

**St Cross Business Park, Isle of Wight:
Ex Post Evaluation
Final Report
South East England Development Agency**



Services for life

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Executive Summary

St Cross Business Park

1. St. Cross Business Park is situated on the Isle of Wight to the north of Newport It has a site area of approximately 12ha (29.7acres) and has been developed over ten main phases, which began in earnest in 1997. Today, it accommodates 35 businesses that are representative of a wide range of industrial sectors- many of the businesses are “high value” in terms of their Gross Value Added (GVA) contribution and the types of skills that they require from their workforce.
2. In all, some £6.4 million of public money has been invested into the development of the Business Park. This has come from three main sources: English Partnerships (via its Partnership Investment Programme, or PIP), Regional Selective Assistance (RSA) and the Single Regeneration Budget (SRB). Altogether EP provided just short of £3.2m of support, alongside this was just over £1.9m of support from the SRB programme (SRB also provided some running cost funding for the innovation centre). In addition one of the key tenants of the Business Park, Aerolaminates received just under £1m of RSA funding to relocate to the site. In total the public sector has contributed £6.4 million to development and operation of St Cross.

The historical development at St Cross Business Park

3. The development of St Cross has been undertaken in a number of phases – not all of which required public sector support. Early public investment at St Cross addressed market failure in speculative development. This was attempted by providing funding for site preparation and infrastructure which signalled a commitment on behalf of public stakeholders that was intended to raise investor and developer confidence. Later investments were targeted at specific occupiers (in the case of RSA funds) or specific developments with the site (such as the enterprise Hub). Despite the clear ambitions to develop a viable business park on the site there was no long term strategy for public sector support or investment.
4. The phased approach to the development of St Cross Business Park reacted to both market conditions and funding availability. The approach allowed development to proceed when market conditions were favourable – thereby limiting risk to all parties. The same flexible approach meant that when funding opportunities arose then scope for new activity within the site were explored and in most cases accommodated.
5. We are of the view, however, that the ability to achieve this level of funding integration has partly relied on key individuals who have been employed originally by EP and now SEEDA who have adopted a longstanding involvement with the development of St Cross Business Park. These key individuals have been “entrepreneurial” in their approach to working with the site developer, funding organisations and the Isle of Wight Economic Partnership to align funding and development when appropriate.

The value of the developments economic impact

6. From a value for money standpoint (using the unit cost per job created at the measure of VFM) the St Cross Business Park performs strongly. Using historical information and output records, the unit cost per (gross) job created is just over £5,400. This compares favourably to national evaluative evidence which places an average unit cost per job created between £12,000 and £18,000.
7. The true economic impact of St Cross is measured by making adjustments to the outputs achieved through the investment to reflect their real effect on the local and regional economy. We have used a range of primary research methods to estimate these adjustments and we conclude the net economic impact is roughly 1,000 jobs. This reflects the fact that the we feel that a small proportion of the benefits that have occurred through the investment at St Cross

would have occurred without that investment – typically the jobs created by smaller companies who have taken space at the site, who are likely, given the nature of their businesses, to have taken other space on the Island. Nonetheless, the overall net effect remains a very positive one. Owing mainly to the quality of employment that the larger inward investors have brought to St Cross and the general skill levels evident on the site, the Gross Value Added effect of the St Cross Business Park is significant, estimated to be approximately £55 million. This is a significant return on the original £6.4 million public investment. The higher wage levels associated with occupiers on the site, together with their advanced manufacturing nature suggests a strong contribution to rising average GVA per head.

The impact of St Cross Business Park on the Island's property market

8. Discussions with local and regional commercial and industrial agents continue to provide evidence of a market failure particularly for speculative development on the island. Rental levels are considered simply too low to allow for a reasonable return on investment and thus the activities of SEEDA are seen by the evaluators as relevant both to the historic market context and that prevailing today.
9. Despite unfavourable market conditions, St Cross Business Park has become a flagship for the Island's regeneration. We have been consistently impressed by the quality of business accommodation available on the site and it is undeniably a quality location and statement of achievement. The fact that it is likewise host to a range of high value generating employers only adds to this impact. However, it is not clear that this confidence in the local property market has manifested itself into tangible private sector investment.

Contribution to Local Objectives

10. Given the changing socio-economic profile on the Island economic development focused promoting inward investment, encouraging local business growth and entrepreneurship. At a time when employment was faltering retention of employers on the island was important. Ensuring the continued presence of SP Systems and facilitating the relocation (within the wider South East) of Aerolaminates. These companies are significant employers, as well as generators of wealth and Gross Value Added in the South East. Facilitating their retention provides a strong rationale for public sector investment.

Economic Impact

11. Of the 1,254 reported jobs on the site 90% (1,128) are taken by residents of the Isle of Wight with 5% being in the wider South East. This suggests that the programme has achieved a high level of *utility* – the programme has made a strong contribution to its objective of bringing jobs to the island. In terms of providing jobs that benefit the residents of the Isle of Wight the leakage from the project is just 10% (and only 5% at the regional level).
12. Moreover the majority of the jobs at St Cross are of relatively high value with employees typically educated to degree level or above performing technical jobs. The average wage levels of £22,760 is slightly above the average for the Island – for some firms the average is as high as £35,000 reflecting the advanced nature of their business.
13. The economic impact from the Business Park extends beyond jobs created. There is also a contribution to the wealth of the island (and the regional economy) through the creation Gross Value Added (a standard measure of productivity). A total contribution of some £55m to the regional economy is not an insignificant amount compared to the total wealth production for Hampshire and the Isle of Wight which is some £28bn. It also represents a considerable return on the public sector investment.
14. In order to compare the past public sector investment with the current contribution to GVA it is necessary to inflate the past expenditure to the current prices. The adjustment factor used for

this – 3.5% per year - is set out in the HMT Guide to Public Sector appraisal. Making this adjustment of the £6.4m original investment worth some £8m in today's values. This implies that each £1 of public sector investment has created a £6.8 contribution to GVA.

1 Introduction and Background

1.1 SEEDA

1.1.1 The South East England Development Agency (SEEDA) is the Regional Development Agency (RDA) with responsibility for England's largest region. The South East covers the counties of Berkshire, Buckinghamshire, Hampshire, the Isle of Wight, Kent, Oxfordshire, Surrey and East and West Sussex and is home to around 15% of England's population – some 8 million people. In order to deliver its statutory remit SEEDA aims to create a prosperous, dynamic and inspirational region by helping businesses compete more effectively whilst safeguarding the natural resources and cultural heritage of the region.

1.2 St Cross Business Park

1.2.1 St. Cross Business Park is situated on the Isle of Wight to the north of Newport. It has a site area of approximately 12ha (29.7acres) and has been developed over ten main phases, which began in earnest in 1997. Today, it accommodates 35 businesses that are representative of a wide range of industrial sectors- many of the businesses are "high value" in terms of their Gross Value Added (GVA) contribution and the types of skills that they require from their workforce.

1.2.2 Since the beginning of the development of St Cross Business Park, the aspiration was to create a "high quality" business location that would help to deliver the Island's strategic investment priorities. Of course, owing to the length of time over which the Business Park has developed, the specific nuances of these strategic priorities have evolved. Broadly, they have tended to focus on: creating a climate for investment; attracting new investment; encouraging new business creation; supporting and developing indigenous businesses; improving the skills and employability of people living and working on the Island.

1.2.3 In all, some £6.4 million of public money has been invested into the development of the Business Park. This has come from three main sources: English Partnerships (via its Partnership Investment Programme, or PIP), Regional Selective Assistance (RSA) and the Single Regeneration Budget (SRB). During the period 1997-99 these three funding streams were run separately (by English Partnerships, the Government Office for the South East and the SRB Partnership on the Island), however, with the creation of the Regional Development Agencies in 1999 they were integrated into programmes operated by SEEDA.

1.3 The need for evaluation

1.3.1 SEEDA has launched an updated Regional Economic Strategy in 2006¹ and has subsequently developed an implementation framework. The evaluation will help to inform this process. In addition, all projects and programmes with a level of SEEDA grant greater than £1 million are subject to an evaluation. For these reasons a comprehensive evaluation of the St Cross Business Park has been commissioned. The focus of the evaluation is on the economic impact of the project on the Isle of Wight, whilst also identifying any areas of best practice and conversely any areas that should be avoided in the future. In addition, the evaluation reviews the different funding mechanisms and how well these have come together as a possible model for the integration of other projects that SEEDA is involved with where there may be more than one team, with differing objectives, involved in the delivery.

¹ SEEDA (2006) *The Regional Economic Strategy 2006-2016 A Framework for Sustainable Prosperity*

1.4 Objectives of the evaluation

1.4.1 The brief that has guided the work of the evaluators is appended at Appendix A. The main questions contained within the brief are:

- To what extent have the projects individually met their original objectives, including objectives set out in their related proposal and appraisal documents?
- Have the projects had more impact collectively or are the projects' impacts very much in isolation?
- To what extent, if any, can private investment, in and around the local and wider strategic area, be attributable to SEEDA's investment in the schemes?
- What are the gross and net (adjusted for displacement, deadweight and leakage) outputs from the project?
- How far has the project met RES/ Corporate Plan objectives and Public Service Agreement targets?
- How many new companies have set up in the Business Park?
- How many companies have relocated to the Business Park?
- How many of the companies would have relocated off the Island if the development had not taken place?
- Has there been any change in unemployment rates that can be attributable to the development?
- What is the current attitude of those working on the site – is it still the same as when they first moved onto the site?
- What the pattern is of spend, activities and leverage across each project?
- Have the projects offered value for money?
- Can the work of the projects be sustained in the future, has an exit strategy been developed?
- Were there any specific challenges that were experienced by the projects and if so, how were these overcome?
- How effective are/were the delivery arrangements?
- How effective were the funding mechanisms?

2 Evaluation methodology

2.1 Introduction

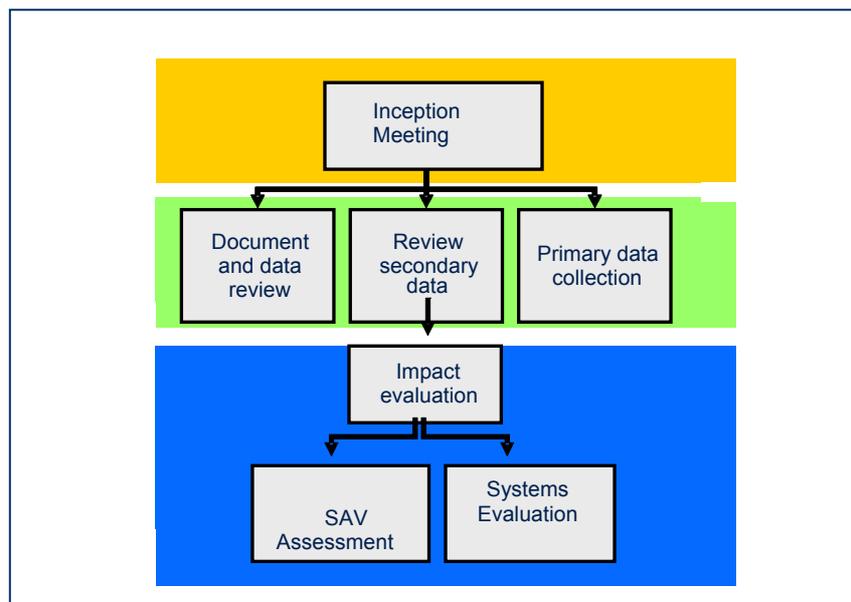
2.1.1 This evaluation has used a combination of primary and secondary research methods. These are described in detail in the accompanying “Evaluation Plan” (see Appendix B) and are summarised briefly in this section.

2.2 Overall approach

2.2.1 Three key strands of activity have been undertaken: a background review of key documentation and literature; an analysis of background material and data collected as a consequence of the funding and monitoring processes; and the collection and interpretation of primary evidence from key stakeholders and projects beneficiaries (the tenants of the business park).

2.2.2 This overall approach is summarised in Figure 2.1

Figure 2.1



2.3 Desk Based Research

2.3.1 Analysis of Monitoring Data

2.3.2 An initial review of the files concerning the development of the project has been undertaken. This has provided key financial information on the grant and construction costs as well as key legal documents setting out the terms of engagement and conditions of grant.

Key Findings

1. Despite the project having evolved over a number of stages and despite the fact that it has been funded through a number of different funding streams, the quality of background material (files, monitoring returns, key legal documentation and so on) held by SEEDA is exceptionally high.

2. SEEDA has demonstrated good practice in its role of administering the grant programmes since it took that responsibility in 1999 through diligent quality control and record keeping.

2.3.3 Whilst the files were particularly detailed in respect of project administration, they were less detailed on the socio-economic conditions of the Island and the strategic need for the investment. In our view this reflects more so on the changing nature of economic development practice over the last 10 years than it does on the application of good practice. There is currently a much greater emphasis on the need to prove issues of market failure than there was say ten years ago and this change in emphasis is reflected in record keeping and decision making evident within the project files.

Review of Socio-economic Conditions

2.3.4 Partly in response to the lack of socio-economic information, the evaluators have prepared a detailed statistical baseline that describes the context and how this has evolved over the course of the development of St Cross Business Park. This has helped with analysing such issues as:

- The cost effectiveness of the investment.
- The economic impact of the investment.
- The extent to which the investment has responded to changing market conditions.
- The analysis of a counterfactual / do nothing scenario.

2.3.5 The policy and socio-economic context has been established for a baseline position at 1995 (when the initial purchase of the site was considered by EP); 1997 (when EP negotiated gap funding support) and 2005 (the latest date for which comprehensive data is available).

2.4 Primary research

Stakeholder Consultations

2.4.1 A series of face to face consultations with key stakeholders has been held. These consultations followed a semi-structured format with a series of set questions but with scope for consultees to add their own views and emphasis. The list of stakeholder consultees is included within Appendix C, but broadly included organisations and individuals that have had or should have had a strategic interest in the programmes and those organisations that have had an operational involvement in the programmes and economic development of the Island.

2.4.2 The aim of the consultations was to address the issues of strategic fit and Strategic Added Value for St Cross.

St Cross Business Park Occupier Survey

2.4.3 As part of the evaluation a survey of businesses that currently occupy premises on the St Cross Business Park was undertaken. We are pleased to report that a response rate of 40% was achieved from the 35 occupiers of the Business Park.

2.4.4 The success of this has been attributable to “warming up” occupiers to the study and highlighting its relevance to them and flexibility in the survey methods employed – some

companies could talk to us face to face others were able to complete and post / fax / email a specific questionnaire.

- 2.4.5 In addition to the main survey exercise we also held in depth interviews with two of the largest occupiers. These addressed all of the main issues covered within our survey, but also allowed more detailed discussions on employment characteristics and so on.

Production of an Interim Report

- 2.4.6 Following the completion of the main research programme, we produced an interim report. Key areas that were covered were:

- The Policy Context;
- Baseline Measures, Performance Indicators and Evaluation of Outputs;
- The Evidence Base;
- Consultation Results - Project Managers and Stakeholders;
- Survey Results.

Final Report and dissemination event

- 2.4.7 All the information drawn out in the interim report and the feedback received in relation to it has been synthesised into a Draft Final Report. Following its production a dissemination event was held to discuss and debate the main conclusions and recommendations. A summary of the event is included at Appendix D.

3 Socio-economic context

3.1 Introduction

3.1.1 This section provides a baseline analysis of the Isle of Wight's economic position in a regional and national context. The analysis provides an important context to the development of St Cross Business Park, in both public policy terms and also in terms of the forces that have helped to shape market interest in the development.

3.1.2 The section has two main purposes:

- To establish the current socio-economic profile of the Isle of Wight compared to the South East and England; and
- To develop an understanding of how the island has changed since the development of the St. Cross Business Park.

3.1.3 Both these pieces of analysis help to set the context and a baseline position against which the investment at St Cross can be understood.

3.2 The situation prior to St Cross

3.2.1 In the early 1990s the economy of the Isle of Wight was significantly underperforming in comparison to the wider South East. Lack of investment and concentration of declining industries conspired to exacerbate the impacts of a weak global economy. The result was a localised economy with significant structural weaknesses:

- **High unemployment** – compounded by a reliance on seasonal and part time work in the tourism sector and the lowest average male earnings in the UK. Unemployment concentrated in the 19-34 age groups who accounted for 46% of the unemployed in 1997², whilst the overall population was made up of a high percentage of retired people on relatively low incomes.
- **A skills shortage** – suffering from increasing skills shortages³, low level of IIP recognitions, a low level of higher academic achievement and an area where 15% of the workforce fail to gain qualifications at all. 24%⁴ of Island employers experienced skills shortages and 24% had difficulty recruiting (particularly in professional, managerial, technical and IT occupations).
- **Lack of Investment** – there had been no new hotels built for almost 50 years, industrial development had generally been subsidised by the public sector and the level of population had been too low for the provision of some services and facilities⁵.

² NOMIS, 1997.

³ South East Region's Skills Strategy (1998)

⁴ WTE 1997 Employer Survey

⁵ "Open for Business – A plan for Jobs" The Island Regeneration Strategy (April 1998-March 2001)

- **Sectoral Reliance** - on tourism, defence related and public sector industries and lower levels of those employed as Managers and Administrators compared to the South East and England.⁶

3.3 How has the economy changed?

3.3.1 Over the last 10 years the socio-economic conditions of the Isle of Wight have improved in line with a steady improvement in the performance of the national economy. The population of the Island has increased at almost twice the regional rate- by some 9% since 1995 compared with just a 5% increase across the South East. However the population growth has been driven by in-migration of older people (especially those aged over 50) who are drawn to the Isle of Wight as a retirement location. Alongside this there has been an out migration of younger people (those aged 16-24) which exaggerates the population skew to the older age ranges with those aged over 50 accounting for a greater proportion than the national average.

3.3.2 Although the number of people in work has increased significantly since 1995 economic activity rates have fallen – driven by the increase in the number of people who have relocated to the island after taking early retirement. Consequently the economic activity rates appear to have been falling and are now well below the regional average (at 77.1% compared to 82.1%). Unemployment on the Island now stands at 1.9% which compares favourably with the national average (2.2%) but is slightly worse than the regional average (1.3%). In 1995 unemployment rates on the island were above the national average (at 7.5% compared to 6.4%) and were well above the regional level of 4.7%.

3.3.3 Alongside the increase in employment productivity which has risen by some 40% since 1995, the island now contributes some £1.4billion to regional GVA. However, due to the age structure of the population, GVA per head and productivity have not increased as impressively; GVA per head increased by just 22% from £8,400 to £10,270. Productivity as measured by GVA per employee has increased by just 8%. The increase in productivity has been accompanied by a slight shift in the industrial composition on the Island. Distribution, hotels and restaurants have increased their dominance on the Island (in terms of both employment and number of enterprises). Employment in public administration has also increased. Manufacturing employment is still above the regional average but at 10% has fallen by almost one third since 1995.

3.4 The Current Situation

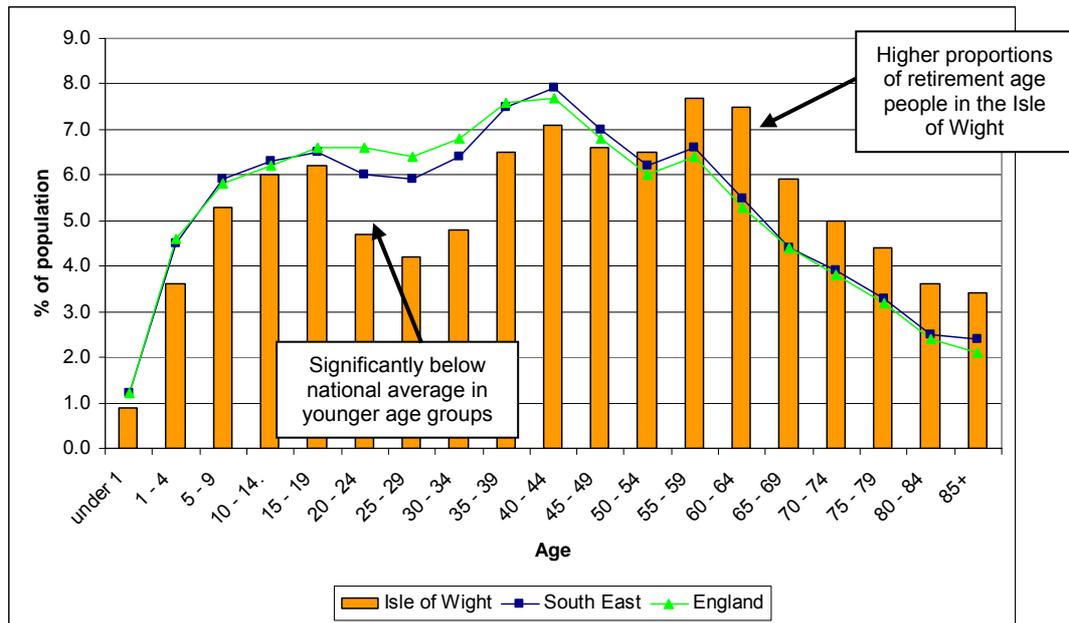
Population

3.4.1 In 2006, 138,500 people lived on the Isle of Wight, equivalent to 1.68% of the South East total. 56.7% of the population in 2006 were of working age, below the South East average of 61.5%, and England at 62.2%.

3.4.2 The Isle of Wight has a noticeable higher proportion of its population in the older age groups (55+) compared to both the South East and the England average. Figure 3.1 illustrates the structure of the population according to Mid Year Population estimates (2006), showing that the Isle of Wight has significantly more of the population in the age group of 55 and over. The 'ageing-population' of the Isle of Wight is reinforced by a below average number of people in the younger age groups, and especially in the ages 20 – 39 – reinforcing the skewed population of the Island.

⁶ Local Labour Force Survey, 1995, 1997.

Figure 3.1 – Age Structure of Population, 2006



Source: ONS Mid-Year Population estimates

Population Change

3.4.3 Mid year population estimates indicate that the Isle of Wight has experienced considerable population growth over the period from 1995-2006, with a 9% increase in population – this is equivalent to an additional 12,300 people. This growth exceeds the level in the South East (6%) and is almost double that experienced in England (5%).

3.4.4 The percentage change in population from 1995-2006 according to age group shows that the changes in population structure on the Isle of Wight have mainly been in the same direction as the patterns regionally and nationally. There are however some exceptions to this, with the early-retirement age groups (55-59 and 60-64) having grown more rapidly on the Isle of Wight – 32% and 31% respectively – compared to more modest growth in the South East (26% and 18%) and England (23% and 14%). Conversely, the numbers of aged 1-4, 5-9, 25-29 and 30-34 have fallen over the period.

3.4.5 The effect of this demographic profile of the Isle of Wight is that it remains heavily skewed towards the older age groups - every age group above 50 years accounts for a greater proportion of population on the Island compared with the South East and England

Migration

3.4.6 In the Isle of Wight, there was an inward flow⁷ of 4,900 people over the period from 2004-2005 and an outward flow of 3,600. This leaves a balance of 1,300 indicating that more

⁷ Internal migration estimates measure in, out and net flow by age and gender for all local and former health authorities in England and Wales. Internal migration estimates are based on patients moving and changing their doctor as they change address. The NHS Central Register (NHSCR) records movements of patients between Health Authority areas (HAs). When a NHS patient moves to a new HA and changes their GP, this change is recorded by the NHSCR

people came to the Isle of Wight than left over the period. Although the gross flow of people has been positive since 2002, inflow levels for 2004-2005 were at the lowest level over this period. Analysis of internal migration by age groups shows that there was a net loss of the 16-24 age group over the 2004-2005 period. This could be related to the movement of young people away from the Isle of Wight for higher and further education. All other age groups experienced a net increase in internal migration – particularly the 25-44 age group.

Key Findings

3. Buoyed by improving economic conditions the population of the Island has increased at almost twice the regional rate (by some 9% since 1995 compared with just a 5% increase across the South East).
4. However the population growth has been driven by in-migration of older people (especially those aged over 50) who are drawn to the Isle of Wight as a retirement location.
5. Alongside this there has been an out migration of younger people (those aged 16-24) which exaggerates the population skew to the older age ranges with those aged over 50 accounting for a greater proportion than the national average.
6. The future economic development of the Island should continue a focus on attracting inward investment to the Island and the encouragement of employment creating initiatives that will help support a balanced population and labour market.

Employment Patterns

3.4.7 According to the ABI (Annual Business Inquiry) there were 56,600 economically active people on the Isle of Wight in 2006, 54,800 of which were in employment. There were 16,800 economically inactive people with an economic activity rate of 74.6%. This compares to 78.3% in the South East but above the England rate of 73.3%.

3.4.8 The economic activity rate on the Isle of Wight has fluctuated significantly since 1995. Although the total number of economically active people has grown on the Island, the overall percentage has fallen when comparing 1995 to 2006. This differs from the pattern regionally and nationally, which are much more consistent.

Table 3.1: Economic Activity Rate (Working age population)

Year	Isle of Wight		South East		England	
	Number	%	Number	%	Number	%
1995	55,000	81.6	3,836,000	82.0	22,948,000	78.6
1997	50,000	75.6	3,905,000	82.2	23,084,000	78.6
2006	56,600	77.1	4,099,900	82.1	24,121,100	78.6

Source: ONS Annual Population Survey, and Labour Force Survey

Employment by Industry

3.4.9 The Isle of Wight has experienced a significant sectoral composition change since 1995. The non manufacturing sector has provided the bulk of job creation, with construction,

financial and business services and other - mainly public sector – services performing well. The agriculture and fishing industry groups have seen the largest percentage change since 1995, although they still account for a very small proportion of the overall employment structure.

Table 3.2: Employment by Broad Industry Group

Broad Industry Group	1995		2005		1995-2005
	number	percent	number	percent	% change
Agriculture and fishing	55	0.1	497	1.0	88.9%
Energy and water	89	0.2	257	0.5	65.4%
Manufacturing	5,566	14.6	4,824	10.0	-15.4%
Construction	1,042	2.7	807	1.7	-29.1%
Distribution, hotels and restaurants	12,954	33.9	17,172	35.7	24.6%
Transport and communications	1,757	4.6	1,724	3.6	-1.9%
Banking, finance and insurance, etc	3,034	7.9	3,496	7.3	13.2%
Public administration, education & health	11,551	30.2	16,441	34.2	29.7%
Other services	2,173	5.7	2,881	6.0	24.6%
Total	38,221	100.0	48,098	100.0	20.5%

Source: Annual business inquiry employee analysis, 2006 and Annual Employment Survey, Rescaled.

3.4.10 Key observations from this data for 2005, when comparing the Isle of Wight against the regional and national picture are:

- As the largest employment group, ‘Distribution, Hotels and Restaurants’ at 35.7% of employment are significantly higher than the levels in the South East (25.6%) and England (24.6%).
- The Isle of Wight is also over represented compared to the regional and national picture in the ‘Public Administration, Education and Health’ group, which represents 34.2% of employment compared to the South East (24.6%) and England (24.2%).
- The percentage of employees in the ‘Banking, Finance and Insurance’ sector on the Isle of Wight is significantly below the regional and national proportion - this sector represents 7.3% of employees. This is 16.5% below the level in the South East.
- Manufacturing accounts for 10% of employment on the Isle of Wight – this is slightly above the regional level of 8.8% but below that of England (11.1%).

3.4.11 A comparison of the top 15 2-digit industry groups according to employment for the Isle of Wight in 2005, 1995 and 1997 shows the following trends: .

- In 2005, the largest 2-digit industry group was ‘Health and Social Work’ with 8,379 employees, equivalent to 17.4% of total employment. From 1995 this industry group has gained an additional 2,608 employees (equivalent to 31% increase).
- The industry group ‘Manufacture of Wood and Products of Wood and Cork’ has experienced the largest percentage increase from both 1995 and 1997 to 2005 – 92% and 84% respectively. Although not the largest increase in terms of actual

employee numbers, this increase is most probably linked to the opening or increased scale of a manufacturing base on the Isle of Wight.

- The largest decrease in both actual employees and percentage of total employment out of the top 15 sectors in 2005 is for the 'Construction' industry group. The numbers employed in this industry group decreased by -235 (-29%) from 1995-2005, and -160 employees (-20%) from 1997-2005.

Workplaces

3.4.12 In 2005, the Isle of Wight had 5,350 workplaces. The largest percentage of workplaces was in the 'Distribution, hotels and restaurants' (33.2%) equivalent to 1,775 workplaces. The largest sector in the South East and England was the 'Banking, Finance and Insurance' sector – the Isle of Wight is significantly underrepresented at 15.5% of all workplaces compared to 27.9% in the South East and 24.3% in England.

3.4.13 Comparing the percentage change in workplaces from 1995-2005, shows that:

- Despite the total number of workplaces in the 'Banking, Finance and Insurance' sector being below the average of the South East and England on the Isle of Wight, this sector has grown the most from 1995-2005 in terms of total workplaces.
- Interestingly, the largest sector in terms of workplaces on the Isle of Wight - 'Distribution, Hotels and Restaurants' – has seen a -6% change in the number of workplaces, whilst the South East and England have experienced positive changes of 6% and 1% respectively.
- The 'Energy and Water' sector has experienced a positive growth rate on the Isle of Wight – 13% increase in the number of workplaces – compared to the South East (-72%) and England (-44%).
- Overall, since 1995, the number of workplaces registered to the Isle of Wight has increased by 16% - slightly below the growth rate in the South East of 22%, but in line with the 16% increase in England.

Employment by Occupation

3.4.14 The occupational structure of the economy is linked closely to the industrial structure, and the differences between the occupational mixes of the Isle of Wight and the South East can be largely explained by the relative industrial structures of the areas.

3.4.15 The largest occupation of employees on the Isle of Wight is in the 'Associate Professional and Technical' occupation equivalent to 15.3% of all employees. The Isle of Wight also has a higher percentage of employees in 'Skilled trade occupations' (13.8%) and 'Personal Service Occupations' (10.4%). The most marked difference in the occupational mix on the Isle of Wight compared to the South East and England is in the percentage of people in the 'Managerial and Senior Officials' occupations. This occupation is the largest in both the South East (17.3%) and England (15.3%).

Claimant Count

3.4.16 The Claimant Count is a count of those people who are claiming unemployment-related benefits such as Jobseekers Allowance (JSA) and National Insurance credits. The rate for the Isle of Wight in September 2007 was 1.9% of the working age population, which was above both the South East level (1.3%) but below the national level (2.2%).

Table 3.3: Claimant Count Rate, 2006

Date	Isle of Wight		South East		England	
	number	rate	number	rate	number	rate
September 2007	1,496	1.9	67,494	1.3	693,583	2.2
September 1997	3,732	5.3	125,014	2.6	1,224,176	4.1
September 1995	5,224	7.5	223,984	4.7	1,898,868	6.4

Source: Annual survey of hours and earnings - resident analysis

3.4.17 The rate has decreased significantly from that of 1995 where it stood at 7.5% on the Isle of Wight.

Key Findings

- 7. Although the number of people in work has increased significantly since 1995 economic activity rates have fallen – driven by the increase in the number of people who have relocated to the island after taking early retirement.
- 8. Consequently the economic activity rates appear to have been falling and are now well below the regional average (at 77.1% compared to 82.1%).
- 9. Unemployment on the Island now stands at 1.9% which compares favourably with the national average (2.2%) but is slightly worse than the regional average (1.3%). In 1995 unemployment rates on the island were above the national average (at 7.5% compared to 6.4%) and were well above the regional level of 4.7%.

Gross Value Added

3.4.18 The Isle of Wight has experienced good growth over the past five years. GVA has risen from £1billion to £1.4 billion during the period 1999-2004. GVA per head of population has increased by 22% from £8,400 to £10,270 and the productivity rate (GVA per full time job) has increased by 8% from £26,694 to £28,895.⁸

Earnings

3.4.19 Despite strong growth in employment and economic prosperity on the Island average wage levels remain below the regional and national averages. At just £395 the average weekly wage on the Island is some 19% below the regional average and 13% below the national average.

3.4.20 Both gross weekly and annual earnings have increased at a higher rate on the Isle of Wight from 2002-2006 compared to the South East and England. The increase is particularly pertinent for gross annual pay with a 19% change over the period for the Isle of Wight – compared to 12% in the South East, and 14% in England. This suggests that despite both gross weekly and annual wages being lower on the Isle of Wight compared to the South East and England, the gap is being closed due to wage increases year-on-year.

⁸ Experian, Isle of Wight Economic Strategy.

Key Findings

10. Alongside the increase in employment productivity has risen by some 40% since 1995 and the island now contributes some £1.4billion. However, due to the age structure of the population GVA per head and productivity have not increased as impressively; GVA per head increased by just 22% from £8,400 to 10,270.
11. Productivity as measured by GVA per employee has increased by just 8%. The increase in productivity has been accompanied by a slight shift in the industrial composition on the Island.
12. Distribution, hotels and restaurants has increased its dominance on the Island (in terms of both employment and number of enterprises). Employment in Public administration has also increased. Manufacturing employment is still above the regional average but at 10% has fallen by almost one third since 1995.
13. Gross annual earnings for all workers are below the national and regional averages, although earning levels have increased by a higher rate from 2002-2006 on the Isle of Wight compared to regional and national increases.

3.5 Strategic implications

3.5.1

Many of the above issues will already be familiar to those with a role connected to or focused on the development of the Isle of Wight economy. In the context of this evaluation study however, there are some notable strategic implications:

- Given the changing socio-economic profile on the Island, future economic development strategy needs to have at least a partial focus on the creation of a balanced labour market. This necessitates a combined approach of promoting inward investment, encouraging local business growth and also entrepreneurship.
- Retention of employers on St Cross is therefore vitally important. These companies are significant employers, as well as generators of wealth and Gross Value Added. The evaluation report has highlighted (as we will outline later) that whilst on balance companies on St Cross are happy with the quality of the Business Park overall, some are dissatisfied with particular aspects of it – including access to and from the site. Issues of dissatisfaction should therefore be addressed as a priority. Likewise, a regular dialogue with strategic employers on the site should also be encouraged to make sure their growing needs are catered for where feasible.

4 St Cross Business Park and its Evolution

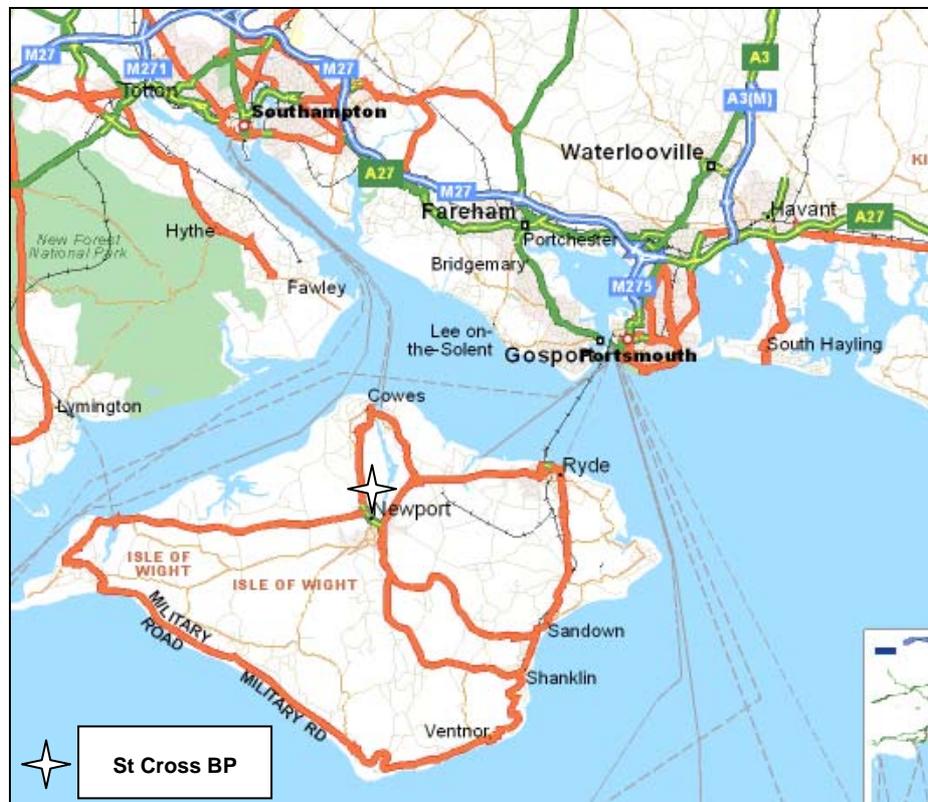
4.1 Introduction

4.1.1 This section of the evaluation describes St Cross and also provides an overview of its development and evolution from initial concept and planning stages to its present position.

4.2 Location and site context

4.2.1 The site has an area of approximately 12ha (29.7acres) situated within the industrial areas located on the northern outskirts of the Isle of Wight’s county town of Newport. Access to the site is off the Parkhurst Road – the main link between Cowes and Newport.

Figure 4.1 - Site Location



4.3 Development timeline and stages

4.3.1 The sequence of activity and investment on the St Cross Business Park occurred in a number of stages. Some of these are clearly separate; others are part of a pre-identified sequence / plan.

4.3.2 The bullet points below outline – in chronological order – the main steps that were taken in the funding and development programme.

- **Stage 1:** From September 1997, EP looked at part funding the initial infrastructure works required for a service road into the site (recorded on SEEDA’s internal business system as PCS number SE04527 ‘Infrastructure Works’).

- **Stage 2:** Following on from this a further funding agreement was drawn up between EP and M J. Hanslip (MJH) for assistance with the first building on site for the SP Systems Headquarter offices (recorded on SEEDA's internal business system as PCS number SE07359 'SP Systems').
- **Stage 3:** The next plot to be developed also received PIP funding. The freehold of the plot was sold by MJH to Aerolaminates (as it was then called). Using the PIP, EP assisted Aerolaminates with gap funding for the site preparation. The company was acquired by NEG Micon and by Vestas Blades Ltd (the project PCS number was SE11780 'Aerolaminates'). A supplemental agreement was signed in October 1999, and the building was built at the end of 1999.
- **Stage 4:** In parallel with the above three stages, the now Isle of Wight Economic Partnership (IRP) had successfully bid for the SRB round 2 funding. Part of the bid was for funding towards a technology park. The technology centre ultimately became a Technology Management Centre (TMC) and more recently an Innovation Centre. At this point SEEDA were continuing to develop and promote the concept of Enterprise Hubs that encourage and support new business initiatives, which includes development of a management team; specialist advice to develop businesses; turning know-how into products; getting the finance to grow; making contacts and building networks; and providing flexible workspace. The Partnership was encouraged to draw up a proposal using the Innovation Centre as the anchor for the hub. A successful bid was developed for revenue costs for running the managed workspace over 3 years including a hub director and extra support services. When the Innovation Centre was almost built, the first contract for the Enterprise Hub funding was signed to pay for the office fit out works and air conditioning installation. Isle of Wight Partnership signed an Agreement to Lease on 12 June 2000 for which the Isle of Wight Council underwrote the lease.
- **Stage 5:** Following the construction of the Innovation Centre, Enterprise House was built on the plot next to the Centre. This was built by MJH who paid for all of the development.
- **Stage 6:** In December 1999, SP Systems was granted planning permission to build an extension next door to their Headquarters for an industrial unit. A Supplemental Agreement was then signed between MJH and EP in 1999 for the release of the Legal Charge over plots A and B. Plot A was developed for, and known as, the 'SP Systems Phase 2' building. Plot B was developed in Stage 7.
- **Stage 7:** In addition to the previous three buildings, plot B was developed as four speculative offices. These buildings are known as 'The Courtyard'. Again these were built by MJH. The first building was opened in September 2003.
- **Stage 8:** Following the success so far of the Business Park, the Newport Business Park was speculatively built. The build was completed end of 2005/early 2006. This business park within a business park has created a total of 107,000ft² of B1, B2 and B8, space in 49 units within 3 buildings. Some of the individual units have been sold on.
- **Stage 9:** The last plot to be developed is known as 'The APEX'. This completed development consists of "Grade A" (i.e. high specification) offices.
- **Stage 10:** All that remains undeveloped is the plot adjacent to The APEX site, opposite the Aerolaminates' building. This site is approximately 20,000ft². This site has been known to be called 'The Wood Shop'.

4.4 Analysis of key development “milestones”

4.4.1 The development of St Cross has thus clearly been the result of a number of stages of funding and activity. In broad terms, these individual stages can be grouped together into a series of key development “milestones”. These can be defined as: infrastructure and site preparation; anchor investment and initial development; and further development on the site. Below we look at some of the issues that emerged and were addressed during these “milestones”.

Infrastructure and Site Preparation

4.4.2 The initial stage of public sector support for the St Cross development was to assist in completing the infrastructure works required to provide a serviced road into the site. The rationale for public funding at this early stage related to market failure relating to the provision of speculative development on the Island. The early evidence collated as part of funding proposals and agreements concluded that there was a strong argument that that in order to effectively market the site the service infrastructure would need to be in place. The view – as articulated in early documentation and reflected in our consultations – was that in part, this was aimed at overcoming a localised philosophy that was not used to new speculative development. In addition the commitment to putting in place the necessary service infrastructure helped to demonstrate a commitment and a programme of activity to potential investors which was specifically targeted to raise confidence of those on and external to the Island.

Key Finding

14. The focus of early public investment at St Cross was on addressing a market failure in speculative development. The mechanism to achieve this was the provision of funding for site preparation and infrastructure. This signalled a commitment on behalf of public stakeholders that helped to raise investor and developer confidence.

Anchor Investment

4.4.3 Following on from the site infrastructure, funding a further funding agreement was drawn up between English Partnerships and MJH, the developer of St Cross, for assistance with the first building on site for the SP Systems Headquarter offices.

4.4.4 In December 1999, SP Systems was granted planning permission to build an extension next door to their Headquarters for an industrial unit.

4.4.5 The next plot to be developed – at the end of 1999 - was for Aerolaminates. The freehold of this plot was sold by MJH to Aerolaminates (now known as Vesta’s Blades). In addition to PIP support from SEEDA (who replaced EP in April 1999) Aerolaminates secured £980,000 RSA funding towards this development project.

4.4.6 In parallel with the above three stages, the Island Regeneration Partnership had successfully bid for the SRB round 2 funding, part of which included £1.5m towards a Technology Centre and Enterprise Hub which was built in 2000.

Key Findings

15. The focus on attracting a prominent anchor tenant to the St Cross Business Park has the dual impact of consolidating an important local company onto a single site (thereby eradicating the possibility of a move off the Island) whilst concurrently establishing St Cross as a key and successful development on the Island.
16. The phased approach to the development of St Cross Business Park has reacted to both market conditions and funding availability. The approach has development to proceed when market conditions were favourable – thereby limiting risk to all parties. The same flexible approach has meant that when funding opportunities arose then scope for new activity within the site were explored and in most cases accommodated.

Further Development

- 4.4.7 The Innovation Centre and Enterprise Hub were the last phases to receive public sector support. However, the site developer has continued with further speculative building. This has included Enterprise House, developed following the construction of the Innovation Centre. In addition to Enterprise House, four other speculative offices were built which are now known as 'The Courtyard'. These were built by MJH and the first building was opened in September 2003. Although these were not directly supported by the public sector, planning restrictions were relaxed to allow some 'enabling' housing development to cross subsidise the speculative employment space. This allowed Newport Business Park to be built speculatively within St Cross. The business park created a total of 107,000ft² of B1, B2 and B8, space in 49 units within 3 buildings. Some of the individual units have since been sold on. The build was completed by early 2006
- 4.4.8 The last plot to be developed was 'The APEX' which provides high quality office accommodation and was completed in early 2007. This was the final phase of speculative development by MJH on the site. Although there is still a vacant plot at St Cross difficultly in letting the Apex has delayed its development.

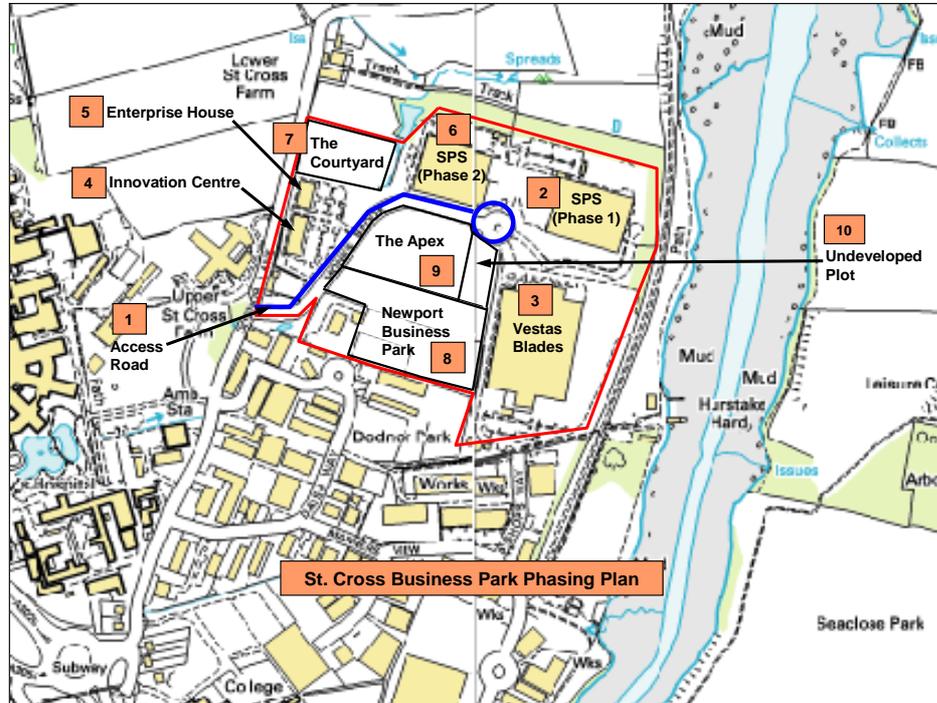
Key Finding

17. The early stages of development have undeniably achieved their objectives and the development is a positive indication of the realisation of a number of important strategic priorities (which are explained in Section 5 of this evaluation). The market failure in relation to speculative development was – in this case at least –corrected and investor and developer confidence substantially raised. This is evidenced by further unsubsidised speculative development, which whilst benefitting from a relaxation in residential planning consents, has proceeded entirely without public subsidy.

4.5 St Cross Business Park today

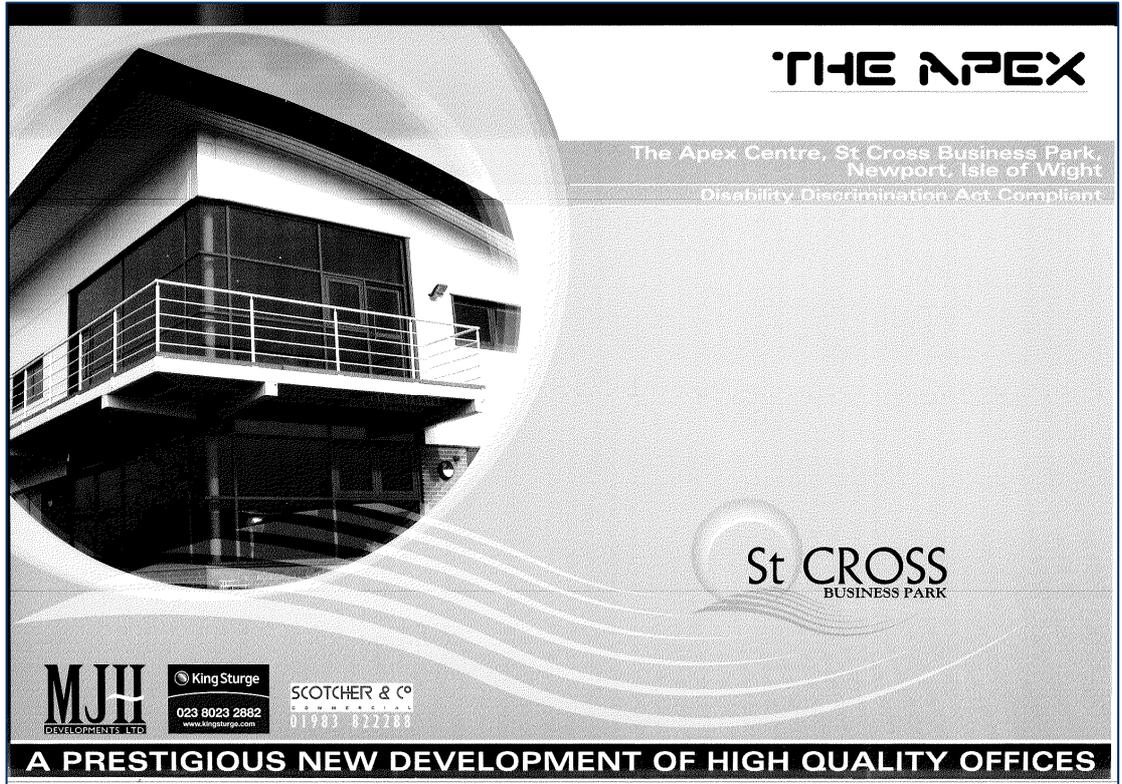
- 4.5.1 St Cross Business Park is now well established as the Island's premier business location. It is home to some 35 businesses. Importantly given the Island's broader economic context, many of these are "higher value" businesses, employing highly skilled people, with comparatively high wages (in both a local and national context). These two factors contribute significantly to the economic impact of the development, which is considered in detail at Section 7 of the evaluation. Some of the more prominent occupiers include the Isle of Wight Partnership, South Wight Housing Association, Glanville Solicitors, the Isle of Wight Council, Vestas Blades and SP Systems.

Figure 4.2 - Site plan, key buildings and occupiers



4.5.2 The illustration overlaid is an example of the current marketing literature used to promote the latest stages of the speculative development at St Cross Business Park. Figure 4.3 refers to the Apex, although a further building is also being marketed as St Cross House.

Figure 4.3 - Marketing material for the "Apex"



5 Strategic and funding context

5.1 Introduction

5.1.1 This section of the evaluation describes the content of the main strategy and planning documents that have helped to shape the development and delivery of the St Cross Business Park.

5.1.2 This section also outlines the specific objectives that drove the funding partners to invest in the various component parts of the St Cross. As part of this, the analysis refers to the various funding agreements and appraisal documents that were made available to the evaluators by SEEDA.

5.2 Sub-Regional Context

5.2.1 In the 1990s the poor economic conditions on the Isle of Wight highlighted the need for public sector support to stimulate economic development and regeneration. In 1993 the Isle of Wight was designated with 'Intermediate Assisted Area' status making it eligible for Regional Selective Assistance (RSA) (now known as Selective Finance for Investment in England) which is a grant to assist business fund new investment projects that lead to long-term improvements in productivity, skills and employment. The deprivation levels also made it eligible to bid for Single Regeneration Budget (SRB) funding. These various funding instruments have each played a critical role in creating St Cross Business Park. The key strategic and planning documents that have been made available to the evaluators – and have specifically shaped the development at St Cross are summarised below:

Island Regeneration Strategy 1998-2001

5.2.2 Responding to the poor economic performance of the 1990s the Island Regeneration Partnership (IRP) was created. This consisted of the Isle of Wight Council, Wight Training & Enterprise, Rural Community Council, Isle of Wight Chamber of Commerce, Isle of Wight College, Rural Development and representatives from the private sector. The Partnership's aim was *'to enhance the Island's economy, creating improved job and investment opportunities, whilst sustaining the quality of life.'*

5.2.3 The IRP created a strategic Economic Regeneration Vision which was used as the platform for bids to the Single Regeneration Budget. Although unsuccessful in bidding for funds from the first SRB round the partnership did secure funding from the second round of SRB. A central theme to the vision for closing the economic gap on the island was the recognition that the business accommodation offer on the Island was not competitive and that a modern, high spec, business park was needed both to improve the accommodation offer but also to raise standards and aspirations.

5.2.4 Following on from the successful SRB bid, the Island Regeneration Strategy from April 1998 to March 2001 was written by the IRP.

5.2.5 The plan focused on the actions that needed to be taken on the island to create additional jobs. This includes five priorities for action to help fulfil that objective:

- Creating the climate for investment
- Attracting new investment onto the island;
- Encouraging new business creation;
- Supporting and developing our current businesses; and

- Improving the skills and employability of our people.

5.2.6 By focusing on these areas, the Isle of Wight could position itself as an island which was “Open for Business” – ready, willing and responsive to new investment and opportunities.

5.2.7 Under these priorities for action, the development of St Cross was identified as being particularly important as a development of suitable property sited to support investor needs.

Isle of Wight Unitary Development Plan (UDP) 1996-2011

5.2.8 The Isle of Wight Unitary Development Plan (UDP) 1996-2011, was adopted on 18 May 2001 by the Isle of Wight Council. This plan provided the strategic and detailed framework to encourage and guide development on the Island and to protect and enhance the environment. The plan brought forward proposals for the use and development of land and, when adopted, replaced all prior existing statutory structure and local plans for the Island.

5.2.9 A strategic priority of the UDP included:

- S8 - At least 60 hectares of employment land will be allocated, within, or adjacent to the main towns in areas well served by public transport.
- S9 - The relocation of a major new employer will be encouraged and a development site sought if no allocated site is suitable or available.

5.2.10 The UDP specifically referred to the development of St Cross as a high quality employment site, with the land specifically earmarked for such development. In the UDP Deposit Draft (1997), St Cross had been acknowledged as the “flagship” scheme that was to raise the profile of the Island and attract inward investment.

Single Regeneration Budget Round 2: Strategy and Delivery Plan

5.2.11 The Isle of Wight Economic Partnership co-ordinates and facilitates four out of the six rounds of Single Regeneration Budget (SRB) funding. Broadly these programmes have supported regeneration initiatives to improve the quality of life of people living in deprived areas by reducing the gap between the most prosperous and deprived areas on the Isle of Wight.

5.2.12 One of the programmes that featured most prominently in the development of St Cross was the SRB Round 2 programme. This was secured in 1995 when the Isle of Wight Economic Partnership made a successful bid for SRB funding. That bid – entitled “Altogether Wight” was a landmark in the recent regeneration of the Island and brought with it significant investment. The focus of the Round 2 programme was on:

- Improving the employment prospects, education and skills of local people;
- Addressing social exclusion and improving opportunities for the disadvantaged;
- Promoting sustainable regeneration, improve and protect the environment and infrastructure, including housing;
- Supporting and promoting growth in local economies and businesses;
- Reducing crime and drug abuse and improve community safety.

5.2.13 SRB programmes were required during their life to produce initial bid documents and thereafter annual Delivery Plans. In interrogating these documents it is clear, particularly

within the SRB Round 2 programme that inward investment and the encouragement of greater levels of entrepreneurship on the Island were considered as strategic regeneration priorities.

- 5.2.14 The specific focus of the funding made available to St Cross via the SRB programme is considered below, where the evaluators discuss the various aims and objectives attached to the various funding agreements.

Key Findings

18. Whilst the description of the Strategic Context described above is now outdated, it confirms that the rationale for the development of improved and higher quality business accommodation on the Island was well defined. The strategic context also confirms the existence of a market failure in the provision of speculative development on the Island and helps to reinforce the rationale for early stages of the intervention.
19. As part of that rationale, all three of the key strategy / planning documents also acknowledged the important role of attracting new inward investment to the Island. SRB and the Island Regeneration Strategy also had a focus on enterprise and entrepreneurship. St Cross – and the various investments that have been made as part of it – has focused on addressing these strategic priorities.

5.3 Programme aims, objectives and funding

Partnership Investment Programme (PIP) Funding

- 5.3.1 English Partnerships set up the Partnership Investment Programme (PIP) in 1994 to support the physical regeneration of deprived areas. PIP provided gap-funding and innovative partnership mechanisms to enable developers and other partners to undertake schemes where legitimate development costs would otherwise exceed end values. The programme closed to new applications in December 1999 when the European Commission ruled that it was in breach of the State Aid rules and therefore not compatible with the principles of the Common Market. RDAs are continuing to deliver existing approved projects under their land and property programmes.⁹ The funding and appraisal document made relating to PIP covers the main financial and legal agreements. We are not aware of any documents that specifically stated the objectives of this particular PIP other than to provide funding for the infrastructure and site preparation works. In relation to this, a development agreement was drawn up between EP and MJH, and signed in February 1998. The amount invested for this first enabling stage was £1,227,000 (£440,000 public sector and £787,000 private sector). The agreement specification stated that a fully serviced road would be constructed.

- 5.3.2 Following on from this a further funding agreement was drawn up between EP and MJH for assistance with the first building on site for the SP Systems headquarter offices (known to SEEDA by PCS number SE07359 'SP Systems'). The PIP funding for this element was £1,797,000. This has played a crucial role in not only the success of the business park but for the Isle of Wight in attracting inward investment. Before this employment space was made available, SP Systems were in a dozen small units which created the threat of the company leaving the country as they couldn't expand any further. (SP Systems was acquired by Gurit in 2002.)

⁹ www.englishpartnerships.co.uk

- 5.3.3 The next plot to be developed also received PIP funding. The freehold of the plot was sold by MJH to Aerolaminates (as it was then called). Using the PIP, EP assisted Aerolaminates in £957,000 gap funding for the site preparation. The company was acquired by NEG Micon and by Vestas Blades Ltd (the project PCS number was SE11780 'Aerolaminates'). A supplemental agreement was signed in October 1999, and the building was built at the end of 1999.

Regional Selective Assistance (RSA) Funding

- 5.3.4 Regional Selective Assistance grants are UK Government grants set up to encourage inward investment, relocation and expansion in industry and business. RSA is a discretionary grant for businesses needing more than £50,000 of financial assistance towards capital investment projects. There is no upper limit on the amount of grant available. RSA is intended to fill any gap after all other potential funding has been sought. The amount of grant that may be offered will always be the minimum amount necessary to enable the investment project to go ahead.
- 5.3.5 RSA documentation made available to the evaluators relates to Aerolaminates. The aims and objectives of the funding were to both support the inward investment of the company onto the site (building fit out) and similarly to enable the company to acquire new capital equipment relating to its operation at St Cross. This included new capital assets (machinery, computer equipment, buildings etc.), but did not include any intellectual property bought from a third party, patent rights. Further eligible expenditure included professional fees and other one-off costs related to the investment. In all some £980,000 of eligible expenditure was incurred.

Single Regeneration Budget

- 5.3.6 The broad objectives of the SRB 2 programme described earlier included a focus on enterprise and entrepreneurship and helping the Island to develop a higher value economy.
- 5.3.7 A key feature of the original bid for SRB funding was a substantial level of funding (circa £1.5million) for a "technology park". The Government Office for South East (GOSE) was the lead on SRB funding at the time and requested the cost required for a 'Technology Management Centre' (TMC). TMCs were popular instruments of economic development during this period and were developed in numerous locations in England. Ultimately it was agreed that the TMC would be constructed and that funding for it would be divided between two applications, one for the capital build cost and one for the revenue costs.
- 5.3.8 Plans for the development progressed faster than the business plan with the construction finished by 2000. MJH built it with a classic incubator objective for innovative companies to reflect the purpose of the SRB initiative. Enterprise plc were working on the business plan but withdrew from the project when the proposal was not progressed for a variety of reasons.
- 5.3.9 In addition to the TMC (which is now referred to as the Innovation Centre) SEEDA were continuing to develop and promote the concept of Enterprise Hubs. These were physical spaces that encourage and support new business initiatives, but also included dedicated management teams; specialist advice to develop businesses; turning know-how into products; getting the finance to grow; making contacts and building networks; and providing flexible workspace.
- 5.3.10 Through its Round 2 SRB programme, the Isle of Wight Economic Partnership drew up a proposal using the Innovation Centre as the anchor for the hub. A successful bid was developed for £300,000 revenue costs for running the managed workspace over 3 years including a hub director and extra support services. When the Innovation Centre was almost built, the first contract for the Enterprise Hub funding was signed to pay for the

office fit out works and air conditioning installation. This came to a figure of £472,860. Isle of Wight Partnership signed an Agreement to Lease on 12 June 2000 for which the Isle of Wight Council underwrote the lease.

Key Findings

20. Whilst the development of St Cross has occurred in a number of stages throughout each the main parties involved have managed to successfully integrate various funding instruments and sources. These funding sources, whilst administered during early phases by different organisations, have successfully combined to create a wide range of alternative business premises in a single identifiable location.
21. The fact that St Cross Business Park was developed without a long term masterplan and funding plan at its inception has in no way restricted its ability to access funding during its lifetime. Indeed the counter argument is actually true: the development has been undertaken flexibly and in such a way as to respond opportunistically to market conditions, investor interest and funding availability. This has created a rich source of funding sources which compliment each other.
22. We are of the view however that the ability to achieve this level of funding integration has partly relied on key individuals who have been employed by EP and now SEEDA who have adopted a longstanding involvement with the development of St Cross Business Park. These key individuals have been “entrepreneurial” in their approach to working with the site developer, funding organisations and the Isle of Wight Economic Partnership to align funding and development when appropriate.

5.4 Combined funding programme

- 5.4.1 There are three sources of funding which have contributed to the St Cross Business Park. By far the largest contribution came from the initial investments agreed by EP as part of the PIP programme. Altogether EP provided just short of £3.2m of support, alongside this was just over £1.9m of support from the SRB programme (SRB also provided some running cost funding for the innovation centre). In addition one of the key tenants of the Business Park, Aerolaminates received just under £1m of RSA funding to relocate to the site. In total the public sector has contributed £6.4 million to the development and operation of St Cross.
- 5.4.2 It is worth noting that in 1997-99 these three funding streams were run separately by EP, Government Office and the SRB partnership and had they been identified as a single programme CPRG approval would have been needed owing to the total value of funding involved. Since 1999 these three funding streams are the responsibility of SEEDA and the overlap would have been identified allowing for more robust (proportionate) appraisal to be undertaken.
- 5.4.3 The funding agreement made provision for EP/SEEDA to be reimbursed in the event of disposals being at levels above agreed values. There is correspondence from MJH to SEEDA expressing concern about the terms of the legal charge and agreement, and contains references to English Partnerships clawing back a figure of some £200,000 as a result of land disposals. Such clawback arrangements are standard practice in gap funding projects

Table 5.1: Funding profile of St Cross Business Park

Investment	Funding				Total
	EP /PIP	RSA	SRB Capital	SRB Revenue	
Site Infrastructure	£440,000		-	-	£440,000
SP Systems	£1,797,000		-	-	£1,797,000
Aerolaminates Technology	£957,000	£980,000	-	-	£1,937,000
Management Centre	-		£1,500,000	-	£1,500,000
Enterprise Hub	-		£472,860	£300,000	£772,860
Enterprise House	-		-	-	-
The Courtyard	-		-	-	-
Newport Business Park	-		-	-	-
The APEX	-		-	-	-
Total	£3,194,000	£980,000	£1,972,860	£300,000	£6,446,860

NOTE: RSA funding has been included in this table for Aerolaminates. SP System also received an unspecified sum of RSA funding (which is not included above)

6 Quantifiable and economic impact

6.1 Introduction

6.1.1 This section reviews the quantifiable impact of the St Cross Business Park development. Specifically it examines the impact of St Cross in terms of the:

- The specific outputs achieved
- The economic impact of these outputs.

6.1.2 Information on the outputs achieved is drawn from project monitoring forms returned to SEEDA and a postal survey of occupiers on the site. Both of these have also enabled a robust economic impact assessment to be made – using actual recorded monitoring data and current employment information provided by employers.

6.1.3 It is difficult to compare the outputs of the project with the original objectives. In the main this is due to the limited quality of paperwork associated with the original project applications and appraisals. In some cases the objectives were relatively straight forward: for example EPs original investments had an objective were to facilitate the development on the site. This overall objective was not (in the paperwork available) translated into specific quantifiable objectives. Subsequent investments by EP were project specific such as the investment to relocate SP Systems and Areolaminates. For these investments the overall objective was to secure the continued presence of these major employers in the South East. More specifically, safeguarding the jobs associated with these employers and possibly creating new jobs through growth and expansion but again the paperwork available does not quantify these.

1.1.1 The lack of detailed objectives for the EP funding possibly stems from the piecemeal approach to funding development. At each stage the level of detail is proportionate to the scale of investment. However, when taken together the scale warrants greater detail and specificity in the objectives to be achieved – the production of a scheme masterplan may have helped with the establishment of clearer objectives.

1.2 Outputs Achieved

Overall

6.1.4 Table 6.1 below shows that some 836 jobs have been created directly on the site and a further 344 have been safeguarded. 74 jobs were transferred into St Cross from elsewhere in the region. In addition some 25,000 sq ft of business space was created, comprising 19,000 sq ft of manufacturing space and 5,500 of office space.

6.1.5 It is worthy of note that based on our survey of occupiers 15% of occupiers are newly formed companies, a further 23% relocated from outside of the Isle of Wight (but within the South East) the remaining occupiers relocated from elsewhere on the Isle of Wight. However, the majority (60% of all businesses) of those firms that relocated to St Cross did so to facilitate their expansion.

Table 6.1: Outputs of Investment

Company	Outputs (after first 3 years of completed development)				
	Jobs Created	Jobs Safeguarded	Jobs transferred	Manufacturing Space Sq m	Office Space
SP Systems	195	144	24	7,700	-
Aerolaminates	170	-	50	12,000	-
Technology Management Centre	371	200	-	-	2,592
Enterprise Hub	100	-	-	-	3,000
Enterprise House	-	-	-	-	-
The Courtyard	-	-	-	-	-
Newport Business Park	-	-	-	-	-
The APEX	-	-	-	-	-
Total	836	344	74	19,700	5,593
<i>- No data is available for this development</i>					

Job Creation

6.1.6 Table 6.2 below shows the cost per job of investment, identified across each component of the development.

Table 6.2: Cost per Job of Investment

Purpose	Funding and Unit Cost Outputs		
	Total Funding	Jobs	Cost per Job
Site Infrastructure	£440,000	-	-
SP Systems	£1,797,000	339	£5,301
Aerolaminates	£1,937,000	170	£11,394
Technology Management Centre	£1,500,000	571	£2,627
Enterprise Hub	£772,860	100	£7,729
Enterprise House	-	-	-
The Courtyard	-	-	-
Newport Business Park	-	-	-
The APEX	-	-	-
Total	£6,446,860	1,180	£5,463

6.1.7 In return for the £6.4million of public sector support (from all sources) this represents good value for money at around £5,400 per job created or safeguarded. Whilst national

benchmarks vary considerably, the evaluators are aware of evidence from the National Evaluation of City Challenge and SRB programmes highlighting that a typical unit cost per job created is in the region of £12,000 to £18,000¹⁰. Profiled against these benchmarks the costs per job ratios at St Cross are very favourable.

- 6.1.8 There is some variation in the cost per (gross) job delivered by each phase of the development (as shown in Table 6.2). The relocation of Aerolaminates is the most expensive element due to the combination of EP/PIP funding and RSA support. In total this phase of the development received over £1.9m of funding support and created or safeguarded just 170 jobs - equivalent to over £11,000 per job. However, if this were considered in isolation (without reference to the other phases) this would represent acceptable value for money compared to rule of thumb benchmark of £10,000 per job. The elements supported by SRB funding (the Technology Centre and Enterprise Hub) provided the best value at a cost per job of less than £2,700.
- 6.1.9 The analysis here does not take account of the employment created in the phases of the business park that were not supported by public funds.
- 6.1.10 It is clear from the (public sector) funding profile and phasing of the development that each stage of the development was discrete. There are no apparent linkages between the phases of development. Certainly, the SPSystems and Aerolaminates developments are self sufficient and to a large extent separate from the rest of the development. The phased approach has clearly worked to the developers' advantage, allowing them to develop as their confidence in the site and market conditions grew (albeit subject to time constraint imposed in the funding agreements, which was relaxed during the process). This phased approach also allowed the developer to exploit emerging funding opportunities such as the SRB support for the Enterprise Hub. Overall it is not possible to identify any quantifiable impacts that would have been created had the total investment been treated as a single product. However, the phase approach does appear to have increased the developers' confidence leading to speculative development at the neighbouring Newport Business Park.

Floorspace Provided

- 6.1.11 The data provided does not allow a fair unit cost to be calculated. It is perhaps of greater relevance to note that some 800,000 sq ft of floorspace has been levered by £6.4 million investment in conditions of market failure which would otherwise prevented any commercial development whatsoever. This is explored further in Section 7.

Key Finding

23. From a value for money standpoint (using the unit cost per job created at the measure of VFM) the St Cross Business Park performs strongly. Using historical information and output records, the unit cost per job created was just over £5,400. This compares favourably to national evaluative evidence which paces an average unit cost per job created between £12,000 and £18,000.

¹⁰ See National Evaluation of City Challenge (1999) and National Evaluation of the Single Regeneration Budget (2004); Department of the Environment Transport and the Regions (now DCLG)

6.2 Economic impact

6.2.1 In order to calculate true economic impact of the investment at St Cross it is necessary to look at what are commonly referred to as *net effects* a series of adjustments need to be made in order to calculate the overall contribution to the economy. The evaluators have calculated these adjustments from postal surveys and discussions with occupiers at the Business Park and consultations with key stakeholders.

6.2.2 In broad terms, the adjustment recognises that:

- some of the benefits might have accrued anyway (i.e. the extent of *deadweight*¹¹ or *additionality*) – in this case the development may have gone ahead without public sector support;
- not all of the benefits from the investment may be positive – e.g. firms who lose market share to those firms that have received assistance (i.e. *displacement*);
- there might be wider benefits associated with the intervention – particularly in the form of benefits to suppliers to assisted firms (i.e. *linkages or supplier multipliers*) and of increased income to those people assisted into employment by the intervention (i.e. *income multipliers*);
- in addition, where an intervention is directed at a particular spatial area or group of people, there may be leakage of the benefits out of the target area and there may be simple substitution of those that benefit for those that do not (i.e. with no net gain in the relevant indicator – e.g. unemployment).

¹¹ Deadweight is often used to describe that proportion of the output that would have been achieved anyway – i.e. without the assistance. Strictly speaking – and according to the Green Book definition, it is that proportion of the public spend that is associated with outputs that would have been achieved anyway.

6.3 Net Impact

Deadweight

- 6.3.1 In order to calculate the deadweight of the jobs created on the site we asked a selection of occupiers how likely it is that their business would have located or remained on the Isle of Wight if the site had not existed.
- 6.3.2 Overall respondents to our survey agreed that locating at St Cross had helped facilitate the growth of their business. The majority of respondents were not able to quantify the extent of the impact: all the business interviewed were growing and needed additional space to facilitate this growth – hence their relocation to St Cross –and the majority felt they would have grown regardless of the relocation but admitted there was a shortage of alternative space for them to relocate to.
- 6.3.3 In terms of economic impact this suggests a relatively high level of deadweight (survey suggests around 70%). But, we also know that only 15% those firms that did relocate to St Cross were looking for larger premises and would have left the region if St Cross had not been available (SPS and Vestas are notable examples and the largest employers on the site), this suggests a relatively low level of deadweight. Calculating a weighted average for the deadweight (0% of Vestas and SPS and 30% for other occupiers) suggests a displacement factor of around 35% (consequently the output additionality for this project is 65%).

Leakage

- 6.3.4 Of the 1,254 reported jobs on the site 90% (1,128) are taken by residents of the Isle of Wight with 5% being in the wider South East. This suggests that the programme has achieved a high level of *utility* – the programme has made a strong contribution to its objective of bringing jobs to the island. In terms of providing jobs that benefit the residents of the Isle of Wight the leakage from the project is just 10% (and only 5% at the regional level).
- 6.3.5 Moreover the majority of the jobs at St Cross are of relatively high value with employees typically educated to degree level or above performing technical jobs. The average wage levels of £22,760 is slightly above the average for the Island – for some firms the average is as high as £35,000 reflecting the advanced nature of their business.

Multiplier Effects

- 6.3.6 Although there are a large proportion of employees resident on the Island suggesting a strong income multiplier, we found a relatively weak supplier multiplier. Occupiers at St Cross broadly fit into two types: small high value firms with low supply chain spend; and subsidiaries of large (multinationals) whose supplies are sourced centrally giving little opportunity for local spend. Consequently we feel the multiplier effect will be relatively low. According to Amion¹² the combined multiplier effects for land and property developments can range from 1.38 to 1.56. We believe the multiplier for St Cross to be at the lower end of this range.

¹² Additionality: A Full Guide: Amion Consulting for EP 2001

Calculating Net Outputs

6.3.7 In order to calculate the net impact on jobs on the Isle of Wight from the investment at St Cross we have used information from our surveys. However, it should be noted that this calculation is reliant on our own assumptions of hoe the various linkages interact and is therefore an approximation with fairly wider variance.

Table 6.3: Net Impact calculations

	Adjustment	Jobs
Gross employment		1,254
Deadweight	-35%	815
Leakage	-10%	734
Multipliers	36%	998
Net additional employment		998

6.3.8 Almost one thousand jobs have been created or safeguarded by the development at St Cross since development started in 1999. Since that time total employment on the Island has increased by some 10,000. It is likely that the development at St Cross has had a strong influence on the overall employment on the Island. However, it is unlikely to be the 10% that the raw numbers suggest. With over 70% of firms locating to St Cross to allow their business to expand it is more likely that the strengthening economic climate contributed to success of the development. No doubt St Cross facilitated the employment growth but it would be an overstatement to claim it was in any way the cause.

Key Findings

24. The true economic impact of St Cross is measured by making adjustments to the outputs achieved through the investment to reflect their real effect on the local and regional economy. The evaluators have used a range of primary research methods to estimate these adjustments and we conclude the net economic impact is roughly 1,000 jobs. This reflects the fact that the evaluators feel that a small proportion of the benefits that have occurred through the investment at St Cross would have occurred without that investment – typically the jobs created by smaller companies who have taken space at the site, who are likely, given the nature of their businesses, to have taken other space on the Island. Nonetheless, the overall net effect remains a very positive one.

6.4 Gross Value Added

6.4.1 The economic impact from the Business Park extends beyond jobs created. There is also a contribution to the wealth of the island, and the regional economy through the creation Gross Value Added. Due to commercial sensitivity it is not practical to collect data on the productivity and output of occupiers of the Business Park. However, we do know the average GVA per worker in the South East is £55,230. It is reasonable to assume that the workers at St Cross will achieve at least this level of output given the modern facilities and high value added nature of many of the operations. Hence if 988 net additional jobs have been created, the contribution to GVA is around £55 million a significant amount compared to the total wealth production for Hampshire and the Isle of Wight which is some £28bn¹³. It also represents a considerable return on the public sector investment.

6.4.2 In order to compare the past public sector investment with the current contribution to GVA it is necessary to inflate the past expenditure to the current prices. The adjustment factor used for this – 3.5% per year - is set out in the HM Treasury Guide to Public Sector Appraisal (the 'Green Book'). Making this adjustment the £6.4m original investment would be worth some £8m in today's values. This implies that each £1 of public sector investment has created a £6.8 contribution to GVA.

Key Findings

25. Owing mainly to the quality of employment that the larger inward investors have brought to St Cross and the general skill levels evident on the site, the Gross value Added effect of the St Cross Business Park is significant, estimated to be approximately £55 million. This is a significant return on the original £6.4 million public investment.

¹³ Ibid.

6.5 Strategic Added Value

6.5.1 There are of course wider – non tangible - outcomes which are also important: notably the contribution the high specification of the development has made to improve the image and property market expectations on the Isle of Wight. There is no doubt the St Cross development offers the highest quality accommodation on the Island and is comparable to anything available on the mainland. The importance of business space of this nature in promoting a positive image of the economy as a place ready to do business in the 21st century should not be underestimated. Furthermore, there is evidence of the development creating what we now commonly refer to as Strategic Added Value, the main elements of which are considered below.

6.5.2 Strategic Leadership:

Articulating and communicating regional development needs, opportunities and solutions to partners and stakeholders in the region and elsewhere

This will have come about if the business space provided at St Cross leads to higher specification follow-on developments or encourages greater investment due to higher confidence in the area.

6.5.3 Strategic influence:

Carrying out or stimulating activity that defines the distinctive roles of partners, get them to commit to shared strategic objectives and to behave and allocate their funds accordingly

The evidence of partnership working to achieve a common objective at St Cross, through IWP and other structures, suggests that strategic influence may have been in play

6.5.4 Leverage

Providing financial and other incentives to mobilise partner and stakeholder resources – equipment, people as well as funding

This has certainly been achieved (see above) but not by SEEDA directly- as headline funding agreements were negotiated by EP);

6.5.5 Synergy

Using organisational capacity, knowledge and expertise to improve information exchange and knowledge transfer and coordination and/or integration of the design and delivery of interventions between partners

One notable example at St Cross is the way in which business space has been linked with incubation support);

6.5.6 Engagement

Setting up the mechanisms and incentives for more effective and deliberative engagement of stakeholders in the design and delivery

There is evidence that this has been achieved by engagement of local business community and potential entrepreneurs through closer alignment with the SRB programme).

7 Property market impacts and issues

7.1 Introduction

7.1.1 This section of our report examines the nature of the property market on the Isle of Wight and the implications of this for St Cross Business Park investment programme. This includes the results of a series of discussions with local estate agents, South East property agents and an overview of the current rental level values. The section also analyses issues that have arisen during the development as a result of the various development, legal and funding agreements that were put in place. Here we look to draw out examples of good practice as well as learning lessons for the future.

7.2 Rental levels

7.2.1 The limited information available for the Island suggests industrial current rental values from £5psf to £6.50 psf and land values not exceeding £250,000 per acre. Office rents for recently constructed premises would be around £12 psf. Although competitive with mainland figures they reflect poor demand and it is acknowledged by local estate agents that such levels are insufficient to attract private developers and speculative development activity. In view of this we are highly supportive of SEEDA's activities as without them there would be no new modern commercial space on the Island.

Key Findings

26. Discussions with local and regional commercial and industrial agents continue to provide evidence of a market failure particularly for speculative development on the Island. Rental levels are considered simply too low to allow for a reasonable return on investment and thus the activities of SEEDA are seen by the evaluators as relevant both to the historic market context and that prevailing today.

7.2.2 The absence of space and serviced sites is seen as a major constraint in attracting new employment to the island. There may be potential to benefit from anticipate planning guidance which will allow the creation of Simplified Planning Zones on employment land.

7.2.3 The promotion of speculative units by developers will continue to be difficult in an uncertain market in which most of the criteria sought by investors and funders have been lacking- especially if the intention is to supply a higher specification than currently available on the Island. Premiums over and above standard benchmark prices and rents will be required to induce development.

7.3 St Cross rental levels

7.3.1 It would appear that the rent secured by the developer from the Isle of Wight Partnership was higher than had been paid elsewhere on the Island. Reference is made in correspondence to a rent of £12psf (King Sturge, 2003). At the time the highest rent for offices on the Island was given as £8psf (Bruton Knowles). Again the detail is not available to be able to offer a fair comparison but given the Full Repairing and Insuring (FRI) nature of the lease and the high cost of fit out the premium would appear to have been significant.

7.3.2 Through EP and an important pre-let to the Isle of Wight Partnership, MJH has secured the means by which to reduce the level of risk that would otherwise be associated with the development, either as a construction project or potential onward sale to the investment market. Overall rental levels on St Cross have pushed ahead on the Island average and are now comparable to mainland levels. However, the quality of the development is also

comparable to the mainland and is significantly higher than other office accommodation on the Island.

7.4 Development agreement

7.4.1 Although the records for investment in the site present a clear timeline of activity there is little evidence that the investment was planned or undertaken with any clear, coherent long term outcome in mind. In part, this reflects the initial approach which was deliberately phased to respond to market conditions and funding availability.

7.4.2 The nature of the initial grant agreements between EP and MJH provide some important learning lessons. In return for providing funding, EP required MJH to develop the whole site. Clearly this carried considerable risk to the developer. However, subsequent funding from EP and SRB significantly reduced this risk. In addition MJH were under no obligation to sell the site. Although the freehold to some units was sold other units were retained by MJH and leased to the occupiers. One of these occupiers was the IWP who agreed to a 15 year lease of a substantial part of the Innovation Centre with rents guaranteed by the Local Authority. Again this considerably reduced the developers' risk.

Key Findings

27. The Development Agreement reached between EP and MJH required the developer to develop the whole site. This effect placed an obligation on MJH to see out a long term regeneration programme and thereby transferred the risk of that programme to the private sector. Whilst a number of subsequent grant programmes helped to reduce that risk, the agreement reached by EP at that time was both ambitious and without doubt a model that – particularly under difficult market conditions – demonstrated good practice in the transfer of risk to the private sector.

7.4.3 The lease between MJH Developments Limited and the Isle of Wight Partnership as a tenant does not contain any provisions that would be considered particularly unusual. The term is for a period of fifteen years with effect from 29 September 2000; it is an FRI lease, rent reviews are upward only every 5th year, and there is a tenant's option to determine the lease after the 5th year. The option itself could be viewed as onerous in that the tenant is required to give three years notice in writing. Fit out works were to be carried out by the tenant. Overall the lease seeks to be in line with standard institutional criteria. The tenant was obliged to use the developer for the fit out works which were costed at £600,000.

7.4.4 From the point of view of MJH Developments Ltd, who is an island based builder / contractor / developer; this arrangement clearly had a number of benefits given the relatively large scale of the development and the uncertainty of market demand for the space:

- Financial exposure would be reduced in respect of infrastructure costs;
- Development finance could be secured on the back of immediate and guaranteed rental income;
- A builder's profit could be taken on the build costs of the scheme as well as the substantial fit out works; and
- In addition, given that the finished scheme was retained, further income was secured through the management fee in respect of service charges payable by the tenant.

7.4.5 All of the above factors cushion the impact of development finance and voids which would otherwise reduce profit. What is unclear from the files is what evaluation EP undertook in respect of the figures submitted by MJH. Whilst build costs have been clearly and reasonably compiled by cost consultants (Gleeds), and report and valuation by Lambournes, support a land value of £192,000 per ha (£80,000 per ac), there is nothing on file to compare costs with or to indicate what level of return EP would find acceptable.

7.5 Potential weaknesses

7.5.1 The weakness of this scheme would appear to be that English Partnerships retained no legal interest in the site other than a legal charge in the event of disposals within a period of time (5 years). This was a scheme carried out by a small local builder, developer, investor in a market with limited or no competition. In a normal market a developer would have secured competitive build costs, taken his profit and sold into the investment market. The level of transparency would have been greater and the need for gap funding easier to establish.

Key Findings

28. English Partnerships retained no legal interest in the site other than a legal charge in the event of disposal. Should however the developer sell his investment, EP will have no access to the land value uplift created through its and other organisations subsidies.

7.5.2 Similar issues have been raised in discussions with Knight Frank, acting on behalf of the Isle of Wight Council in respect of a 46 acres urban extension site at Newport. Here planning consent is in place for 800 residential units and to ensure effective control over implementation the Council are to retain a legal interest throughout the process and promote it in partnership to ensure best value. Even with this scale of development final submissions will only be from two parties and the employment uses site will not be a prerequisite of promoting development.

7.5.3 Notwithstanding the difficulty of substantiating the overall benefits, of the actions taken by EP, or the necessity for them, there is nothing to suggest that such support adversely affected the island commercial market, or that it represented an unjustifiable support for the scheme. It would seem almost certain that the development would not have taken place without EP / SEEDA support, the outstanding issues being those of assessing the precise level of support required, monitoring its progress and not retaining any form of ongoing involvement.

8 Views from the stakeholder community

8.1 Introduction

8.1.1 The following section outlines the views of the key stakeholders involved in the St Cross Business Park investment program. The stakeholders included SEEDA staff, Business Link Wessex, the Isle of Wight Economic Partnership, the Chamber of Commerce, the Isle of Wight College, Isle of Wight Council, English Partnerships and the developer involved in the programme. It should be noted that views have not been attributed to any person or organisation to ensure confidentiality.

8.2 The need for public investment at St Cross Business Park

8.2.1 There was widespread agreement that the St Cross Business Park has been many of those consulted felt this anchor investment played a crucial role in St Cross Business Park. Some felt the investment made by EP and SEEDA not only secured investment onto St Cross but also kept these businesses in the UK:

“Investment by Vestas and SP Systems which has been essential for the island and is a success for SEEDA”

“The Investment responded well to key businesses such as SP systems and Vestas Blades, these were international companies who were going to leave the island due to a lack of adequate space.”

8.2.2 SP Systems has had a long standing presence on the Island. Due to lack of appropriate space their expansion had been piecemeal and resulted in operation being undertaken at a range of locations across the island. They had made the decision to consolidate their operations to a single site and were actively considering locations in France, Spain and Eire due to the lack of adequate space on the Island. MJH developments negotiated the move of SP Systems onto the business park and proposed to construct a new headquarters to the specification required by the company. In the absence of EP funding it was felt the SP Systems would have left the Island. The relocation of SP Systems had full support of the Island Regeneration Partnership, the Isle of Wight Council and of Wight Training and Enterprise at the time.

8.2.3 Aerolaminates Ltd had a production facility in Southampton which no longer met their requirements for increased production levels and they were actively seeking to relocate to a larger, modern waterfront facility. The company conducted a careful search of suitable waterfront sites and found two options, St Cross Business Park, Isle of Wight and Vojen, Denmark. Although there was a preference to move to bespoke accommodation, giving St Cross the edge, it was a more expensive option and required additional support from EP to make the relocation financially viable for them. It is not clear that the same argument was not also used to secure the RSA funding and an element of double counting of outputs (jobs safeguarded in the region) may have taken place.

8.2.4 The Enterprise Hub and Innovation Centre are other key features of the development and have led to wider impacts. A 1998 SRB funded research study concluded that a ‘marine and environmental technologies’ hub would complement the economic development aspirations of the Island. This study provided the rationale for further investment in St Cross to develop the Technology Centre.

8.2.5 It was the prospect of the development of a Technology Management Centre on the St Cross site and the commitment to a high class business development on the whole site that attracted SP Systems to the site and not to leave the Island. The composites cluster concept of the Hub was also key in attracting Aerolaminates to the Island rather than back to Scandinavia when they moved from their mainland site. The establishment of the

composites group and the links with higher education have been catalysed by of the physical investment in St Cross and the strategic cluster focus promoted by SEEDA since 1999.

8.3 The quality of the development agreement

8.3.1 Although some questions were raised in respect of the strategic planning of the investment (i.e. the absence of a long term plan), it was felt that the development agreements ensured that the developer worked to a fixed timetable and did not renege on his deal to build to the specified standard.

8.3.2 Overall, the consultees were favourable of the role played by EP and latterly SEEDA in the main negotiations during the development. These have both enabled a developer to undertake a considerable scheme in the face of difficult market conditions and absorb the risk for doing so. There are however recognised areas where this could be improved particularly with regard to the level of transparency which could have been greater even allowing for the normal confidentiality which applies to such negotiations.

'The developers would only get funding if they completed the phasing on schedule otherwise they would lose the entire land'

'The development agreements lowered the risk of the development being unsuccessful and ensured developer completed the various phases'

'This agreement also meant the developer had to build the sites, even if the market conditions changed'

8.3.3 This was a considerable risk but to compensate for this the developer was allowed full return upon completion and of course the availability of downstream funding likewise helped to reduce the levels of financial risk at particular intervals.

8.4 Integrating the funding sources

8.4.1 Many of our consultees were eager to highlight that with a development of this type and scale, often one would argue for the installation of a site and delivery masterplan at its inception. Whilst inevitably the lack of such a plan in this instance has created a number of issues, most of those interviewed agreed that it had far from restricted the developer's ability to leverage funding from a wide range of sources. Indeed the fact that St Cross Business Park was developed without a long term masterplan and funding plan at its inception has in no way restricted its ability to access funding during its lifetime

8.4.2 The consultees were also of the view that the ability to achieve this level of funding integration has partly relied on key individuals who have been employed by EP and now SEEDA who have had a longstanding involvement with the development of St Cross Business Park. These key individuals have been "entrepreneurial" in their approach to working with the site developer, funding organisations and the Isle of Wight Economic Partnership to align funding and development when appropriate. Whilst credit is due to these Officers, it does highlight that where a long term plan is absent, schemes of this nature may be vulnerable to people changing jobs and / or being assigned to other responsibilities.

8.4.3 Although the project management information is relatively sparse there are no indications that there were any major issues with the development in terms of deploying funds or progress on site. The developer has confirmed that, to their recollection, the project ran quite smoothly and none of the grant payments were delayed. In part this was due to the streamline delivery arrangement employed by the developer. Acting as both developer and main contractor – with a track record in commercial developments – many of the construction risks were significantly reduced. Whilst there are issues over the efficiency

to the public sector of this approach (with the same body acting as developer, builder and subsequently landlord) it did appear to smooth out the core delivery issues of constructing a high quality business park.

- 8.4.4 There are three sources of funding which have contributed to the St Cross Business Park which, in 1997-99, were run separately by EP, Government Office and the SRB partnership and had they been identified as a single programme CPRG approval would have been needed owing to the total value of funding involved. In which case a more detailed appraisal would have been required which may have led to the production of an overall masterplan for the site with more quantifiable objectives. Notwithstanding the good value for money delivered by the development as a whole, it is probable that a single funding agreement for the entire site could have achieved greater efficiency (lower total public sector cost).

8.5 The quality of economic impacts

- 8.5.1 The St Cross Business Park is characterised by a number of large employers which in the view of many SEEDA staff are the primary reasons for success of the project. Many of the benefits realised by the business park have been a consequence of these anchor companies locating on the business park, and have acted as a catalyst for investment.

- 8.5.2 Some of those consulted felt this anchor investment played a crucial role in St Cross Business Park.

'Investment by Vestas and SP Systems which has been essential for the island and is a success for SEEDA'

'There are quite a number of people employed by VESTA's and I imagine many of them come from the island'

'The innovation centre and innovation hub have worked well and are a big plus for the island.....The enterprise hub was a key contributor to the success of St Cross and was needed as a physical development.'

- 8.5.3 Some of those consulted felt the investment made by EP and SEEDA not only secured investment onto St Cross but also kept these businesses in the UK.

'The Investment responded well to key businesses such as SP systems and Vestas Blades, these were international companies who were going to leave the island due to a lack of adequate space.'

- 8.5.4 It is however conceded that many of the jobs which require a higher education level may not be from the Isle of Wight, therefore the impact these companies have had on the island is limited.

'The high technology employees however probably come across from Hampshire as educational attainment on the island is quite low'

- 8.5.5 It was also specified that SRB funding should not necessarily have been targeted towards the Island and the location of the enterprise hub on St Cross was at the opportunity cost to another area in the South East or the Isle of Wight.

'One of the reasons for locating the enterprise hub at the Isle of Wight was because the project was in danger of failure..... the development could have gone bankrupt, project funding continued and SRB money was thrown at the project to dig it out'

- 8.5.6 Once SRB funding was granted, it helped to augment the development and evolution of the overall programme.

'Post 2000, SEEDA managed the investment quite well, however unfortunately the money was used in fire-fighting manner and there was not a coherent investment strategy.'

8.6 Views on the lessons learnt

8.6.1 A number of issues were alluded to by stakeholders that they see as having an impact on the overall success of the development:

- **'Synergy'** - it was seen by some that there was a lack of 'synergy' in joining up wider development priorities for the island. For example, the college is to receive funding from the LSC for a new campus. Some questioned whether there should have been a strategy from the start that examined the potential linkages to bring the business park and the college closer together.

- **Location** - the location of the business park was also seen. One consultee described the site as being

'not well integrated to the rest of the island.....There is a lack of pedestrian routes and cycle lanes leading to the park and traffic to the site is a real problem for residents.'

- **Public and private partnerships** – some stakeholders identified the challenges inherent in constructing development transactions that rely on public / private partnerships. There was at times a lack of visibility about the extent of the work that SEEDA was doing. There were also tensions

'about funding being awarded to other investments taking place on the island.'

- **Infrastructure Issues** – whilst a successful development on many levels, there are strong views amongst the stakeholders that there are a number of unresolved infrastructure issues. Amongst the key areas highlighted are:

- Poor pedestrian and cycle access.
- The quality of the access route to the site.
- The reliance on car access to the site – with poor public transport facilities.
- Limited car parking facilities with commensurate impacts on residential areas.

- **Level of occupancy** – some expressed the view that some of the buildings were not occupied and there was a gap in the level of occupation. Some of the reasons cited for this related to the size of the premises available and some interviewees suggested that buildings should be subdivided into smaller units.

- **Impact on the Isle of Wight** – some stakeholders suggested that many of the businesses on the park were foreign and there were no or a limited number of companies from the Isle of Wight – to the detriment of the overall impact of the development. This view does not Accord with the overall findings of the evaluation.

9 Conclusions

9.1.1 The overall impression of the business park is, despite some of the issues highlighted, seen as very positive. St Cross has been described to us as

“one of the more up-to-date developments on the island and there is very little commercial development happening elsewhere on the island”.

9.1.2 The benefits from having a business park located at St Cross were varied but mainly revolved around the benefits to employment, business space and the overall economy. The key benefits referred to by stakeholders include:

- The positive effect upon the local supply chain;
- The high number of local people employed by Vesta’s and SP Systems;
- The supply of improved business space shows high visibility investment on the island;
- There is a good range of unit sizes on offer which meet the needs of businesses and they provide an opportunity for expansion;
- There is a good range of businesses on the site such as training providers and solicitors, prior to this there weren’t really many large employers on the island;
- The site provides a showcase opportunity for SEEDA to demonstrate the quality of business parks in the South East.

9.1.3 A key benefit expressed by one stakeholder was to do with creating a concentration of technology businesses:

‘Diversification has provided a platform for economic activity on the island. Helped nurture certain industries such as composites and wind turbine.’

‘It has attracted companies from the technology sector onto the island and increased the opportunity for investment in the sector.’

9.1.4 With an average cost per (net) job of around £6,500 the overall development has offered good value for money. However, there is significant variation in the (gross) cost per job for the components associated with each funding element. Since the public sector investments have been essential capital led there is not a formal exit plan or succession strategy. St Cross is, to all intent, a private sector venture with future success dependent on the prevailing market conditions. However, MJH (the developer and landlord) is confident that the development will continue to be a significant employment centre.

9.1.5 With the exception of the neighbouring Newport Business Park – which was developed speculatively (although to lower quality) on the back of the success of St Cross there has been no further investment in the immediate area. Principally this is to do with the location of the site – effectively land lock by the River Medina, the Hospital, existing developments and an area of greenbelt. In addition the access provision does not allow for further development in close proximity to the site. There is no noticeable development on the Island to the same standard and quality of St Cross. So whilst there is some qualitative evidence that St Cross has raised business accommodation standards and confidence in the local property market this has not, so far, translated into tangible private sector investment.

- 9.1.6 It is difficult to comment on the effectiveness of the investment in St Cross in contributing to regional and national policy objective. The investments were approved before the RDA (and consequent Regional Economic Strategy) was established and the current round of Public Service Agreements was negotiated. Whilst it possible to rationalise the investment in terms of their contribution to current policy objectives this would be somewhat inappropriate. Nonetheless, it is clear that, by default, the development has contributed to current strategic objectives. At the highest level, the advanced manufacturing nature of the key occupiers has contributed to improving GVA levels (this is borne out of survey data on the average wages levels for businesses on the site).

9.2 Recommendations

Maximising economic impacts

- 9.2.1 St Cross has achieved considerable economic impact. It has done this with good value for money. Overall a net Impact on the economy of around 1000 jobs and a contribution to GVA of £55m has been achieved. However, even despite these considerable impacts, the evaluators feel that more could have been achieved. For example, the impact is weakened by limited local spend in the supply chain. Many of the companies that operate on the site do not necessarily procure their goods and services locally. In the future, SEEDA should encourage investments that can build on and add maximum value to existing supply chains.

Recommendation 1

SEEDA should take steps to ensure that potential suppliers to inward investors are given opportunities to build their capacity to compete for contracts with these companies. It should likewise ensure that companies that it seeks to attract to the region are those companies most likely to procure services and goods from within the region.

- 9.2.2 The high quality business space on an attractive modern site has raised the aspirations of local businesses and improved the attractiveness to Inward Investors. However, the St Cross site continues to house a number of unoccupied buildings. Some of the reasons for this relate to the fact that the Business Park is not easily accessible and is said to suffer from traffic congestion; has no immediate dedicated public transport access; and likewise only very limited local services.

Recommendation 2

The installation of public transport and associated community facilities and local services will not only help to increase the attractiveness of locations, they will also contribute to the maximisation of their economic impact.

- 9.2.3 Within St Cross, there is limited scope for up-scaling and building on the success. A neighbouring housing development and a river constrain expansion. The role of local planners in permitting housing adjacent to the site is not in question – the planning approval actually helped to fund some of the recent development. However, it does suggest that it may now be appropriate to prepare a spatial plan for St Cross.

Recommendation 3

SEEDA should encourage the preparation of a flexible, although well defined spatial masterplan or Area Action Plan for St Cross.

Planning for funding developments of this nature: an entrepreneurial approach

- 9.2.4 There are obvious arguments highlighted in reporting the main body of this evaluation report for and against long term funding strategies for developments of this type. Often one would argue for the installation of a site and delivery plan at its inception. However, the lack of such a plan at the outset has assisted the development's ability to leverage funding from a wide range of sources.

Recommendation 4

SEEDA should encourage a flexible approach to the funding and delivery of those projects and programmes where an entrepreneurial approach and market responsiveness are important factors.

- 9.2.5 In this case, the lack of a long term plan has demonstrated that development can be undertaken flexibly and in such a way as to respond opportunistically to market conditions, investor interest and funding availability. This has created a package of funding sources which compliment each other. The current approach does, however, rely on the talents of SEEDA's staff and their ability to achieve this level of funding integration

Recommendation 5

SEEDA should encourage training amongst its frontline property staff to ensure that they too can be entrepreneurial and fully briefed on funding opportunities available.

Development agreements for developments of this nature

- 9.2.6 The structure of the development agreement for St Cross followed standard EP structures with provisions for claw back (which were exercised) but the funding agreement introduced higher risk to the developer. The developer was committed to completing all phases of development increasing their risk exposure (to avoid 100% clawback they would have to develop even if existing units were void). To compensate for the higher risk the developer required higher returns (and higher grant levels) to compensate for the higher risk. Whilst a number of subsequent grant programmes helped to reduce that risk, the agreement reached by EP at that time was both ambitious and a model that demonstrated good practice in the transfer of risk to the private sector particularly under difficult market conditions..

Recommendation 6

The development of St Cross should be highlighted as a model of transferring risk to the private sector. In doing so however, St Cross should also be used to highlight how in transferring risk, developer returns generally have to be enhanced by the structure of the development arrangements (and local property market conditions), including in this instance planning gains, profit on build. SEEDA should also ensure that it retains a legal interest in developments of this type to maximise its return on investment.

Lessons for evaluators of similar projects

- 9.2.7 SEEDA has shown best practice in the management and monitoring of this project. The files and records held by key personnel have enabled the evaluation team to have access to quality data and records. This is especially significant given both the age of the project and the complexity of funding and stakeholders involved in it.

Recommendation 7

The project files should be shown to SEEDA staff as a model of good record keeping.

- 9.2.8 From an evaluation standpoint, the critical part of this process has been the engagement of employers on the site. In the future SEEDA should encourage flexibility in the timetables of its evaluations to ensure that these critical steps are achieved.