

MERSEYWAY INNOVATION CENTRE

Report of the Deputy Chief Executive (Place)

1. PURPOSE OF THE REPORT

- 1.1 To provide an update on developing an Innovation Centre in Stockport town centre.
- 1.2 To request, subject to European Regional Development Fund (ERDF) approval, that the Council provides match funding to the grant monies to fund the capital works required to establish an Innovation Centre.
- 1.3 To request authority to enter into contract and funding agreements in order secure the grant monies, bring the scheme forward and manage its operation.

2. BACKGROUND

- 2.1 For a number of years the Council has been considering opportunities to develop an Innovation Centre in Stockport town centre which builds on the successes achieved at Stockport Business & Innovation Centre (SBIC) based in Reddish. As evidenced by the success of SBIC, there is strong demand for flexible workspace within a supportive environment where SMEs have access to a range of dedicated support which focuses on business growth and is tailored to their needs. SBIC, supporting 69 businesses (March 2020), was 92% occupied during 19/20 and average rents reached £21.23 per sq ft with demand for space within the Centre remaining very strong. Despite Covid-19, both SBIC and the smaller Merchants House (Market Place) remain 86% and 100% occupied, respectively.
- 2.2 Stockport town centre is a prime location for a new Business Innovation Centre, in the heart of the town surrounded by excellent public transport, food and beverage offers and excellent supporting infrastructure.
- 2.3 The Council's flexible office facility at Merchants House in the Market Place illustrates that young entrepreneurs often want to be centrally located with good access to a range of services. The centre is consistently fully occupied and achieves rental levels equating to over a £30 per sq ft. New operators are also now developing bespoke workspace including Profolk, a development by Hall & Co that has achieved an occupancy rate of 60% less than 4 months since it opened. Whilst these facilities have proved to be very popular, neither provide the range of supportive services that are available onsite at SBIC and which would add value to the current offer within the town centre. Furthermore,

recent consultations on demand post Covid restrictions point towards an increased need for flexible workspace and local accessibility.

- 2.4 Following a final call for applications in the summer of 2019 by MHCLG the Council submitted an initial Expression of Interest to secure ERDF for the capital costs of creating an Innovation Centre in Merseyway. We were then to go forward to the Full Application and Business Case stage. This was submitted on 9th June 2020.
- 2.5 A decision is expected following MHCLG's Board meeting on 24th September. This would then be followed by an Offer Letter and then a Funding Agreement within a three to four week timescale. It is worth noting that MHCLG has confirmed that they have not over programmed and are therefore in a position to fund all projects provided they meet all the criteria.

3. MERSEYWAY INNOVATION CENTRE

- 3.1 The proposal involves the comprehensive refurbishment and fitting out of two units on the upper floor in Merseyway shopping centre to create a thriving Innovation Centre targeting young businesses. These will be actively supported towards accelerated growth within a low risk, flexible and inspirational environment. The units total 15,300 sq ft and comprise of the upper floor of the former Next unit and the neighbouring gym, both spaces have struggled to attract permanent, sustainable occupiers.
- 3.2 The Centre will be home to a business lounge, co-working space that could accommodate 20 entrepreneurs at any one time, 25 self-contained offices and flexible conference and meeting room facilities. As well as providing flexible workspace offered on an all-inclusive basis all tenants will have access to bespoke on-site business support, workshops and events.
- 3.3 The new Innovation Centre will support new business start-ups and existing young businesses, encouraging accelerated growth within a community of like-minded innovative organisations where onsite one to one business support, mentoring services, peer to peer support, events, specialist support programmes and access to funding are readily available to assist all aspects of business, product and market development.
- 3.4 As with SBIC the facility is proposed to be managed by an innovation specialist who will be procured through a competitive tendering process and will manage all the day to day operation of the Centre, along with delivering specialist business support, and liaising with partner organisations such as the Business Growth Hub, Tech Nation and Manchester Universities.
- 3.5 This new Centre will form a key component of the Merseyway redevelopment proposals as it will help re-purpose vacant and hard to let space and create additional footfall and spend. Thus benefiting existing and new neighbouring retail and leisure uses within the town centre. Businesses receiving bespoke support at the centre will become more sustainable and will ultimately outgrow the facility. As they out-grow the centre, they will then take on their own

premises creating additional employment opportunities and in turn contribute to local economic vitality. It is hoped, with support, that businesses will relocate to larger commercial accommodation within the town centre.

- 3.6 Merseyway Innovation Centre will also complement the Council's Future High Street Fund bid which was submitted on 5th June 2020. This focuses on creating an integrated cultural, social and community hub which will support users of the Innovation Centre, improving business productivity and its desirability as a location.

4. CAPITAL AND REVENUE COSTS AND MATCHED FUNDING

4.1 Capital Costs

- 4.1.1 The two units require significant alterations beyond a standard conversion or fit out. Soft market testing undertaken by a potential operator in 2018 demonstrated that these abnormal conversion costs made any scheme commercially unviable. ERDF support is therefore required to overcome these physical cost barriers.
- 4.1.2 The cost of the capital conversion and fit out works to create a high quality working environment totals approx. £1.9m. As well as funding substantive physical reconfiguration, the scheme entails high specification internal finishes, all services and significant new widened window openings to maximise light and create more lettable space.
- 4.1.3 With ERDF able to fund up to a maximum of 50% of capital costs, it is estimated that the costs of the works to the Council, including eligible fees, will be c. £0.950m.
- 4.1.4 The acquisition by the Council of the space the Innovation Centre will occupy is also eligible for ERDF grant at current values. A Red Book valuation is being commissioned to ascertain this value. This is estimated to be somewhere in the region of £0.400m, with ERDF able to contribute up to 50% towards this cost, whilst the remaining Council's contribution would be the property value in-kind.
- 4.1.5 Taken together the ERDF submission was for £1.124m. This equates to 48.9% of the capital cost and estimated asset value, with the remaining £1.172m to be funded by the Council including the in kind property value.

Table 1 – Innovation Centre Capital Funding Mix

	ERDF	SMBC	Total	Comment
Capital works	947,735	947,735	1,895,470	ERDF/SMBC funding
Estimated property value	175,825	224,175	400,000	ERDF funding/ SMBC in-kind
Total	1,123,560	1,171,910	2,295,470	

4.2 Revenue Costs

- 4.2.1 A specialist management company will be procured to operate the centre similar to the arrangement at SBIC. In return for a monthly management fee the company would be responsible for collecting all income and dealing with all expenditure for the Centre on the Council's behalf and will directly employ and manage all staff.
- 4.2.2 Whilst profitable long term, it is anticipated insufficient income will be generated in the initial few years of the Centre's operation to cover costs. This is a common position with all new centres as it takes time to build up occupancy to a rate that results in a break even position. Therefore, the operator will require short term financial support.
- 4.2.3 Due to programme closure pressures, MHCLG prefer not to use ERDF to contribute to overcoming this initial net shortfall over the first full two years of operation. Therefore Council support will be required to make the scheme operationally viable and attractive to an operator.
- 4.2.4 Support is based on the difference between expenditure and income based on a realistic scenario. This equates to a cumulative loss of approximately £0.191m for the first 3 full years of operation as shown below.

Table 2 – Income & Expenditure Years 1 to 4 – Realistic Scenario

	Year 1	Year 2	Year 3	Year 4
<i>Occupancy</i>	40%	60%	70%	90%
<i>Rate per sq ft</i>	£37.00	£37.00	£39.00	£41.00
INCOME				
Licence Fees	£47,560	£142,679	£175,457	£237,156
Co-working	£15,750	£31,500	£31,500	£37,800
Virtual Office Fees	£2,250	£4,500	£4,800	£4,900
Other Services -income including telephone & broadband	£9,984	£29,552	£34,994	£44,928
Conferencing Income	£12,000	£24,000	£26,000	£28,000
Total Income	£87,544	£232,631	£272,701	£352,784
EXPENDITURE				
Property Costs	£89,249	£176,098	£184,710	£194,837
Other Costs	£4,172	£12,516	£7,301	£7,301
Management Charges - Salaries	£39,500	£79,000	£80,580	£82,192
Total other expenditure	£20,593	£41,186	£41,495	£40,932
Total Expenditure	£153,514	£308,800	£321,387	£336,734
Deficit/Surplus	-£65,970	-£76,169	-£48,686	£16,051

4.2.4 As part of the property costs stated in the table above the centre will provide an annual rent to the Council of £54,252 and will pay service charge (c. £19,000) and business rates (c. £33,000). The annual rent is below the expected market rate in order to ensure occupancy, a higher rate would create a larger operational gap.

4.2.5 As is evident in the table below once the centre achieves average annual occupancy of 90%, expected in Year 4, it will start to generate a surplus. Part of this will be treated as a supplementary rent to the Council whilst it is envisaged some will be reinvested into the Centre.

4.3 ERDF Matched Funding

4.3.1 In order to deliver a sustainable and viable Innovation Centre in Stockport town centre ERDF monies are required towards the capital works and the value of the property. As ERDF requires match funding from the public sector, should our Full Application be successful the Council would need to commit to providing matched funding of £0.948m for capital works.

4.3.2 A discounted cashflow analysis of three operational scenarios based on varying occupancy rates and average rent per sq ft – pessimistic, realistic and optimistic is shown in Table 3. This illustrates the discounted cashflow position of each of the three scenarios over varying time periods. As is evident from the table, only the optimistic scenario creates a positive return for the Council when analysed over 20 years (this incorporates both annual

fixed rent and anticipated supplementary rental income). The realistic scenario has a relatively small deficit in NPV terms over the 20 year period.

Table 3 – NPV summary by scenario

Scenario	Years		
	10	15	20
Pessimistic	-627,318	-420,268	-403,566
Realistic	-398,651	-125,399	-41,093
Optimistic	-356,664	-70,257	86,538

4.3.3 It is also worth noting that all scenarios create a significant deficit in cashflow terms over the first 3 years before the scheme starts to create an annual surplus in Year 4 which slowly repays this deficit. Whilst this could be a concern, it is worth noting that the forecast financial position for the units in question should this scheme not come forward is actually worse, and as such bringing forward this scheme would actually benefit the Council when looked at holistically.

5. PROGRAMME

5.1 Based on the Council's experience of delivering Stockport Business & Innovation Centre and managing refurbishment programmes in Merseyway the following programme of activity has been drafted.

Activity	Target Month
ERDF Full Business Case submission	9 th June 2020
Planning Application (change of use & externals)	Approval granted in July 2020
ERDF decision and contract	24 th Sep. 2020
Funding Agreement with MHCLG	Oct. 2020
Procure contractor (IIT after ERDF approval)	Nov. 2020 to March 2021
Procure operator (IIT after ERDF approval)	Nov.2020 to Feb.2021
Physical Works completed (6 months)	Nov / Dec 2021
Merseyway Innovation Centre opens and operational	Early 2022
ERDF Financial completion	Spring 2022
Two year gear up operational period ends	Early 2024
Operational agreement ends (15 years)	2037

6. RECOMMENDATIONS TO THE CABINET

- 6.1 The Committee is requested to note the report and comment on the recommendations to Cabinet:
- 6.2 That, if the ERDF funding application is approved, then delegated authority is given to the Deputy Chief Executive (Place) and the Deputy Chief Executive (Corporate & Support Services), in consultation with the Cabinet Member for Resources, Commissioning & Governance, to source the necessary capital cash match funding of £0.948m for the Merseyway Innovation Centre.
- 6.3 That delegated authority is given to the Deputy Chief Executive (Place) and the Deputy Chief Executive (Corporate & Support Services), in consultation with the Cabinet Member for Economy & Regeneration, to:
- a) Take all necessary steps to implement the project strategy in this report, reporting back as necessary and appropriate to the Cabinet;
 - b) Enter into contracts, procurement and funding agreements, as required, to deliver the Merseyway Innovation Centre;
 - c) Receive and administer European Regional Development Fund (ERDF) monies in respect of Merseyway Innovation Centre.

6. RECOMMENDATIONS TO THE SCRUTINY COMMITTEE

The Scrutiny Committee is invited to comment on the report.

BACKGROUND PAPERS

None

Anyone wishing to inspect the above background papers or requiring further information should contact Helen Walters on telephone number 0161 474 3734 or alternatively email helen.walters@stockport.gov.uk