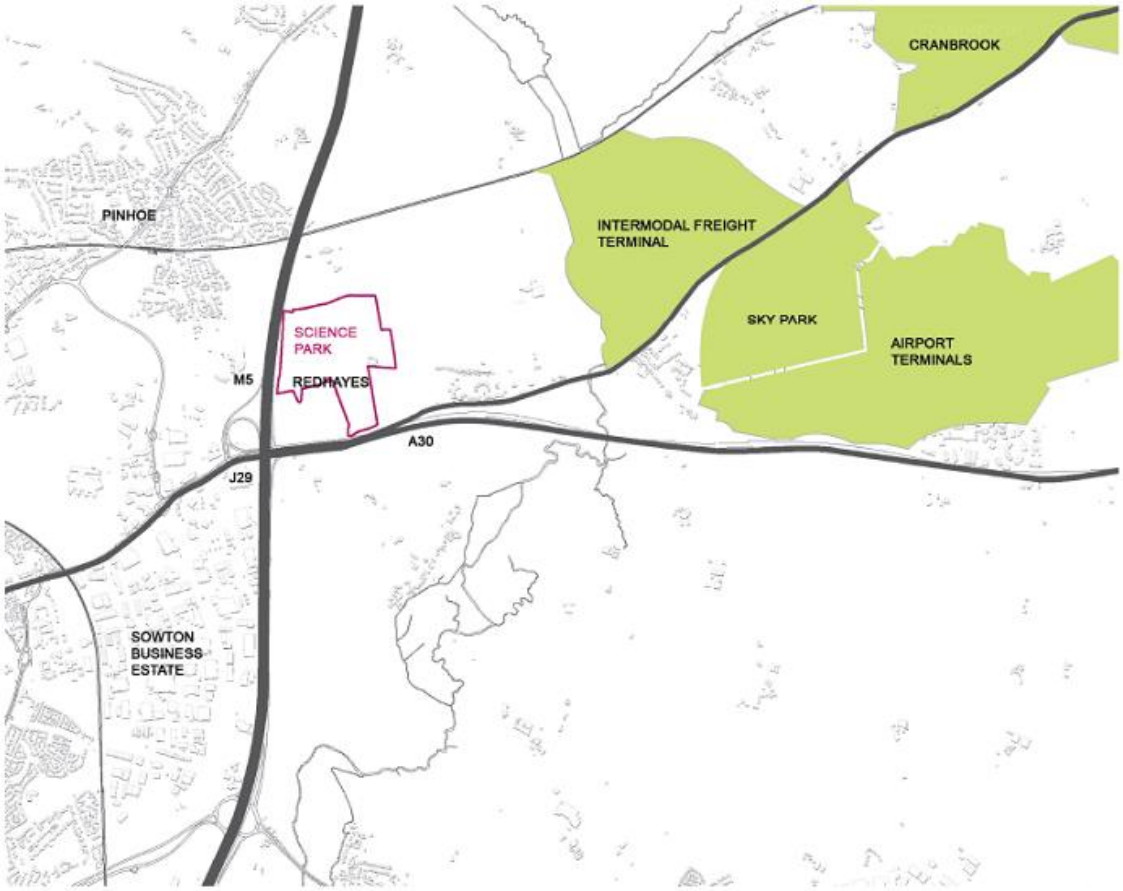
Overview

The creation of a Science Park in Exeter is aligned with the national strategy to facilitate more effective knowledge transfer from centres of publicly-funded research to the private sector. Exeter Science Park will be entirely complementary to the portfolio of similar facilities in the south west of England, notably:

- The recent additions of two new innovation centres in Cornwall which have created 55 new jobs;
- Plans for a new Science Park at Goonhilly in Cornwall;
- The new Bristol and Bath Science Park which is ahead of budgeted occupancy for its central Innovation centre accommodation;
- Full occupancy of the 20 000 ft^2 Tetricus Science Park at Porton Down and plans for future investment there;

At the local level a Science Park in Exeter will bring much-needed additional capacity for business incubation facilities as well as being a pre-eminent location for established high growth science- and technology-based organisations. The primary objective - and indeed the key measure of success - for the new Science Park will be to grow employment. In particular there should be opportunities to create significant higher value jobs as the local research base continues to grow (and public sector jobs in the area continue to be cut back) and this will be consistent with Exeter's emerging reputation as a centre for entrepreneurial activity.

It will also stimulate the substantial capital investments in residential and commercial development around Cranbrook, east of Exeter, both in terms of the focus on science-based businesses and being part of an over-arching, low-carbon strategy.



Considering the knowledge base in more detail the University of Exeter, UoE, has recently been accepted into the Russell Group of leading UK research institutions. Over the last 6 years annual research income at the UoE has grown by 203% which was more than 4 times the median for competitor institutions. Almost half of current research income originates from work with industry and other collaboration partners.

Exeter Science Park will have two distinct offerings:

- Highly flexible space for rent in a central building, ranging from managed office/ laboratory space up to c. 3 000 ft^2 (300m^2);
- The opportunity for organisations to construct their own buildings and/ or to be constructed by a developer partner on a speculative or bespoke basis;

In the current economic climate there is good demand for flexible space in a central building but finite demand for the acquisition of land for self-build, where it appears that even organisations with strong balance sheets are being conservative when planning for growth. It is predicted that land sales for self-build will lag the creation of a central building because

of both the underlying economic conditions and the suggestion that investors wish to see the Park taking shape before making such a commitment.

Therefore the creation of stage one of the central Science Park Centre, SPC, building as a base for young high-growth businesses and as a centre for knowledge transfer and wider collaborative working, is the highest priority. Exeter Science Park Limited, ESPL, shareholders: Devon County Council, DCC; Exeter City Council, ECC; East Devon District Council, EDDC and UoE plus Eagle One, the Met Office and the Homes and Communities Agency, HCA, as partners, all share this vision of investing in facilities which will speed up the rate of private sector economic growth in the area.

The strategy is to build a central facility of total 50 000 ft^2 in a quadrangular design in two stages. The first stage of c. 30 000 ft^2 is the subject of this application and is the minimum size of a viable building where the mix of revenue generation and the provision of central facilities and services achieves a surplus at full (85%) occupancy. This means that the development of the second stage can be determined by the availability of future capital and not the imperative of getting the Centre into surplus per se and indeed the Centre may be deemed viable at 30 000 ft^2 if conditions do not allow the addition of the second stage for some years. Nonetheless the construction of the second stage is assumed in the financial modelling, below.

Shareholders have to-date provided equity in two tranches totalling £775 000 with another £ 2.38 million promised. Growing Places Fund, GPF, loan funding will be used for much the balance of the £7.5 million cost of building the first stage of the SPC building. The GPF loan will be repaid by the sale of land to the developer and owner-occupiers on the rest of the Science Park.

Each of the shareholders is active in the project through their designated directors and shareholder representatives but also in the partnership working which has emerged for making the Science Park a reality. The business model for the Park and the way in which shareholders are involved financially and practically can be summarised as:

- DCC, as freeholder of the Park, will transfer the land to ESPL for the construction of the SPC;

- ESPL will borrow the money from the GPF and combine this with shareholder funds for the construction of the building;

- Eagle One the developer of phase one of the Park, and subsequently a new developer/occupiers for phase two, will acquire land from DCC. DCC will place the proceeds from land sales into a project Development Account which will be used to fund estate management costs and the operating costs of the ESPL including servicing the GPF loan;

- UoE will rent the SPC from ESPL for the provision of appropriate, flexible space and services;

- UoE will appoint an operator to run the SPC under an agreed set of performance measures to ensure specialised business support and the enabling of science-based collaborations in the private sector; using the University will ensure effective co-ordination with its existing Innovation Centre on the Streatham Campus in Exeter;

- UoE will fund the deficit required to complete the fit-out and to run the Centre during the early years and will share subsequent surpluses with ESPL;

- ECC, DCC and Eagle One will provide expertise to ESPL for marketing communications and direct investment strategies;

- EDDC will co-ordinate the wider infrastructural issues such as low carbon strategies and will provide rent relief on unoccupied space in the SPC.

The purpose of this business case is to request GPF loan funding towards the cost of building the stage one of the SPC building and to answer in detail the due diligence questions asked by the Heart of the South West Local Enterprise Partnership, HoTSW LEP, in its letter of 17 July 2012.

Progress to date

Since the start of the Science Park project DCC as landowner, ESPL and the other partners have:

- Acquired the land for the Park, obtained outline planning permission and signed the Section 106, S 106, agreement;

- Signed a development agreement with Eagle One covering phase one of the Park plus committing Eagle One's land within the Science Park plan to the project;

- Completed all of the primary on-site and off-site infrastructure to service the site;

- Established ESPL to manage the operation and marketing of the Science Park ;

- Submitted detailed planning applications in June 2012 for the SPC and the Eagle One management building.

Need for the project

There is a strong case for investment in infrastructure which can speed up the creation of private sector jobs. Investments which combine this with deriving value from the (largely publicly-funded) research base are particularly encouraged and two different and contrasting configurations can be described:

- Create a serviced site where independent buildings can be constructed and/ or rented in order that science-based businesses and their collaborators will form a natural, independent cluster. This is most likely to occur in places like Cambridge where the knowledge base pervades the whole area and where there is a critical mass of high-technology businesses. Business support is naturally light-touch because of the established connectivity which already exists in the cluster;

- Build a series of incubator units where start-ups can be attracted and then supported through high-growth to the point of moving into larger premises as funding rounds dictate. This requires a large number of start-ups to off-set the high atrophy rates and is resource-intensive. It also relies on one or both of a particularly dynamic knowledge base and, ideally, some form of industrial legacy such as supply chains and technology developers that have been working with major blue-chip companies. Pentlands Science Park near Edinburgh is a good example of the former (with a very strong veterinary knowledge base); Malvern Hills (with QinetiQ) and Bristol (with Airbus, Rolls Royce and Hewlett Packard) are good examples of the latter, spawning a number of technology entrepreneurs.

The third is of course a combination of central, high-support incubator facilities and a portfolio of more independent established businesses in their own buildings. This is the more usual Science Park model in the UK and will sometimes, but not necessarily, have a strong technological theme. Plymouth and Southampton work on this basis but Surrey Science Park is a particularly good example with a satellite technology centre and a subsequent reputation for businesses involved in computer gaming and 3D imaging.

Exeter Science Park has a local knowledge base which is characterised by a university and a medical school with excellent reputations but which are both still relatively small alongside their peers, and the Met Office which is metamorphosing from MOD subsidiary to a market-facing, commercial organisation. Much of the scientific research conducted in the Exeter

area currently is favourably received in a global context but still strives to be a more significant driver of enterprise. Similarly there is no particularly strong industrial heritage which could produce experienced managers of technology-based businesses.
Thus the challenge is to build a science park which can act as a driver of knowledge commercialisation whilst recognising that there is no single strong driver from either local industry or the research knowledge base. Therefore the model which combines a central incubator with dispersed established businesses is appropriate.

Economic & Market Context

Economic

In most parts of the south west economy private sector job creation failed to compensate for public sector job cuts from spring 2011 onwards. Because south west activity is more exposed than most to the weaker demand from domestic and government consumption, the region experienced adverse labour market conditions in the second half of 2011 and early 2012 compared with a year earlier.

The project aims to provide facilities for new employment in the Exeter economy, some of the key measures that the project will affect are detailed below (Economic statistics used are included in Appendix I Economic Context).

Employment

Exeter and east Devon has a total population of 119,500, with the public administration, education and health sectors employing 38% of the workforce in 2009 and falling to 27% in 2010. This is still significantly ahead of the 22% rate of public sector employment for the total South West which is similar to the national average.

The employment rate in Exeter is however high at 74% in 2010-11, above the 73% for Devon and the 70% nationally. Economic inactivity in Exeter for 2010-11 was 22%, slightly below the 23% of Devon and 24% across England.

Enterprise

At the end of 2010, there were 61,500 VAT/ PAYE registered businesses in the Heart of the South West LEP area, of which 30,500 were in Devon.

Exeter had 5,000 active local units (VAT or PAYE registered) in March 2011 and the sector with the highest proportion of local units was the retail sector with 14% of the total. In

terms of employment size bands, 55% of Exeter businesses employ 0 – 4 employees but this is less than the 70% for Devon and 69% nationally.

In 2010, Exeter had 325 enterprises start-ups which was significantly fewer than the 460 closures in the same period.

Education and Skills

The greatest impact of ESPL on the local working population is likely to be amongst graduates. Whilst recognising the relevance of young people on apprenticeship schemes and the possibility of people with post-graduate qualifications being attracted to the Science Park, the UoE has compiled data which shows declining opportunities for its science graduates in Devon and the wider area:

Proportion of Science Graduates of the University of Exeter who are Employed within the South-West

	Full-time, First Degree, UK Graduates with known location of Employment		
	Total in Employment	Total Employed in South West	Proportion Employed in South West
2007/08	537	237	44.2%
2008/09	491	220	44.8%
2009/10	565	217	38.5%
2010/11	661	237	35.9%
4-Year Total	2,253	912	40.5%

Proportion of Science Graduates of the University of Exeter who are Employed in Devon

	Full-time, First Degree, UK Graduates with known location of Employment		
	Total in Employment	Total Employed in Devon	Proportion Employed in Devon
2007/08	537	88	16.5%
2008/09	491	83	16.9%
2009/10	565	73	12.9%
2010/11	661	76	11.5%
4-Year Total	2,253	320	14.2%

This highlights that despite the numbers of science graduates increasing fewer are being retained within the Exeter and wider south west region. Furthermore it has been established by the UoE that many more of its graduates wish to remain in the Exeter area following graduation but are unable to find suitable jobs. Clearly the growth of Science Park businesses will help to redress these imbalances.

Environmental Impact

Wide-ranging and detailed consideration of the environmental impact of the development and running of the Park has been undertaken. The SPC will be built so that it operates to BREEAM Excellent standards and the intention is to take full advantage of combining with other interested parties in the area to deploy broader environmentally-beneficial systems such as district heat and power, DHP, as already planned for Skypark and Cranbrook.

Further detail can be found on environmental strategies for both site construction and the future running of the Park and its transport infrastructure in a range of commissioned reports, notably reports from Parsons Brinkerhoff: “Outline Construction Environmental Management Plan” and “DCC Environment Statement”, both written in 2009.

Wider Economic Benefits

In summary the economic characteristics of the HoTSW LEP area are well-documented and present some challenges which transcend those facing the national economy. Exeter has a dependency on public sector employment and the effects of cut-backs are evident. The contribution of Exeter Science Park will be to build higher GVA jobs which are not dependent on the public sector or the rural economy. It should act as a stimulus to much-needed entrepreneurial activity and grow the number of job opportunities for science graduates. We show the impact of the SPC project on the existing economy in the Economic Impact section, below.

Market Context

The Science Park Model

Science parks are designed to support the start-up and growth of innovative, knowledge-based companies. They provide an environment where large, international businesses and small start-up companies can carry out research and innovation using specialist facilities and state-of-the-art equipment and where business support services are available to optimise commercial impact.

ESPL is a member of The United Kingdom Science Park Association, UKSPA, and until recently was represented on its Board. UKSPA was established in 1984 and recently reported that its members oversee:

20 million ft^2 (2 million m^2) of space which is built or under construction;
15 million ft^2 (1.5 million m^2) of let space;
3 105 Companies
66 000 jobs

ESPL is also a member of UK Business Incubation, UKBI, which has a correspondingly wide membership but a much smaller area of developed space. IT has 145 members who report an equal split between virtual and local tenants many of whom are at the pre-earnings period of the development. Whilst data is not collected from UKBI facilities quite as rigorously as for UKSPA respondents to a recent survey reported an average of 60 companies at each facility and 31 000 ft^2 (3 100 m^2) of lettable space.

Thus UKBI facilities are clearly much smaller than those for UKSPA members and it is also useful to note that whilst business incubation is a very broad church, members of UKSPA are usually governed by a tight definition of the companies which will be accepted on to a park. Criteria are focussed on demonstrating a high science/ technology content in the prospective tenant's business model – frequently enshrined in a "Gateway Policy" and ESPL is explicitly governed by these conditions in its planning requirements, Appendix II.

The Science Park Market

In principle a science park in Exeter is free to attract businesses from anywhere in the world providing they satisfy the gateway criteria: in reality any business moving onto the Park must have a clear idea of how it will benefit from being there. UKSPA records that across the UK some 60% of science park businesses have relocated from no more than 30 miles away, and just 10% result from foreign direct investment.

In terms of target sectors, as stated in Overview, above, ESPL is most likely to add value in sectors which are supported by an extensive, local industrial infrastructure and/ or the local knowledge base. ESPL commissioned a major independent market research study in 2009 to investigate the demand for science park accommodation and support services in Exeter. Interviewees included 3 companies from biosciences & systems biology, 5 from translational medicine & healthcare, 4 from climate change & environmental sciences and 9 from functional materials & photonics.

The main conclusions were that demand exists but in a finite and competitive market and qualified by the need for:

- Strong links with the University, the Met Office and the Medical School;
- Strong links with the Innovation Centre at the University;
- The UoE to develop its activities aligned with the Science Park;
- Shaping opportunities for linking with the Met Office through climate change research, utilization of super-computing facilities, working with modelling companies and linking in with data centres;
- A significant marketing campaign to position the Science Park both regionally and internationally to attract initial interest and to compete with other offers.

This was a qualified endorsement suggesting that growth will be steady rather than dramatic and emphasises the need to be quite clear how value will be added for organisations considering moving to the Park.

Segmentation

Three different scenarios were developed earlier based on the way in which occupants of science-parks tend to evolve as a community of collaborative activity. It is helpful to develop this thinking into a simple segmentation by grouping customers with similar needs and understanding how each segment – and thus a science park – adds value through each business model. This approach is simplified here but it enables a useful discussion on the work-place environment, facilities and support which represents value for each segment and suggests how some of this value might be captured by ESPL:

Virtual tenants based out-side of the Park but active in high-growth, science-based products and who recognise a value in being in relationship with the Science Park Centre and its networks;

Included in their fee will be: a telephone answering service; use of hot-desk/ hot office facilities including Wi-Fi, for a specified period per month; access to informal advice and signposting and the opportunity to buy business support services from the Centre at a preferential rate. These clients will be sensitive to costs but might move up to a full tenancy in the Centre as growth dictates.

Start-ups and small, young high growth companies which will value full service support as they develop strategy for commercialising their new technology;

They will use the full portfolio of services available from the Centre and its immediate network all included in the rental and they will pay additional charges if specialist services or extensive mentoring is bought in. Cash flow will be of prime concern and whilst they will enjoy a one month notice period the Centre should be prepared to be flexible on non-payment of rent. The Science Park business support team would be expected to gain a full understanding of the organisations' technologies and business models.

Larger, young high-growth companies and Foreign Direct Investment, FDI, companies: the larger, young high-growth companies will have weaned themselves off of intensive support and will be making progress with sales and funding for growth; FDI companies will have been encouraged to locate on the Science Park and might have been offered some form of so-called "soft-landing" package;

Both types of organisation will nonetheless value the networked environment and will use the Centre's services such as help with public sector funding applications from time-to-time; these companies will be managing a period of relative stability but would still expect a 3 month notice period and the opportunity to move seamlessly to bigger premises on the Park;

Established high growth companies and subsidiaries of multi-site operations which need business premises at a good value rent; such organisations will have little need for the Science Park services but they may have a relationship with the knowledge base and some of the networks operating from the Park. Their relationship with the Science Park is primarily about property and normal leases are likely to apply.

Enquiries to Date

Qualified enquiries received over the last 2 years are summarised as:

Ref	Sector	Origin	Details
1	Aerospace	Local	6 000 ft^2 Office & dry lab.
2	Bioscience	UK	Interested in networks!
3	Bioscience	Local	10 000 ft^2 Lab. and assembly
4	Bioscience	UK	1 000 ft^2 Office and wet lab.
5	Environmental	Local	2 000 ft^2 Office and wet lab.
6	Materials	Local	500 ft^2 Office
7	Educational	UK	2 000 ft^2
8	Medical	Local	Start-up device manufacture
9	Materials	Local	10 000 ft^2 dry lab.
10	Materials	Local	15 000 ft^2 dry lab.
11	Energy	Local	Start-up but Gateway unlikely
12	Energy	Local	Fail Gateway Policy
13	Bioscience	UK	Early stage dialogue with Uni.
14	Energy	Local	Fail Gateway Policy
15	Bioscience	Local	12 000ft^2 office and wet lab.
16	Bioscience	Local	Start-up wet lab.
17	General	International	Country-specific IP Support
18	Materials	International	Dry lab. and light fabrication

The Local Office Market

It is useful to consider the market for local office accommodation which will act as a reference point for defining rental rates in the SPC. The average annual uptake in the five years to end-2011 was 150,000 ft^2 per annum.

325,000 ft^2 of new stock has been built over the last 5 years. No new buildings were committed in 2008. Work started on site in 2009 at Exeter Business Park on a new 40,000 ft^2 HQ for ATASS and the first part (75,000 ft^2) of the Flybe Training Academy at the airport.

The easing of demand as a result of the current economic climate has meant that prime rents have fallen from £16.50 /ft^2 to £15.50 /ft^2 plus car parking for in town Grade A new offices and from £16.50 /ft^2 to £12.50 /ft^2 for out of town offices locations. Rents for Grade B space in secondary locations have fallen further to £10 /ft^2 and less. In the medium to long term, there is a substantial development pipeline East of Exeter with a number of office schemes with planning permission. These include Skypark (100 acres), Exeter Business Park (4 acres) and Matford Park (5 acres).

The current downward pressure on rental values and difficulties in obtaining finance means that developers are reluctant to commence construction on a speculative basis and are looking for pre-lets to kick start developments. However with a shortage of existing and new Grade A specification office space there is potential for pre-let or bespoke development as good quality stock reduces to a level where there are no available buildings to meet active requirements.

Quoting rents for new builds are £17.50 ft^2 and £220 ft^2 for freeholds subject to specification and in the case of leaseholds covenant and lease terms. There has been limited evidence of serviced land sales and no speculation–led development acquisitions. The site for the Flybe Training Academy comprising some 6.2 acres was sold by Exeter & Devon Airport Limited (EDAL) to Flybe for £145,000 (£23,400 per acre) unserviced in 2009.

The latest land deal has been a sale of 3.08 acres at Monkerton to Exeter College for £445,000 per acre plus servicing costs which produced an effective serviced rate of £606,500 per acre.

Whilst the market is difficult and there is a supply of Grade A space to be taken up a projected land value for the science park of £450,000 per net serviced acre can be used with the first receipt forecast for the phase one Science Park Buildings (Building 1) during the 2015/2016 financial year following completion of the Science Park Centre and two further Buildings (2 and 3) the subsequent two years on phase one. The land value devalues to £30 ft^2 on the gross internal floor area of the individual buildings and assumes a typical out of town land density of 15,000 ft^2 per net serviced acre.

Subsequent land sales are assumed to take place in the Science Park Cluster in phase 2a over the next two to three years. In floor area terms this is a total of 87,953 ft^2 over 7 years- excluding the Science Park Centre- which is an average in the region of 15,000 ft^2 per annum. A supporting demand statement and land value report by Jones Lang La Salle is attached at Appendix III Land Values.

The Local Hotel Market

There is still strong demand for Hotel bed space in Exeter particularly from the Budget Brands. Hampton by Hilton is on site at Exeter Airport adjacent to Flybe for a 120 bed hotel. Whitbread have opened a Premier Inn at St David's Station (103 beds) and have exchanged contracts on a site in Southernhay at Deane Clark House (120 beds) and a site off the Honiton Road (100 beds) adjacent to the Met Office. The Magdalen Chapter Hotel has now reopened with 59 refurbished bed-spaces spa and swimming pool and 10 bed-spaces in the Southernhay House Hotel both boutique offers.

Of the extant 600 bed-space demand previously reported there remains approximately 200 bed-spaces of demand with extant requirements from Travel Lodge, Holiday Inn and De Vere. The funding market for the higher quality options is very difficult as they are operated as Management Agreements.

In addition to the Science Park there is a consented site at Skypark and plans for a hotel at the Exeter Chiefs Sandy Park ground with conferencing facilities and also at Matford Park.

Land Values have varied considerably with the site at St David's selling for £2.0 million, the Flybe site at £1.50 million and a site at White Rock Paignton for £1.45 million. Whitbread have also acquired sites at Newton Abbot Camborne and Glastonbury for between £800,000 and £900,000. Site areas range from 1.50 acres up to 2.50 acres. The site for the Future Inns Hotel at Plymouth International Medical and Technology Park comprising some 3.0 acres sold for around £325,000 per acre. This has conferencing facilities.

The price agreed for the site off Honiton Road has not been disclosed and Whitbread have agreed terms to take a lease of the completed buildings in Southernhay. Whitbread had expressed interest in the Science Park site but the Premier brand was not considered to be of a quality to meet the Science Parks aspirations. They then diverted their interest to the Honiton road site where they could develop a Pub alongside.

The current interest in the Hotel site through Eagle One is expected to support a land value of up to £1.0 million. The expected date for this receipt is during the 2014 / 2015 financial year allowing for negotiation, legal work, planning and preliminaries.

Project Description

Exeter Science Park

Exeter Science Park is a 60 acre (25 Ha) green field site occupying a strategic location between junction 29 of the M5 and the A30. The site was acquired by DCC in 2008 using grant funding from SWRDA and the council obtained outline planning permission for 728,000ft^2 (67,713 m^2) of development and completed a S 106 agreement for the development in 2010. The masterplan for the site is attached at Appendix IVa Master Plan and Appendix IVb Master Plan Floor Space, which illustrate the high quality parkland and campus setting for the Science Park.

The primary infrastructure and landscaping on the park has been completed creating a series of serviced sites ready for development. In parallel with this DCC has completed a number of off-site infrastructure improvements including the remodelling of junction 29 and installing the Redhayes footbridge and cycleway across the motorway. The land acquisition, on-site infrastructure and off-site infrastructure represents a total investment in the region of £33 million and means that the first phase of the Science Park of 190,000 ft^2 (17,657 m^2) is now ready for development as well as enabling other developments in the East of Exeter Growth Area to proceed.

In addition DCC, ESPL and Eagle One are committed to bringing ultra high speed broadband to the Park where fast, resilient telecommunications and data-communications are more likely to be a hygiene factor – that is to say an order-qualifier with order-losing potential rather than an order-winner per se. However it will be important to specify and implement a system which acknowledges the commercial potential of levels of service such as guaranteed bandwidth as part of a charging strategy.

However it is possible that the Park might build a reputation for excellent datacoms as a function of the client base and a clearly superior service in the context of other local offerings. It is important to recognise that this perception would arise from factors in addition to the specification of the system to be installed!

The Science Park developers are collaborating with the Low Carbon Task Force to design a district heating system. The park infrastructure will be designed to take heat from the Energy Centre at Skypark or further centres at Monkerton/Redhayes when developed. The buildings on the park including the Science Park Centre will be enabled to take district heating when this service is available.

It is useful to consider the work underway by the “Low Carbon Task Force” which is a public-private body formed to reduce energy consumption in east Devon. Current activities include:

- The construction of the combined heat and power, CHP, plant at Skypark and installation of the first 8 km of an 80 km pipe network initially to serve Cranbrook which will make it the largest private sector CHP development outside of London;
- Houses are being sold at Cranbrook with heat exchangers instead of gas boilers;
- Exeter's Core Strategy with demanding low carbon targets and policies has been through its full public examination and is now adopted policy. East Devon's draft Local Plan has several more iterations to go, but will also set demanding standards;
- 250 photovoltaic units have recently been installed by EoN on ECC dwellings;
- Plans are being considered for the Met Office CHP plant and heat network to be extended to serve Monkerton residential and commercial properties and thereby make better use of surplus heat;
- The Tithebarn Green residential development should obtain consent with a CHP/ district heating network agreed and funded;
- The Task Force aspires to have a biogas plant for anaerobic digestion of food waste on the east side of the city;
- An energy-from-waste plant is under construction at Marsh Barton where the heat will be used by the consented commercial sites at Matford (46,500m^2 or 500,000 ft^2); by the Royal Devon and Exeter Hospital, the Civic Centre, St Lukes and the redeveloped bus station site.

Thus there is a greater imperative and synergies for the environmental performance of the SPC and Exeter Science Park as a whole.

Science Park Centre

The construction of the SPC is the subject of the bid for GPF. The building comprises 3 storeys of accommodation in two wings totalling some 31,900ft^2 (3,000m^2) and is stage one of the Centre which is planned to expand to a total of 58,300ft^2 (5,400m^2) with a later second stage. The plot allows for the creation of a quadrangle around an inner courtyard. Elevations are attached at Appendix Va and Appendix Vb Plan Elevations. The estimated construction cost of stage one, including professional fees, is £7.4m.

The building is designed to be largely naturally ventilated with mechanical ventilation to conference and laboratory areas, and with a range of engineering systems to reduce its environmental impact will achieve a BREEAM (Building Research Establishment Environmental Assessment Method) Excellent rating.

The SPC is to be built to Category A office standards providing a good quality asset. It will then be fitted out for innovation centre use following the UKSPA best practice standards and the experience of the new innovation centres in Exeter, Plymouth and Cornwall.

The ground floor has a wing devoted to communal spaces which are a vital part of the innovation centre design to encourage tenants to meet and use the support services. There is a full height atrium with reception, café and circulation space, café seating opening on to the courtyard and a seminar/conference room for 100 people.

The SPC will occupy a prime position within phase one of the Science Park fronting on to the high street and the new public square and adjacent to Science Park drive. It is important as the hub service building for the park that the SPC has this prominent location.

The layout plans for stage one are attached at Appendix VIa (Ground Floor), Appendix VIb (First Floor) and Appendix VIc (Second Floor). The remaining developments in the first phase comprise a 4 star 150 bed hotel and conference centre on the opposite side of the square to the SPC, and around 50 000 ft^2 (4,600 m^2) of Science Park buildings (including a 10,000 ft^2/ 900 m^2 net headquarters building for Eagle One) and communal parking spaces for the SPC and office buildings

The public realm and road layout provides a pedestrian friendly environment with buildings clustered around the square and fronting the high street and giving easy access for public transport.

It should be noted that the hotel is being specified to offer conferencing facilities for numbers greater than those provided for in the SPC and will also have a full restaurant service which will similarly complement that offered in the SPC.

Space has been allowed for the ESPL administration and a data centre and the remainder of the building will be subdivided into a range of small, medium and large units for tenants providing the a flexible range of accommodation from single desk rentals to a stand-alone unit of 3,000 ft^2 (280 m^2). The ground floor will be enabled for wet laboratory and workshop use depending on demand, with high ceilings and suitable floor finishes, three-phase power, specialist drainage and industrial gas supply, ducting for ventilation and fume extraction, and removable panels to allow installation of large pieces of equipment. The second floor is also enabled for additional lab space with space for ducting and access to roof plant. An external store has been provided for gas bottles, and there is a goods lift and loading bay accessed from the eastern service road.

There are 79 dedicated car park spaces for the SPC in the communal parking area.
The SPC is set in high quality public realm and landscaped space. The entrance and south wing front the public square and both wings wrap around the inner courtyard garden. The stage two area will have an interim landscaping until the extension is built.

The detailed planning application for the SPC was submitted in June 2012 for both stages of the SPC together with information to discharge the remaining conditions on the outline planning permission including archaeological and ecological studies. It is anticipated that the planning permission in granted in September 2012.

It should be noted that the Eagle One HQ building on phase one is at the same point of design and planning with permission also expected in September. This building is programmed to begin construction at the end of 2012 with completion in autumn 2013.

Capital Costs and Funding

The budget for the SPC has been prepared to Royal Institute of British Architects (RIBA) stage E (detailed design) and is supported by a cost plan prepared by Cyril Sweet Quantity Surveyors which can be made available. An overview of the capital costs for the SPC is set out below and more detail is found at Appendix VII Capital Budget:

Cost of the Science Park Centre building £ 7 400 000

Including:

- Common infrastructure works required to open the site, c.16% of build costs
- Parking for 79 cars
- Quadrangle courtyard
- Category A enhancements: gas flumes, gas store, goods lift
- Category B fit-out allowance @ £40/ sqft
- 5% project contingency
- £ 70 000 design contingency

Excluding:

- Tele-/ data-comms equipment for the Science Park Centre
- Additional temporary car parking
- Public square
- Temporary delineation of the edges of the quadrangle courtyard
- Fit-out of kitchen, cafe, seminar facilities
- Fit-outs for wet labs and similar
- Balance of Common Infrastructure Costs
- Design fees on Common Infrastructure/ Public Square

The £7.4 million project budget allows for the construction of the SPC to Cat A office standard and external areas plus a Cat B fit out of the communal space and office/workspace units and enabling works for the wet lab areas. Professional fees and contingency sums are included.

The funding package comprises £4.5m from the Growing Places Fund with the balance being provided by ESPL's shareholders: further Cat B fit-out will require additional grants and/ or loans.

The common infrastructure, landscaping and public realm for phase one of the Science Park which surrounds the SPC site will be delivered by Eagle One under their development agreement and will be funded proportionately by ESPL and Eagle One and DCC using a S106/ common infrastructure loan obtained from the HCA.

Specialist Fit –out and Public Realm Surrounding the SPC

The budget currently excludes a series of options to make the centre fully operational including ICT equipment, kitchen and seminar fit out, laboratory fit out, furniture etc. ESPL will aim to share some of this cost with the University as the operator of the Centre but further external funding will be required to make the SPC fully operational.

There is also a series of public realm and landscaping works in phase one of the Park including the public square, which will enhance the setting and visual appeal of the Centre. ESPL aims to share this cost with Eagle One the phase one developer but again seeks further external funding towards this including the possibility of Regional Growth Fund monies from a programme bid.

Land Sales and Phasing of Development

As already mentioned the project costs, ESPL costs and the loan repayments will be funded by land receipts from DCC's land ownership in phase one and phase two of the Park. The repayment schedule relating to GPF is included in the Finance chapter, below, and a schedule of all land sales can be found under section GPF Payments & Repayments, below.

Eagle One and DCC have identified the opportunity for a land swap with cash incentive of some 4 ha which, subject to planning permission being granted for the adjoining Tithebarn lane land (owned by Eagle One) for residential use, would bring an additional land receipt into the project development account. The land swap would exchange the Langaton Lane cluster in phase two of the Park for the Eagle One land immediately adjacent to phase one of the Park.

This land swap still has to established as being in the best interests of ESPL – and agreement on this is not required in the near future - but has been assumed to be completed in 2017/ 18 in the funding model presented here.

Asset Values

Jones Lang LaSalle has been retained by ESPL and has provided the following advice on the asset values involved:

DCC Land

The freehold of the 1.10 acre site for the SPC is to be transferred at a nominal value of £1.

Parking for the SPC will be in the communal area opposite and the right to park the spaces allocated to the SPC will be demised and subject to an Estate Charge to cover the costs of maintenance, lighting and security.

Based upon the restricted use for B1 b) Research and Development, the gateway policy and the lease terms with the University a residual development appraisal does not generate a positive land value, hence the nominal transfer cost.

Notwithstanding there is evidence in the market to support land values for owner – occupiers development as outlined above (e.g. Flybe, Exeter College and Atass) an open market residual appraisal for an open B1 (office) development built speculatively is not viable at current best market rents achievable out of town for existing stock in Exeter of £12.50 / ft^2.

Currently office development is only viable on a pre-let or forward sale basis with rents in the range of £16.50 to £17.50 / ft^2 and assuming an institutional FRI lease for a term certain of 15 years and a strong tenant covenant. On a forward sale the base price for viability is in the range £200 to £220 / ft^2 NIA. In these scenarios it would generate a land value of between £500,000 and £650,000 per acre.

SPC Site Value

The value of the SPC is relevant to the trading relationship between ESPL and the Operator appointed to run the Centre and Jones Lang Lasalle provides the following commentary on valuations:

SPC Asset Value (on completion).

The core asset value of the SPC is with vacant possession on completion and fitted out as an Innovation Centre. This assumes that the SPC is constructed to BREEAM Ex and has a restricted planning use for B1 b) Research and Development and subject to the Gateway Policy which determines the suitability of the tenants for the Science Park.

We have considered the sales of the following offices buildings in the market:

- Unit 1 Capital Court (12,161 sq ft) – Sold in 2009 to South West Telecoms for £150 / ft^2.
- Unit 4 Capital Court (8,244 sq ft) - Sold in 2011 to Taylor Wimpey for £112 / ft^2.
- Camberwell House Exeter Business Park (8,000 sq ft) – Sold to Atass in 2012 for £155 / ft^2.
- Oxygen House Exeter Business Park (40,000 ft^2) – Sold to Atass in 2012 for £220 / ft^2 (base CAT A cost).
- Viridor Taunton (21,950 ft^2) – Sold in 2012 at 7.33% (£219 / ft^2) fully let.
- Senate Court Southernhay (33,500 ft^2) – Under offer in 2012 at 8.50 % (£189 / ft^2) fully let

Having regard to the evidence and applying a discount to reflect the restricted user but also a credit for the fit-out cost which is being underwritten by the tenant. Jones Lang LaSalle consider that the SPC would achieve a price of circa £3.0 million which equates to just under £115 / ft^2 on the net internal floor area of 26,545 ft^2.

If let to the University on a traditional lease for a term of 15 years certain at an initial rent of £10 / $ft^2$the investment would generate a similar value after allowance for rent free / capital incentives and purchasers normal costs.

The terms discussed with the University are on a profit rent basis without a minimum rent payable. The University will fund the fit out and the operating deficit until the building makes a surplus projected in Year 6 as a commitment under the terms of the Lease. JLL advise that the profit rent should be subject to a guaranteed minimum payment in order to secure a return for the Landlord.

There is no evidence in the market of demand from the operators to run an innovation centre on better terms as is evidenced by the Yeovil, Pool and existing Exeter innovation centres. In these cases the centres are run by public sector funded operators which shows the inability to attract commercial operators willing to pay a market rent and fund fit-out and deficits.

The profit rent assumptions are based upon the revenue forecast produced by ESPL which shows a deficit until year 6 and thereafter a nominal surplus which makes it very difficult to put a value on the proposed lease.

In conclusion, therefore Jones Lang LaSalle considers that the inherent value of the SPC is with vacant possession and that the figure of £3.0 million should be adopted as the appropriate base line.

Finance

A series of linked cash flows and accounts are attached at Appendix VIII GPF Cashflows, which illustrate the financing of the Science Park and Science Park Centre, specifically:

Project development account – DCC as freeholder is the accountable body for this and it will receive all the land receipts and other income such as service charges from Science Park tenants. DCC will fund the ongoing estate management, development costs such as S106 and service charges from the account and will pass the surplus to ESPL for Science Park operations and future capital investments. The development account is also the mechanism for receiving long-term loans and/ or grants from other bodies such as the HCA.

ESPL account – this covers the operating costs of the company and its capital investment including construction of the SPC. Income is principally from the Development Account surplus plus shared surpluses/ rent from the SPC operator.

SPC account – this is the projected cash flow provided by the operator managing the SPC and will be zero during the start-up period when the operator is funding the SPC operating losses.

Project Development Account

This account includes all land receipts and other income such as service charges from the science park. DCC as freeholder is the accountable body for this account on behalf of ESPL the beneficiary of surpluses from the account. DCC will fund ongoing estate management and property development costs from this account then pass the surplus to ESPL to fund the company operating costs, repayment of loans such as GPF and future capital investments and service improvements for the Science Park.

Income

Income to the account is derived principally from land sales. These are treated as being capital lump sums from 999 year leasehold sales. In total, over the 30 year development period some £14.25 million is forecast as being received from land sales at current prices.

A further receipt of £1.5 million is planned for the land swap incentive from Eagle One but not before 20017/18 to reflect the uncertainty of a mutually beneficial agreement being reached.

Other receipts include some £635,000 advanced as a loan from the HCA towards phase one Section 106 costs and common infrastructure. This loan is very long term and interest-free and therefore is not shown in the cash flow model. Repayment is envisaged from any overage generated by high land sales value or the possibility of the conversion of the loan into grant.

A receipt of £1.55 million is also shown from Eagle One in respect of the Section 106 Highways contribution, principally for the phase three link road behind the Science Park and to reflect the benefit that is anticipated from the residential use of the adjacent Tithebarn Lane development. Eagle One will make a contribution to DCC at this level which discharges their contribution to infrastructure costs for their phase 2b land. At present this Section 106 obligation falls to the Science Park but memoranda of understanding, MoUs, have now been concluded between DCC, the Cranbrook Consortium and Eagle One for the developers to fund this link road to release capacity for their expected residential developments.

Finally, the account benefits from income receive from a service charge at 70p / ft^2 that will be charged on the gross floor space for all built development

Expenditure

The main expenditure items shown in the cash flow are for S106 payments, estate management costs recovered from the service charge, part payment of the service charge to the SPC operator for innovation and business support services they will provide to all Park tenants and surplus payments to ESPL.

S106 costs included are some £2.29 million. DCC are due to pay this under an agreement dated 11/3/2010 and payments are triggered by the development as follows:

Facility	Payment	Timings
Bus services	£525,000	5 annual payments of £105,000 from 1st occupation
Car Club vehicle	£10,000	On commencement phase one
Ph3 link road	£100,000	Design cost on demand, assume one year pre-delivery
Highways	£1,555,000	3 annual payments on commencement phase two
Trip Mitigation	£100,000	£5 per trip on demand, assume from phase two over 10 years

It is assumed that Eagle One will meet the highways contribution and this is shown as a receipt to the development land account.

Some £15.14 million is shown as being paid from the development account to ESPL. The timing of payments reflects the funds available in the development account based on net land sales after costs. The detailed cash flow is included at Appendix VIII.

Exeter Science Park Limited

The organisation and role of EPSL is more fully discussed in the section on Organisation and Management, below. ESPL will be responsible for the operation of the SPC but will contract this to the UoE and its subsidiary Peninsula Innovations Limited and will receive revenue based on the surpluses generated once initial operating deficits have been cleared.

Income

The two sources of revenue for ESPL are from surpluses received from land sales through the development account and from a share of the surpluses paid by the operator.

Estate management service charges will also be received on transfer of the full estate and the closure of the development account. These are based on gross development floor space and are charged on completed developments at £0.70/ ft^2. No net income from estate management service charges is shown in the first 10 years.

Operator contributions are determined from the business plan for the SPC. Contributions do not start until year 8 as the Centre operates in deficit in the early years and then steadily clears the accumulated deficit.

Other capital inflows will be from ESPL shareholder funds, GPF loan drawdown, anticipated Regional Growth Fund, RGF, grant towards additional specialist fit out and a bank overdraft/ loan or other forms of short-term funding as required over the first 14 years.

ESPL has some £2.8 million of shareholder funds that is shown in the cash flows as contributing towards the costs of stage one of the SPC.

GPF funds of £4.5 million are shown as income in the cash flow, with repayments shown under expenditure.

Some £15.14 million is shown as income from DCC in respect of surpluses transferred from the development account. Some £6.1 million is shown up to year 12.

ESPL has submitted information in support of 3 separate RGF programme bids (HoTSW LEP, East of Exeter Growth Point and Set Squared). The cash flows reflect receipt of grants totalling £ 600 000 from one or more of these bids, matched by offsetting expenditure for fit out. In the event that one or more grants are not forthcoming, ESPL will look to the operator and tenants to meet the funding requirement but this is likely to reduce the speed at which space is taken up in the SPC.

Expenditure

Estates Management costs are only shown as an ESPL direct responsibility once the remaining undeveloped land is transferred to ESPL. There is no cost to ESPL in the first 10 years.

An element of the service charge (30p / ft^2) is paid to the Centre operator in order to support central facilities such as cafe, seminar facilities and breakout space which might be used by stand-alone clients but will nonetheless require their financial support as supporters of the Science Park concept, and this is shown as a payment in the cash flow. There is cost to ESPL in the first 10 years.

Operating costs, including staff, legal, consulting costs and marketing costs are all included in the cash flow: the total cost up to year 12 is £2.248m.

Repayments of the £4.5 million GPF loan and associated interest (shown at a maximum of 2%) is included as a cost incurred up to year 12.

Science Park Centre

As stated earlier the UoE will be responsible for running the SPC and will appoint its operator Peninsula Innovations Limited to manage the facility. It will take full responsibility for the operating costs including funding for some Cat B fit-out and any deficits ahead of optimum occupancy levels. Once breakeven has been reached and cumulative deficits have been cleared then the operator will share in surpluses with ESPL according to formal agreement.

Therefore whilst detailed costings for operating the SPC have been compiled the impact on the financial position of ESPL is not manifest until the surpluses are shared and this is assumed to be in year 7.

GPF Payments & Repayments

ESPL is committed to providing capital funding for the difference between the cost of the SPC and the anticipated GPF funds. In order to leave ESPL with a small amount of working capital for 2012/ 13 operating costs the contribution has been determined at £2.9m with a GPF funding requirement of £4.5m based on capital costs of £7.4m.

GPF drawdown is assumed as follows:

Period	Financial Year	GPF Loan Drawdown
Q1	2013/14	£ 900,000
Q2	2013/14	£1,350,000
Q3	2013/14	£1,575,000
Q4	2013/14	£ 675,000
	Total	£4,500,000

The land value receipts required to repay the GPF loan are as follows:

Cluster	Site	Gross Floor Space ft^2	Gross Receipt	Year
Phase one	SP Centre	31,680	-	2012/13
Phase one	Hotel Site	78,318	1,000	2014/15
Phase one	Building 1	9,000	270	2015/ 16
Phase one	Building 2	17,400	520	2016/ 17
Phase one	EO Land Swap	4 Ha	1,500	2017/18
Phase one	Building 3	15,000	450	2017/ 18
Phase two Science Park cluster	Building 1	13,670	410	2018/ 19
Phase two Science Park cluster	Building 2	7,911	240	2019/ 20
Phase two Science Park cluster	Building 3	5,274	160	2020/ 21
Total			4,550	

Loan Terms

Sufficient land receipts are forecast to repay the GPF loan plus interest by 2026/ 27.

The timing and magnitude of receipt of the proceeds from land sales is subject to uncertain market conditions and therefore the proposal is to repay the loan in full with rolled up interest at the end of the loan term in 2027. In the event of insufficient land sales to cover operating costs and to repay the loan the repayment is guaranteed in principle by the shareholders subject to more detailed negotiations.

Conversely if land receipts exceed the forecasted profile modelled here then repayments can be made to the GPF in advance of the plan and the magnitude of early repayments will be determined by the net funds available once estate and ESPL operating costs have been deducted. By adopting this approach the GPF is asked to share the down-side and up-side risks of the phasing of the repayments as a function of the rate of land sales whilst not risking the repayment of the loan in full.

The legal arrangements for the shareholders guarantee are covered in the chapter on Organisation and Management, below.

Security

As stated the shareholders are willing to guarantee repayment of a GPF loan. However this is subject to negotiated details such as the maximum amount of interest payable over the guarantee period and shareholders can be asked to support detailed terms as they emerge from discussions between the HoTSW LEP and ESPL.

Economic impact

Employment/Jobs

Science Park

The overall potential for employment within the Science Park has been determined using the OffPAT/HCA employment density guidelines issued in 2010. The main employment density factors used are 1 FTE job for each 12m^2 of net floor space or for 3 hotel bedrooms.

Total employment accommodated within the development is calculated at 4,030 FTE on this basis.

Additional employment is determined from assumptions on what would have occurred on the site in the absence of a Science Park (the Reference Case). Here, the use assumed is a Country Park hotel and golf course as this was the only permitted existing use prior to the outline consent for the Science Park. (A country house had existed at Redhayes but was burnt down). 100 FTE jobs are assumed for such a facility, giving gross additional jobs of 3,930.

Net additional jobs are calculated after taking into account leakage (jobs provided to people living outside the Exeter and East Devon growth point target area), displacement (jobs displaced from elsewhere within the growth point) and multiplier effects (supply chain, employee spending etc at both local Exeter and the wider regional level).

For the Science Park assumptions for leakage are tested at 25%. Displacement effects are tested in the range of 20% to 40%. Local multiplier effects are similarly tested in the range of 1.3 to 1.5, and regional multiplier in the range 1.5 to 1.7.

For the Reference Case assumptions for leakage are assumed at 10%, displacement effects 40%, local multiplier at 1.3 and regional multiplier at 1.5. Net additional jobs in the Reference case are determined at 81.

The results are summarised in the table below:

	Reference Case	High Range	Low Range	Additional High	Additional Low
Gross	100	4,030	4,030	4,030	4,030
Local	70	3,143	2,720	3,073	2,650
Regional	81	3,627	3,083	3,546	3,002

The resulting net additional FTE jobs from the above indicate a range of 2,650 to 3,550 additional FTE jobs when the Science Park is fully developed.

The jobs on the Science Park are indirect, in relation to the GPF funding, but are as a result of the catalytic effect of the SPC stimulating jobs on the rest of the Park. The direct jobs resulting from the GPF loan are shown below.

Science Park Centre

Employment in the Science Park Centre is calculated at 205 on full occupation. However, the Centre is forecast to achieve 85% occupancy as maximum or 174 jobs. These build up over the first 4 years of operations. By year 5 some 136 additional jobs in the regional economy will have been created in the Science Park Centre.

Construction Jobs

In addition to the employment within the developments there will also be employment in construction jobs. To determine the potential investment in construction this has been calculated based on £230 per ft^2 as for the Science Park Centre. In total, some 729,000ft^2 of gross floor space is proposed giving a total investment in construction of £167m.

This amount has been entered into the Regional Accounts Econi economic model operated by the South West Observatory. The model shows initial FTE employment of 1,777 with total FTE employment of 3,488. It is assumed that the FTE in the model for construction is construction person years, and it is accepted practice to equate 10 construction years to one FTE permanent job. This would give additional construction jobs of 167 to 329.

The phase one and phase two developments in the next 10 years that generate the funds to repay GPF provide some 244,807ft^2. The associated construction cost is estimated at £56m. The construction jobs associated with GPF funding in the phase one and phase two developments is similarly determined at 60 initial FTE and 117 FTE overall.

The construction jobs associated with GPF funding for the SPC is similarly determined at 8 initial FTE and 16 FTE overall.

Skills

There are a number of strands to consider in terms of the Skills requirements and support for the SPC.

The Exeter and Heart of Devon Employment and Skills Board are leading a working group to consider all the skills elements of the growth point - both during and post the construction programme. Once the work of this group develops it will become clearer which members of the partnership can lead on different elements. Initial lessons can be learned from the construction that has already taken place within the growth point, and early engagement with the contractors is essential to influence recruitment of local labour, and encouragement to recruit apprentices. Wherever possible it would be preferable to secure local employment opportunities as a part of this project, and there is a role to provide a 'match-maker' service between developers and local training providers and other partners (e.g. Job Centre Plus).

In terms of the skills required for the Jobs within the SPC - we need to acknowledge that we won't know for sure what these will be until we know more specifically the types businesses that will be located within the centre. The DCC skills strategy will take account of the development of the Science Park with a view to providing intelligence about the potential businesses and jobs, and therefore the skills requirements. The concept of a 'skills shop' may be something that could be considered at the outset to support businesses and the workforce. It could act to bring together the common skills requirements of the businesses based within the centre and source appropriate solutions. It could also act as the 'shop window' and facilitator for job vacancies.

Influencing Educators - A project such as Science Park should be seen to be encouraging the retention of local talent, and this needs to start as early as possible. DCC has already commissioned some activity to provide careers information to teachers across Devon - recognising that they have a valuable role to play in educating young people and their parents about the opportunities available to them. As part of this activity there will be 1/2 update sessions and the opportunities around the growth point and Science Park will be showcased.

Assumptions can be made about the net additional occupation profile for the Science Park to compare with the profile for 2011/12. The following table illustrates the changing skills profile:

	Exeter Profile 2011/12 %	ESP Estimated Profile %	30 Year Regional Net Increase as % of 2011/12	10 Year Regional Net Increase as % 2011/12
1 Managers, directors and senior officials	7.9	16.0	12.6	3.4
2 Professional occupations	20.4	35.0	10.6	2.9
3 Associate professional & technical	14.7	30.0	12.7	3.4
4 Administrative & secretarial	8.4	7.0	5.2	1.4
5 Skilled trades occupations	5.6	2.5	2.8	0.7
6 Caring, leisure and Other Service occupations	13.3	0.5	0.2	0.1
7 Sales and customer service occupations	11.4	5.0	2.7	0.7
8 Process plant & machine operatives	5.5	0.5	0.6	0.2
9 Elementary occupations	12.8	3.5	1.7	0.5

The 3,650 net regional additional jobs at the Science Park represent an increase of 6.2% overall on the 2011/12 employment profile for Exeter. For the next 10 years the 980 additional jobs the figure is 1.7%. The increases assumed for Groups 1 to 3 should raise the overall skills levels for Exeter, as well as average workplace earnings.

Assuming Groups 1 to 3 possess NVQ level 4 qualifications, Groups 4 to 6 possess NVQ level 3, Groups 7 and 8 NVQ level 2 and Group 9 NVQ level 1, then the overall change in net additional regional employment as a result of the Science Park is illustrated in the following table:

	Exeter Profile 2011 %	ESP Profile Final	30 Year net Regional % Increase on 2011	10 Year net Regional % Increase on 2011
NVQ4 and above	34.1	81.0	11.0	3.0
NVQ3 and above	56.3	91.0	7.5	2.0
NVQ2 and above	73.3	96.5	6.1	1.7
NVQ1 and above	86.2	100.0	5.4	1.5
Other qualifications	#	0	0.0	0.0
No qualifications	8.9	0	0.0	0.0

Apprenticeships

Construction Framework South West (CFSW) contractors agreed in October 2010 to a target of 2% of the workforce to be engaged as apprentices (the national average is estimated at 1%). It is suggested that clients build targets in to the mini competition part of the project tender to require this level of apprentices to be deployed.

The above current target is specific to CFSW.

If a more stretch target were to be desired then the following could be considered - CFSW is bringing the Construction Industry Training Board (CITB) 'Client Led Approach' to the attention of its framework users. As such DCC is piloting use of the CITB Apprentice Approach on its Exmouth Schools Expansion project.

The CITB Client led approach has been developed nationally with contractors to ensure that it is practical and is designed to help public bodies support training and workforce development in the construction sector and is led through demand. The client based approach is not too onerous and a toolkit is provided to public bodies that have been granted Skills Academy status to embed and deliver training in an achievable and sustainable manner.

There is a matrix of relevant and achievable targets according to project type and these CITB targets could potentially be used as a second pilot for the Science Park project

Local Labour

All CFSW contractors have signed up to the CFSW Environmental and Sustainability Standards which includes a target for 76% of the supply chain workforce to live within 50 mile radius of site. The postcode of each operative taken at induction is used to determine this.

Earnings

Average full time workplace earnings in Exeter in 2011 were £484.60 per week or £25,200 pa. No split over occupations is available but by estimating average earnings for each occupation to agree to the average, a profile of additional earnings for the Science Park can be derived. The following table shows the assumptions and results:

Earnings	Exeter 2011 FT workers No	Exeter Estimated Average Earnings Pa £	ESP 30 Year Additional regional earnings £m	ESP 10 Year Additional regional earnings £m
1 Managers, directors and senior officials	4,600	50,000	29.1	7.9
2 Professional occupations	12,000	42,000	53.3	14.4
3 Associate professional & technical	8,600	31,000	33.8	9.1
4 Administrative & secretarial	4,900	16,500	4.2	1.1
5 Skilled trades occupations	3,300	17,500	1.6	0.4
6 Caring, leisure and Other Service occupations	7,800	14,800	0.3	0.1
7 Sales and customer service occs	6,700	15,000	2.7	0.7
8 Process plant & machine operatives	3,200	14,500	0.3	0.1
9 Elementary occupations	7,500	10,000	1.3	0.3
	58,600		126.4	34.2
Average pa		£25,197	£34,843	£34,847

Average earnings for occupations at the Science Park are some £34,800 pa or 40% above the Exeter average. The effect of such higher wages ought to translate into higher average workplace earnings for Exeter as the Science Park is developed and occupied as a result of the higher skills levels and nature of employment.

Residence based earnings would also increase, although the commuting patterns indicate that these would be lower than workplace based earnings. The Science Park lies in East Devon and with the new housing developments at Cranbrook and Tithebarn Green, it can be expected that East Devon will see a significant rise in residence based earnings over the life of the development.

GVA

	Science Park Centre over 10 year £m	Science Park GPF Associated 10 Years £m	Science Park 30 Years £m
Capital investment	8	56	170
Earnings	4	34	126
Total	12	90	296

Private Sector Investment

The above reveals overall investment in construction of £56m in phases one and phase two associated with GPF funding and some £167m in total construction on completion of the

Science Park. In addition to construction costs it can be expected that occupiers will also invest in plant, equipment, furniture etc. There are 64 buildings planned on the Science Park when complete, including the hotel. Assuming only £20,000 per building would imply additional investment of £1.6m and the requirements for laboratory space are likely to be higher, as will be the hotel, where fit out at £5,000 per room could be expected. This would further increase the investment to over £170m.

The investment in phase one and phase two would similarly be £56m.

The total GVA for Devon CC in 2009 was £12,167 million (latest figure available).

The Science Park investments could be said to increase GVA as follows:

Over the 30 year life of the Science Park the additional GVA would represent a 2.4% increase on Devon's GVA in 2009.

Wider Economic Benefits

The following have been identified and are now being reported in connection with the Growth Point. In total some £73m of public investment has been identified to date with the potential to lever over £2.5bn of private sector investment. Further public investment will be required in transport, schools etc. A recent study identifies a further £286m of public investment in infrastructure in the Growth Point to assist in the delivery of 20,000 homes and 8million square feet of non-residential development to 2026.

	Public Sector investment	Private Sector Investment
Junctions 29 & 30 M5	£14.5m	
Redhayes Bridge	£5.5m	
Clyst Honiton Bypass	£4.8m £3.0m (RIF)	
Cranbrook		£1.75bn
Main Local Route	£4.0m (RIF)	
Primary School	£5.0m (RIF)	
Multi Purpose Building	£1.5m	
Low Carbon Infrastructure	£4.1m	
Affordable housing	£16.6m	
Airport Expansion		£120m
Flybe Training Academy	£7.2m	£15m
Energy Centre		£30m
Skypark		£210m
Exeter Gateway (IMF)		£150m
Exeter Science Park	£18.5m	£175m

Delivery

Programme

The proposed timetable for the SPC is as follows:

Project Stage	Timescale
Reserved matters planning application submitted	May/June 2012
Planning approval	September 2012
Contractor procurement	September 2012 – Jan 2013
Start on site	Spring 2013
Building completion	December 2013
Fit out completion	Spring 2014
Centre operational	April 2014

A detailed programme for the construction programme is attached at Appendix IX.

Project Milestones

1. Complete Science Park funding agreement between the shareholders and landowner – September 2012
2. Complete GPF loan agreement – October 2012
3. Acquire freehold plot for SPC – December 2012
4. Sign operational lease with the University – January 2013
5. Sign construction contract – spring 2013
6. Appoint operator 12 months before opening SPC - April 2013
7. Review operator performance against objectives - April 2015

Key Partners and Delivery Roles

Exeter Science Park is a partnership project between landowner DCC, Eagle One (the developer of phase one), and ESPL which is responsible for strategy, marketing and Science Park services and operation. ESPL will:

- Be responsible for delivering the SPC and will work with a number of key partners and advisers to achieve this.

- Be the owner of the SPC building and will be responsible for delivering its economic outputs via the operator agreement and lease with Exeter University. The legal status of ESPL and its shareholders is covered in the next chapter on management and organisation

- Manage the Gateway Policy for the Science Park and SPC which ensures all tenants and occupiers comply with science and research use

- Prepare the strategic business plan for the Science Park and is responsible for marketing the project alongside Eagle One as phase one developer and the University as the SPC operator.

- Utilize the surpluses from the project the Development Account for the Science Park which contains the land receipts and other project income. This is used to fund estate management of the park, company running costs, repayment of external loans, and future capital investments in the park.

- It is responsible for the Science Park, innovation and business support services on the park including the SPC service

In the longer term ESPL will become the freeholder of the park and responsible for estate management. The Board of ESPL (see next chapter for details of Directors) is supported by an officer group which undertakes the company's executive functions and the delivery of the Science Park and Science Park Centre projects –

Gerry Shattock	Business Development Manager, ESPL
Sean Fielding	Director of Research and Knowledge Transfer, UoE
Keri Denton	Head of Economy and Enterprise, DCC
Ian Thompson	DCC adviser on the Science Park
David Harbottle	Development Manager, Eagle One

The shareholders in ESPL are DCC, Exeter City Council, EDDC and the University of Exeter:

Shareholder	No. of Shares	Science Park Board Member
Devon County Council	14,491	Keri Denton
University of Exeter	6,217	Sean Fielding
Exeter City Council	6,217	Richard Ball
East Devon District Council	2,063	Graham Godbeer
Total	28,988	

In addition note that Prof Sir William Wakeham, as Chairman, and Prof Sir Robin Nicholson are both independent Directors of ESPL.

The Met Office is a partner with ESPL and observer on the Board. Some of the shareholders have specific responsibilities outlined below, but more generally the shareholders contribute time and resources from their economic development and enterprise departments to support delivery of the Science Park project.

EDDC through the Growth Point management team co-ordinate PR opportunities notably through local television and press and through site visits. They also drive some of the Low Carbon Task Force awareness-raising and management co-ordination.

ECC run Direct Investment campaigns and have brought together local business leaders to develop marketing messages for Exeter within which the Science Park is clearly acknowledged. ECC is also working closely with the LEP on FDI and they had a senior member of the Council serve on the UK Science Park Association national executive.

Met Office

The Met Office supports the development of Exeter Science Park. Employing some of the world's top weather and climate scientists, it develops products and services for the public, governments and companies across the world. The Science Park will bring new start-ups and new scientists to the area and there will be opportunities for them to work on some exciting collaborative projects with staff at the Met Office.

Devon County Council

DCC is the freeholder of the Science Park land and has provided the primary infrastructure to the site. In addition to being the major shareholder in ESPL DCC will undertake the following roles:

It will act as the construction agent for the SPC on behalf of ESPL to procure the building. It has considerable expertise in managing capital projects and will be using the SW Construction Framework to procure the building. This Framework is an established and award-winning construction panel framework managed by DCC and used by local authorities in the region and their partner organisations for procuring capital projects. It provides tested methods for reducing risks for the client and improving cost certainty. A contractor will be appointed early in the next period of detailed design to work with the client and professional team on specifications and employers requirements which improves design and cost certainty during the detailed tendering and pricing periods.

It will carry out the estate management and property development functions for the Science Park and be the accountable body for the Development Account on behalf of ESPL.

It will manage the existing development agreement for phase one with Eagle One and negotiate the development agreement(s) and land disposals for phase two of the park. DCC has been managing the property function since 2008 and has the resources and expertise to undertake this. Ian Thompson currently leads the property function supported by the in-house legal, finance, construction and property teams at DCC. Ian is a Chartered Surveyor and formerly Director at South West Regional Development Agency, SWRDA who set up the Science Park project with DCC and ESPL.

The University of Exeter

UoE is a shareholder in ESPL and in addition will be the operator of the SPC in conjunction with Peninsula Innovations Ltd which operates the existing Innovation Centre on the University campus. The University and ESPL will agree a 15 year lease or service level agreement which will delineate the services and outputs required in areas such as:

- Types of accommodation offered
- Ranges of business support
- Employment growth targets
- Marketing communications strategies

The University Innovation Centre is currently 85% occupied across 40 000 ft^2 (4 000m^2) in spite of losing some tenants to city centre sites over the last 18 months (and then filling this space with new and expanding clients). The UoE recently joined the Set Squared affiliation of Bath, Bristol, Southampton and Surrey Universities working together on commercialisation of technology from the knowledge bases. The Innovation Centre management team has become heavily involved in Set Squared thereby broadening its influence both in terms of connectivity with prospective technology partners and accessing finance for clients.

Sean Fielding is the lead for the UoE on the Science Park and SPC projects.

Eagle One

Eagle One (formerly Rockeagle) signed a development agreement in 2008 to develop phase one of the Science Park comprising of the hotel, Science Park buildings, an Eagle One HQ building and the public realm and car park areas. Developments can be brought forward on a speculative or bespoke basis and land receipts are paid into the DCC/ESPL Development Account. David Harbottle, Development Manager, is the lead for Eagle One on the Science Park supported by Jon Symons the Director of Construction. Eagle One also provides the project management service for the planning and design programme of the SPC project for ESPL.

Eagle One owns 11 acres (4.5 ha) on the second phase of the Science Park, in addition to owning the Tithebarn Lane land adjacent to the eastern boundary of the Science Park which is scheduled for residential and mixed use development. This will also contain the phase three Link Road which allows the full capacity of the Science Park to be developed (see further detail in the chapter X on legal and ownership).

Eagle One have considerable experience in business and commercial development with a broad range of strategic land holdings for commercial, residential and leisure development with the majority of these holdings being held within the South West.

They are a privately owned property company set up in 1984, led by Managing Director Paul Goodes who joined the group in 1990. Today, the Eagle One Group consists of 30 employees, with its headquarters in Exeter and offices in Bristol, Ringwood and Salisbury.

Their commercial development team of surveyors has been responsible for many landmark buildings and projects throughout the South West (involving land assembly/ planning/ funding/ completed building procurement) with a few notable examples in the region listed below:

- Pynes Hill Office Campus, Exeter
- Exeter Business Park (1990 – 2008 – David Harbottle – 1 million sq ft)
- Langage Office and Industrial Park, Plymouth
- The Showground, Bridgwater (Industrial and Showrooms Park)
- The Senate and Senate Court, Southernhay Gardens, Exeter (David Harbottle - Joint Venture with Valad – 105,000 sq ft)
- 3 Temple Quay, Bristol (100,000 sq ft offices)
- Met Office, Exeter – land assembly and Outline Planning Permission (Nick Hole / David Harbottle)
- Matford Park, Exeter
- Aztec West, Bristol – new 100,000 sq ft office for Atkins

Project Management is undertaken within the Group through Eagle Land, under the leadership of Jon Symons, who has been responsible for project management/building procurement for a number of the projects listed above and is currently project managing a 100,000 sq ft headquarters building in Bristol for Imperial Tobacco.

Homes and Communities Agency

The HCA has inherited the 2008 SWRDA grant agreement for the Science Park project. This provided DCC with £18.6m of grant funding for land acquisition and infrastructure. The HCA have recently provided a £635k loan to DCC to cover the S106 costs for phase one of the Science Park. The HCA is an active partner in the project and more widely in the East of Exeter Growth Point Area and will retain an interest through being a signatory to the new shareholder funding agreement. Ian Knight, the Head of Area, is responsible for their work on the Science Park and Growth Point Area.

East of Exeter Growth Point Team

Andy Wood as Director of the Growth Point Team provides regular support to the Science Park project advising on our contributions to the strategic planning and infrastructure requirements for the Growth Point Area, external funding opportunities such as RGF and broader environmental strategies such combined heat and power/ district heating.

SPC Project advisers to ESPL

Legal advisers – Burges Salmon, Bristol (Phillip Beer)
Property Advisers – Jones Lang LaSalle, Exeter (Andrew Pearce)
Economic Development adviser– Cooper Simms Associates (Keith Cooper)
ICT consultancy - Tamar Science Park, Plymouth (Jonathan Harris)
Science Park and Innovation Centre consultancy – Warwick Science Park (David Rowe)

ESPL's Construction and Professional Team for the SPC

Client's representative – Chris Dyer, Head of Built Environments, DCC
Project Manager – Eagle One Ltd, Jon Symons Director
Architect – LHC Exeter, Ian Noakes
Quantity Surveyor – Sweett Group, Bristol (Mark Lintern)
M and E Engineer – Aecom, Exeter (Indy Sohel)
Structural engineer – Hyder, Plymouth (John Barton)

CVs for the key staff involved in the project and company profiles for advisers are available if required.

Risk Management

The major risks for the SPC project are shown on the table below. As a project team we will adopt a proactive approach to managing and mitigating these risks. The details construction risks are managed on our behalf by the project manager and professional team adopting standard industry practices to manage their risk registers.

Some of the key risks for SPC project are detailed below (See appendix X for full company risk register):

Risk	Assessment Risk		Score	Mitigation measures
	Probability	Impact		
Legal				
1. Funding Agreement not completed on programme	3	5	15	HoTs (heads of terms) signed DCC cabinet approved. Keep pressure on shareholders to approve Ensure draft legals sent early to all parties
2. GPF loan agreement not completed on programme	2	5	10	Have early discussion on terms with LEP Ensure early draft of legals
3. SPC land transfer delayed	1	4	4	HoTs agreed Lawyers instructed on programme
4. Lease to University not completed on programme	3	5	15	Agree HoTs asap Instruct lawyers to draft lease Set deadline or go to tender for alternative operator
Costs and construction				
5. Funding gap remains in project budget for fit-out and common infrastructure	2	3	6	Seek contributions from Eagle One and HCA for common infrastructure Remove/reduce fit out items to meet budget
6. Tender costs exceed project budget	2	5	10	Use SW Construction Framework methods to negotiate with contractor to remain in budget Cost engineer items to meet budget
7. Cost overrun on construction contract	2	3	6	Maintain contingency in budget Agree variations to get back on budget Use shareholder guarantee to fund overrun
Operational				
8. University doesn't meet performance standards in operating contract	3	6	8	Active management of performance through annual business plan End contract and retender for operator
9. University can't operate Centre at surplus	2	3	6	University contracted to fund deficits until lease break Review operating costs/business targets Enhance marketing Break lease at year 7 and retender operator

10. Land receipts in Development Account insufficient to fund company costs and repay GPF loan	3	3	9	Enhance Science Park marketing Review/reduce company costs Use shareholder guarantee to repay GPF loan until sufficient land receipts built up
Reputational				
SPC remains empty /under occupied	2	4	4	Enhance marketing Improve performance management of University Consider ESPL co- investment in enhanced SPC services
ESPL has insufficient resources to manage its functions, Gateway Policy etc	2	4	8	Commit sufficient funding to company executives from Development Account Shareholders to actively monitor business plan Board to be proactive, regular meetings and decisions
Remainder of Science Park is empty /under occupied	2	5	10	Enhance marketing and networking on national/international basis Improve deal-flow from local science base – University, Met Office etc Increase developer activity through development agreements for phase one and phase two Target dev account/ ESPL funds on enhancing Science Park services and new capital investment eg stage two of the SPC

Organisation & Management

Governance

Exeter Science Park has been promoted by a partnership of DCC, ECC, EDDC, Exeter University and the Met Office and in 2008 a grant agreement was signed between SWRDA and DCC to acquire the land, obtain planning permission and build the primary on and off-site infrastructure for the Science Park on behalf of the partnership. The grant agreement contained a Memorandum of Understanding **(**MoU**)** between the partners that they would in due course form a special purpose company to manage the Science Park project. ESPL was subsequently formed in 2009 with the purpose of establishing, development and operation of the Science Park. The detailed shareholding in ESPL is:

Name	Number and type of Shares	Total contributions	Position at Completion		
			Contribution at Completion	£ to pay	% share ownership
Devon County Council	175,000 Shares	£1.75m	£444,396	£1,305,604	49.9%
The University of Exeter	75,000 Shares	£0.75m	£190,432	£559,568	21.5%
Exeter City Council	75,000 Shares	£0.75m	£190,432	£559,568	21.5%
East Devon District Council	25,000 Shares	£0.25m	£63,314	£186,686	7.1%
The Met Office	0 Shares	£0.00m	£7,761	£0	0%
Total		£3.50m	£896,335	£2,611,426	100%

In 2008 the development agreement was signed between Eagle One (who were the original owners of the land) and DCC which gives Eagle One the rights to develop phase one of the Science Park.

To date the project has been organised and managed between DCC as landowner and ESPL as the Science Park manager on the basis of the 2008 grant agreement and MOU. This has been adequate while the project was in its planning and infrastructure period but as it now

moves to the development and operational period including the construction of the SPC there is a need to update the partnership and funding structures , indeed this is a condition in the 2008 agreement.

Science Park Partnership and Funding Agreement

The agreement between DCC as landowner and ESPL will replace the 2008 grant agreement in order to establish the future ownership, funding and governance arrangements for the project.

ESPL is responsible for preparing the business plan and the marketing plan for the Science Park, for implementing these with the partners and for managing the Gateway Policy for the Park.

Freehold ownership of the Park will remain with DCC which will manage the development and disposal of land and put all land receipts and other income into the Development Account for which they will be the accountable body on behalf of ESPL. ESPL will then use the Development Account to fund:

- Estate management and property development costs
- Company running costs
- Repayment of loans including GPF
- New capital investments and services for the Science Park
- DCC will transfer the freehold land for the SPC to ESPL
- ESPL will construct and own the SPC

The company shareholders will cover cost overruns on the construction of the SPC to an agreed level and will underwrite the repayment of the GPF loan if there are insufficient land receipts available in the Development Account when repayment is due.
ESPL will lease the SPC to the UoE/ PIL (Peninsula Innovations Limited) together with an operator agreement for 15 years

ESPL income received from this lease will be used for company running costs and services (as above).

DCC will manage the property development and estate management functions for the Science Park. In the longer term the residual freehold will be transferred to ESPL who will take over the estate management.

The ESPL Board is accountable for the governance and management structures, funding arrangements and performance standards in this agreement

Heads of terms have been agreed in principle and the full agreement will be signed prior to the conclusion of any agreement with the HoTSW LEP.

Asset Ownership

DCC will remain the freeholder of the Science Park and Eagle One will retain its freehold of the phase 2b part of the Science Park. Total Science Park area is 24.5 Ha of which DCC owns 20.0 Ha and Eagle One 4.5 Ha. Plots will be sold on a 999 year leasehold basis with tenants paying a service charge towards the estate management costs. As an exception the freehold interest in the SPC site is being transferred to ESPL following legal advice on the tax efficiency, State Aid and procurement compliance for this project

DCC will be responsible for estate management of the Science Park. This will be funded through a service charge with any deficit funded from the Development Account.

The SPC centre will be managed by the operator as a requirement of the lease/ service level agreement.

University Lease of the SPC

ESPL have considered the following options for the operation of the SPC:

Tender in the market for an operator. ESPL's key objective is to achieve high quality innovation and job and business growth from the centre in a short timescale. Given the funding for running cost deficits and to fit out the centre to achieve these outputs it is considered that the market would currently be unwilling to provide this service or demand a large subsidy for doing so. Operator experience on other Innovation Centres bears this out – for example Plymouth University has secured a contract for the running of 3 innovation centres in Cornwall in order to derive the right cost structure for providing service support; a commercial organisation is understood to have withdrawn from bidding for running the Yeovil Innovation Centre a few years ago; and the University of the West of England recently announced the closure of its incubator (which had been strongly geared towards post-graduate entrepreneurs and might be considered to have represented a skewed risk.

University/ Peninsula Innovations Limited to Operate the Centre. The UoE as a shareholder has a major stake in the success of the Science Park and understands the need for a successful SPC to stimulate demand on the wider park and be the hub for innovation services. The UoE already successfully operates the innovation centre on its campus through Peninsula Innovations Limited and there are felt to be economies of scale and market efficiency in combining this innovation infrastructure. Because of these benefits the University is able to make a stronger financial and service commitment to the SPC operation. The UoE/ Peninsula Innovations Limited position as an operator is considered to be state aid compliant and we cover this in the legal section below.

The operator lease/ service level agreement for the SPC will be on open market basis to operate it as an innovation centre and will include agreement in the following areas:

- 15 year lease and operator agreement with a mutual break in year 7
- Funding of the fit out costs of the Centre to make it fully operational – furniture, lab kit, kitchen/cafe and conference areas, ICT equipment
- Responsibility for repairs and maintenance of the Centre
- Performance objectives based on jobs, business growth and other economic and innovation outputs. In addition ESPL will approve the SPC business plan prepared by the operator and will set up a governing body for over-sight
- Responsibility for all operating and management costs and funding the operating cost deficit of the Centre
- The sharing of the operating surplus with ESPL

Legal and State Aid Considerations

Advice has been obtained from Burges Salmon on the state aid and procurement compliance of the SPC project structure and tax efficiency. Burges Salmon have confirmed the structure outlined above in the funding agreement is the most tax efficient and this is currently being discussed with HMRC.

State aid and procurement compliance for the project structure has been considered at two levels:

- The ability of ESPL to use public funds including the shareholder funds, GPF loan and development account receipts to undertake the project. Burges Salmon's opinion is that ESPLs objective is not to gain an economic advantage or benefit financially itself by promoting the Science Park but to pass that benefit to end users of the park. This is reinforced by the company being 'not for distribution' and all profits will be retained for the purposes of the project. This position is backed by recent EU clearance of a similar case where public funders were providing incubator space for SMEs and decided they were not receiving State Aid because they were not supposed to benefit themselves and intended to make the services available to the SMEs and the economic advantage was conferred on the end users (Commission Decision 2005/782/EC, l 295/44). Safeguards will be put in place to ensure that the asset cannot be used to obtain benefits for non-ESPL use by shareholders or other parties.

- The ability of the UoE/ Peninsula Innovations Limited to be the operator of the SPC: advice suggests that the UoE/ Peninsula Innovations Limited will be able to operate the centre without going through a procurement process because:

  - Adopting the Teckal / in-house exemption and on the basis that Peninsula Innovations Limited is a subsidiary of the UoE which will operate the centre: recent cases suggest that where public bodies are genuinely engaged to obtain services in a way that is not market –orientated the courts should be slow to impose procurement law on them, and

  - The operation of the SPC is an extension of the University's existing agreement with Peninsula Innovations Limited and does not need further procurement, and the value of the contract to Peninsula Innovations Limited falls below the relevant threshold for public service contracts.

Based on this understanding the UoE will obtain its own legal advice to confirm that they can be appointed.

MoUs with Eagle One and the Cranbrook consortium about provision of the phase three Link Road – as previously mentioned the capacity of the Science Park and the proposed housing developments by Eagle One at Redhayes Green (Tithebarn Lane) and the Cranbrook consortium is limited until the phase three link road is built to the north of the Science Park.

Phase 2 of the Science Park would be allowed limited development until this road is built. DCC, in their capacity as highway authority and landowner, have therefore negotiated MoUs with these developers which dedicates the land for this road and the funding to construct it. Clearly the timing of the building of the road depends on planning permissions being granted but these MoUs then give an agreed position on how this vital piece of infrastructure will be delivered.

Exit Strategy for the SPC Building

The business plan for the SPC is to ensure it remains fully let with a regular throughput of tenants who then outgrow the centre and develop stand alone buildings on the park. Once demand is sufficient and the capital funding is available the stage two extension could be built.

However in the event that this business model fails we would adopt the following exit strategy.

In the event that the UoE is unable to operate the SPC to the required standard ESPL would tender for another operator. If this was unsuccessful the building, as a whole or in part, would be put to general Science Park use in accordance with the Gateway Policy and be sold or let to an occupier(s). The income, assuming all loans and funding had been repaid where required, would be used by ESPL to provide other Science Park and innovation services to park tenants.