

GM LOCAL ENTERPRISE PARTNERSHIP BOARD

Item No.9

SUBJECT: Corridor Enterprise Zone

DATE: 17 July 2017

FROM: Manchester City Council - City Centre Growth & Regeneration

PURPOSE OF REPORT

This report sets out the requirement for grant funding of £3.675m to facilitate development of Citylabs 2.0 on the CMFT site, together with a package of support including appointment of a Growth Manager to accelerate and manage growth proposals within the Corridor Manchester Enterprise Zone. The business cases for these interventions were presented at, and received support from, the Corridor Board on 6th February and 10th May 2017, subject to LEP approval. The report is presented to the Board due to the LEP's role in directing the application of business rate receipts.

RECOMMENDATIONS

The GM LEP is requested to approve the funding of a £3.3m grant to facilitate development of Citylabs 2.0, together with appointment of a Growth Manager post over 5 years at a cost of £375k as set out within this report.

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1.0 Background

- 1.1 The Corridor Manchester Enterprise Zone was approved at Autumn Statement/SR 2015 and designated an enterprise zone in April 2016. The zone comprises two sites within the Corridor Manchester Innovation District:
-) **Manchester Science Park site** 9.6 hectares with the potential to deliver 700,000sqft of new commercial floorspace, supporting the delivery of 5,400 new gross and high value jobs over a 9 year timeframe.
 -) **CMFT Citylabs campus** - a 19 hectare area hospital site within which circa 1 hectare has been initially identified as available for commercial development. The site has the potential to deliver 310,000 sq ft. of commercial floorspace supporting the creation of new high value jobs over a 6 year timeframe. The land is owned by Central Manchester University Hospitals NHS Foundation Trust (CMFT).
- 1.2 The focus of the Corridor Manchester Enterprise Zone is to attract and develop businesses within the science and technology sectors, providing a strong platform for the development of an innovation cluster within the region's growing knowledge economy. It supports key growth sectors within one of the GM LEPs priority economic assets located in the regional core of the LEP economy. It fully aligns with and supports the ambitions and business plans of a wide range of local partners, and will significantly accelerate the pace of economic activity within this priority area for investment, for the benefit of the LEP economy as a whole.
- 1.3 These measures form part of the wider Enterprise Zone strategy which is set out in the Implementation Plan agreed with the Department for Business, Energy and Industrial Strategy (BEIS).
- 1.4 As set out in the terms of the Memorandum of Understanding (MOU) for the Corridor Manchester Enterprise Zone, in agreement with the LEP, local authorities responsible for all or part of an Enterprise Zone, use any increase in business rates they collect from each Enterprise Zone site to support the further development of the Enterprise Zone and neighbouring areas.
- 1.5 The criteria for appraising the grant funding eligibility of such projects is aligned with the GM investment strategy and is set out as:
-) The investment should only be made where it can be demonstrated to accelerate development and economic outcomes that would not otherwise happen.
 -) It should only be at the minimum level required to deliver such outcomes.
 -) The investment should be focused towards the funding of activity and development that support higher end activity that underpins productivity growth and incremental business rate growth.

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-) An investment style model is required whereby we are confident that any capital outlay can be recouped within a sensible time frame from incremental business rates generated.

2.0 Citylabs 2.0 development

- 2.1 The Citylabs 2.0 development is forecast to cost £26m. £3.3m of the overall grant package of £3.675m will accelerate the delivery of new commercial space within the Enterprise Zone. The proposed development will be undertaken on the CMFT Corridor Manchester campus utilising space that is surplus to hospital requirements. It will result in an increase in the annual rates income of £968k providing a payback period of 4.5 years.
- 2.2 Terms are agreed between Manchester City Council and MSP including appropriate clawback mechanisms should greater value be realised on completion of the development. It is proposed that the grant is financed from existing MCC sources.
- 2.3 The stakeholders are confident that with EZ grant funding this development represents a low risk intervention in an established and growing market place that forms a key part of the GM Strategic Economic Plan.
- 2.4 Building on the success of Citylabs 1.0 it is proposed that Citylabs 2.0 will offer 93,000 sq. ft. of Grade A office and laboratory space. There is scope of further development on the CMFT site – the Citylabs 3.0 building will be delivered following completion of Citylabs 2.0, and will provide a further 126,000 sq. ft. of space. Proposals for the funding of this building will be brought forward once lettings have been secured for Citylabs 2.0.
- 2.5 The target market is to be the life science sub-sectors of Health and Medical Technologies - encompassing digital health, medical devices, diagnostics and precision medicine.
- 2.6 Citylabs 1.0 was the first commercial development on the CMFT site which was developed with support from the ERDF. Since Citylabs 1.0 opened the market for bio-science facilities on the Corridor site has been established and the level of rent achieved has increased as the site gained critical mass and momentum. However there remains a significant shortfall in the required level of return and gap funding is required to make the project viable. Extensive marketing and pipeline building activity is being undertaken.
- 2.7 The development will be undertaken by a subsidiary of Manchester Science Partnerships Limited (MSP) into which CMFT will also invest. The subsidiary will enter the Development Agreement with CMFT and place a building contract with the main contractor. MSP will provide all the equity and working capital for the company.
- 2.8 The first phase of the project will deliver the following outputs:

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-) An uplift in the rates income from £29.8k pa in its current condition (largely redundant hospital site) to £998k pa.
 -) This equates to an increase of £968k pa in rates income. All business rates growth generated by the Enterprise Zone is kept by the relevant local enterprise partnership and local authorities in the areas for 25 years to reinvest in local economic growth
 -) 93,366sqft of space resulting in upwards of 400 jobs being created
 -) GVA of £18-20m pa based upon a GVA per job of £50k given the high value nature of employment on the site
- 2.9 From a risk perspective, this investment will deliver a return from the uplift in rateable value which will be realised irrespective of whether the space is fully let because the MSP subsidiary will have to pay empty property rates. The full economic benefit will be realised when the space has been let. The lettings strategy will build upon the strength of the Corridor partnership and the benefits of the proposed Growth Manager post set out in section 3.
- 2.10 The works will be procured through Bruntwood's Main Contractor Framework. The building specification will deliver Grade A office accommodation throughout with the addition that 2 floors of the building will be upgraded to have the ability to provide specialist air extraction and enhanced vibration ratings. In addition there is to be a dedicated bed lift and the stairs and fire safety strategy will comply with NHS standards. These upgrades will enable the building to accommodate NHS occupiers and specialist lab facilities for health and medical technology companies.
- 2.11 Citylabs 2.0 received full planning consent in April 2017.

3.0 Corridor Enterprise Zone Growth Manager

- 3.1 The focus of the Corridor Manchester Enterprise Zone is to attract and develop businesses within the life science and technology sectors, providing a strong platform for the development of an innovation cluster within the region's growing knowledge economy. It supports key growth sectors within one of the GM LEPs priority economic assets. It fully aligns with and supports the ambitions and business plans of a wide range of local partners, enriching the GM offer and improving prospects of those on the Corridor, and will significantly accelerate the pace of economic activity within this priority area for investment, for the benefit of the LEP economy as a whole.
- 3.2 Funding for the Enterprise Zone Growth Manager will be included within the single combined package of £3.675m. Over a 5 year operational period the EZ Growth Manager post will cost £365,000, outside of this period, the Citylabs JV partnership will support the post and activities.

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- 3.3 The Growth Manager will mirror the requirements of the Life Science focused enterprise zone providing a depth of knowledge on the niche opportunities and the unique nature of the Corridor cluster, based on both the sector focus and geographical location of the Corridor Manchester EZ. The Growth Manager will develop further coordination between Greater Manchester and Cheshire East life sciences zones (which will include MediPark once the CMFT/UHSM merger is agreed), in order to improve the degree of “fit” from enquiries from external parties to the zone, to offer appropriate premises to match enquiry criteria and overall improve the sales rate of EZ properties.
- 3.4 The role will involve developing and implementing a continued detailed marketing and promotion strategy for the Enterprise Zone, in addition to taking ownership of both foreign direct investment (FDI) and domestic queries identified through MIDAS activity. The role will provide detailed sector expertise and the unique benefits associated with the Enterprise Zone.
- 3.5 The Corridor Manchester Enterprise Zone is subject to regular performance monitoring and reporting to the Department for Communities and Local Government (DCLG) and the Department for Business, Energy and Industrial Strategy (BEIS). The Growth Manager would hold responsibility for the quarterly monitoring returns on the performance of the EZ with expertise in Life Science, Medtech, Digital or Diagnostics
- 3.7 The role will facilitate further collaboration with Corridor Manchester and EZ partners, stimulating creative and entrepreneurial activity, through tailored events, networking opportunities, encouraging new partnerships and delivering activity to accelerate job creation. The Growth Manager will also work with Enterprise Zone partners on exploiting opportunities to locate new businesses on to the zone, and on the development of masterplans for the sites to ensure the availability of high quality commercial space in line with demand.
- 3.8 The role will be employed via the NHS, which will increase the connectivity between prospective and existing tenants to assure the value added proposition of the Enterprise Zone in respect of company access to life-science facilities and expertise.

4.0 Recommendations

- 4.1 Recommendations are set out at the front of this report.



Citylabs 2.0 proposed development