



Derby City Council

COUNCIL CABINET
12 September 2018

Report of the Strategic Director for
Communities and Place

ITEM 11

Improvements to the iHub to support an advanced manufacturing research centre pilot.

SUMMARY

- 1.1 This report seeks approval to undertake improvements to the iHub in order to support the establishment of a research and development pilot by the Advanced Manufacturing Research Centre (AMRC).
- 1.2 AMRC are part of the University of Sheffield and the Catapult network of centres and is therefore of national significance. AMRC is seeking to open a new research and development facility in the Midlands region to complement their existing site in Rotherham, South Yorkshire. In April 2018 the Council entered into a Memorandum of Understanding with AMRC and the Local Enterprise Partnership for Derby, Derbyshire, Nottingham and Nottinghamshire (D2N2 LEP). The agreement outlined the commitment to work together to identify funding to create a new 4,500 square metre facility (Phase 2) and provide accommodation at the iHub to establish a pilot (Phase 1) while the new facility is being developed.
- 1.3 The establishment of AMRC at the iHub will enable the plans for Phase 2 to be developed while also growing the advanced manufacturing sector in the city and supporting the vision for Infinity Park Derby (IPD) as a location for advanced manufacturing businesses.

RECOMMENDATION

- 2.1 To approve spend of £160,000 on improvements to the iHub as outlined within section 4.4 and to add this scheme to the Regeneration Capital Programme.
- 2.2 To provide support of £171,000 to AMRC subject to the approval of funding from the Regeneration Fund Board.

REASONS FOR RECOMMENDATION

- 3.1 To improve the usability of workshop 14 for use by AMRC and future tenants.
- 3.2 To enable the delivery of the pilot which, in turn, will enable the project to progress to the development of a standalone facility at IPD.
- 3.3 To meet the aspirations of the Memorandum of Understanding between the Council,

AMRC and D2N2 LEP.

- 3.4 To support job creation, supply chain development and business growth through access to research and development facilities with the potential to increase productivity in the high technology manufacturing sector in line with government policy.
- 3.5 To raise the profile of IPD as the pre-eminent choice for advanced manufacturing and to act as a catalyst for further investment within the location.

SUPPORTING INFORMATION

- 4.1 IPD is a 100ha strategic employment site with capacity to accommodate commercial and technology companies with a focus on advanced manufacturing. The park has been created by a partnership led by Derby City Council involving developers, landowners and D2N2 LEP which has seen the creation of core infrastructure and the marketing of the site. The Council has delivered the iHub, a unique office and workshop accommodation which acts as a catalyst for encouraging occupiers to move onto the site.
- 4.2 The iHub has been a success since its opening in 2016. The prestigious building comprises 18 high specification offices and 14 workshop units and is home to a range of regional, national and international companies.
- 4.3 In April 2018 the Council entered into a Memorandum of Understanding with AMRC and D2N2 LEP. AMRC is a collaboration of academic and industrial partners from across the civil nuclear supply chain and other advanced manufacturing sectors, with the mission of helping UK manufactures win work at home and worldwide. The Memorandum of Understanding sets out the aspiration of all partners to work collaboratively to deliver a pilot research centre within the iHub whilst plans are being progressed for a stand-alone 4,500 m² facility on the wider IPD site. AMRC is intending to take occupation of two offices and two workshops.
- 4.4 The research and development pilot is to be located in the iHub. In order to accommodate the power requirements of the research and development work involved, an upgrade to the iHub's electrical substation is needed, and the tenant has agreed to contribute funding towards this work. In addition, some smaller electrical works are required plus the installation of a roller shutter door to enlarge and extend access to the unit, both of which will be of benefit to future tenants. In total these works will cost just under £160,000 and will be funded from £110,000 existing funds within the Regeneration Capital Programme and a contribution of £50,000 from the Tenant.
- 4.5 Supporting AMRC provides a step change opportunity for Derby to provide a platform to build and support both SMEs engaged in advanced manufacturing and the national occupiers including Rolls-Royce and Bombardier. The investment supports the vision for IPD as a premier location for attracting advanced manufacturing businesses.

- 4.6 The facility would be an extension of AMRC's existing facilities at the Advanced Manufacturing Park in Rotherham and would bring with it Catapult status, creating a facility of national significance. The government supports 16 Catapult Centres across the UK, with seven dedicated to advanced manufacturing – of which two are at the Advanced Manufacturing Park in Rotherham. Catapult Centres are a network of world-leading centres designed to transform the UK's capability for innovation in specific areas and help drive future economic growth. Catapults are not-for-profit, independent physical centres which connect businesses with the UK's research and academic communities.
- 4.7 By supporting AMRC the Council will assist in job creation, supply chain development and business growth through access to research and development facilities with the potential to increase productivity in high technology manufacturing sector and facilitate the delivery of academic research from the lab into the production line.
- 4.8 AMRC will be investing £3m including creating 18 jobs over the two-year period of the pilot. The Council will provide support of £171,000 to AMRC through rent and service charge reduction, subject to approval of the Regeneration Fund Board on the 10th September 2018. The Council will also work with AMRC to explore opportunities for creating apprenticeships, both during the research and development pilot, and in the longer-term facility on Infinity Park Derby.
- 4.9 The level of support being proposed is offset by the wider socio and economic benefits of the proposal in terms of the £3 million economic investment within the area including the creation of 18 new jobs
- 4.10 The AMRC pilot project investment is to support research and development activities and, therefore in accordance with EU guidance, is EU State Aid compliant.

OTHER OPTIONS CONSIDERED

- 5.1 Not to undertake the improvements to the iHub will limit the appeal of the workshop in the future.
- 5.2 Not supporting AMRC is not an option as it will prevent their entry into the Derby locality and put at risk the Memorandum of Understanding.

This report has been approved by the following officers:

Legal officer Financial officer Human Resources officer Estates/Property officer Service Director(s) Other(s)	Emily Feenan, Principal Lawyer Mandy Fletcher, Head of Finance for Communities and Place Zoe Bird, HR Shared Services Manager John Sadler, Strategic Asset Manager Greg Jennings, Director of Regeneration and Housing Catherine Williams, Head of Regeneration and Major Projects
For more information contact: Background papers:	Jon Sayer 01332 643277 jonathan.sayer@derby.gov.uk Infinity Park Derby – Research and Development Opportunity 14 th March 2018

List of appendices:	Appendix 1 – Implications
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IMPLICATIONS

Financial and Value for Money

- 1.1 The improvements of £160,000 to the iHub will be funded from a reallocation of £110,000 of funding within the Regeneration Capital Programme (currently allocated to public realm works at the arena) and a contribution from AMRC of £50,000.
- 1.2 The £171,000 of revenue support to AMRC (Midlands) is subject to approval of the Regeneration Fund Board.

Legal

2.1 Under Article 107(1) of the Treaty of the Functioning of the EU, State Aid is defined as:

- an advantage;
- conferred by the State or using State resources;
- which benefits one or more undertakings;
- thereby distorting competition; and
- potentially affecting trade between EU Member States.

All five elements of this definition must be satisfied if an intervention by the Council is to constitute State Aid. In granting a lease to AMRC at below market rates and undertaking adaptation works to the premises at no cost to AMRC, the Council is using State resources to confer an advantage, thus satisfying bullet points 1 and 2.

In principle, any aid to AMRC would be capable of distorting competition and affecting trade between EU Member States (which would satisfy the fourth and fifth bullet points) hence the crux of the State aid analysis here revolves around whether any beneficiary of State funding could be classed as an “undertaking”.

An undertaking is defined as an entity, regardless of its ownership or corporate structure, which engages in economic activity – i.e. offering goods or services on a market. AMRC have provided the Council with a legal opinion from New Media Law LLP which advises that AMRC, in performing its core activities at the iHub will not be an “undertaking” and therefore the third limb of the definition of State Aid will not be satisfied by Council’s financial support in the form of subsidised accommodation. In summary: under paragraph 19 of the European Commission’s Framework for State Aid for Research and Development and Innovation (“R&D&I Framework”), AMRC can be classified as a research organisation (“RO”); European Commission guidance states that in carrying out its core activities of teaching and independent research, AMRC as an RO will not be an “undertaking” and can therefore be 100% publicly funded without State Aid concerns

The Council’s commercial lawyer (Emily Feenan) has reviewed the state aid advice supplied by AMRC and is comfortable with the explanations provided, subject to the caveat that she is not an expert in this field and is therefore to a certain extent relying on the analysis of AMRC’s lawyer. That said, given that:

- (i) the opinion fits with her understanding of state aid in this area;
- (ii) the opinion is drafted for sharing with third parties; and
- (iii) were the aid subsequently be found to be illegal state aid, the sanction would fall on AMRC,

She thinks it is reasonable for the Council to take comfort from the opinion provided and move forward on the basis set out within it.

- 2.2 In offering AMRC a lease of the iHub premises at less than market rent, the Council is not meeting its duty to obtain best consideration on a disposal of an interest in land under section 123 of the Local Government Act 1972. However, as the undervalue is below £2 million, this disposal is covered by the Local Government Act 1972 General Disposal Consent (England) 2003, which states that Secretary of State approval to a disposal at undervalue is not required where the Council considers that such disposal will help it to secure the promotion or improvement of the economic, social or environmental well-being of its area.
- 2.3 Legal Services are providing advice and drafting the terms of the lease and any ancillary documentation to AMRC; such lease is to be in line with the standard form Connect lease for iHub premises.

Personnel

- 3.1 The improvements to the building will be overseen by existing Property, Design & Maintenance (PD&M) team resource.
- 3.2 AMRC will be managed as a tenant by the Connect Derby team with no impact.

IT

- 4.1 The AMRC's IT requirements will be managed in line with the existing Tenants requirements within the Connect Portfolio.

Equalities Impact

- 5.1 The iHub is accessible for disabled people who work or visit the building and any alterations to the building will be in accordance with the reasonable access principles where appropriate.

Health and Safety

- 6.1 The works to the iHub will be overseen by Property Design and Maintenance to ensure adherence to Contract (Design and Management) Regulations 2015 and appropriate regulations.

Environmental Sustainability

- 7.1 Not applicable

Property and Asset Management

- 8.1 The works to enlarging the workshop entrance will be managed and overseen by the Property Team. The works will add value to the workshop accommodation, improving its appeal to future tenants.

- 8.2 The letting will be managed by the Connect Derby team.
- 8.3 There is a statutory requirement that in any property transaction the Council needs to achieve best consideration. As the total level of support being offered to the AMRC is below £2 m , this disposal is covered by the Local Government Act 1972 General Disposal Consent (England) 2003 regulations which states that the Secretary of State approval of a disposal at undervalue is not required where the Council considers that such a disposal will help to secure the promotion or improvement of the economic , social or environmental well-being of its area.

Risk Management and Safeguarding

- 9.1 A risk register will be developed for the phase1 works and reported to the Project Steering Group.

Corporate objectives and priorities for change

- 10.1 The support to AMRC will support job creation and the development of advanced manufacturing in Derby along with supporting SMEs and the supply chain network.