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## NORTH AYRSHIRE COUNCIL

30 November 2021

### Cabinet

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<b>Title:</b>	<b>Digital Processing Manufacturing Centre, i3 Irvine</b>
<b>Purpose:</b>	To seek approval to proceed with Phase 1 proposals for the Digital Processing Manufacturing Centre (DPMC) project at i3, Irvine.
<b>Recommendation:</b>	<p>That Cabinet agrees to:</p> <ul style="list-style-type: none"><li>(a) proceed with the proposals for Phase 1 of the Digital Processing Manufacturing Centre project;</li><li>(b) the signing of a Collaboration Agreement for Phase 1, between North Ayrshire Council, University of Strathclyde and the Centre for Process Innovation;</li><li>(c) contribute £1M to Phase 1 of the project in the form of a grant to the University of Strathclyde, subject to appropriate conditions; and</li><li>(d) note that the Council will receive a grant of up to £450,000 from Scottish Enterprise that will in turn be passed on to the University of Strathclyde for the fit out of the Phase 1 premises.</li></ul>

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### 1. Executive Summary

- 1.1 On 29 June 2021, Cabinet endorsed the launch of the initial phase of the Digital Processing Manufacturing Centre (DPMC), approved the Memorandum of Understanding (MoU) between the Council, the University of Strathclyde and Centre for Process Innovation (CPI), approved the allocation of £1M from the Ayrshire Growth Deal for Phase 1, subject to detailed proposals and supported the Outline Business Case for Phases 1 and 2.
- 1.2 The purpose of this paper is to set out further detail of DPMC Phase 1, to satisfy the previous recommendation. The Memorandum of Understanding was signed on 25 August 2021 and online training courses commenced in October, as part of an initial Phase 0.
- 1.3 Phase 1 will establish a physical presence at i3 Enterprise Area, which will create a centre accommodating 8 areas that will demonstrate modern digital processes, supported by academic and industry expertise, to train and develop businesses in the process manufacturing sectors (locally, regionally and nationally). It will help

businesses to access new technology, products and innovation, improve energy efficiency/productivity/waste reduction, and increase company investment in research.

- 1.4 This paper sets out detailed considerations for Phase 1, in advance of its operation at i3 from Spring 2022.

## **2. Background**

- 2.1 DPMC will be a nationally significant innovation centre, focused on supporting and assisting process manufacturing sectors in the UK. This includes sectors such as Pharmaceuticals, Oil & Gas, Chemicals and Chemical Products, Agrichemicals, Food & Drink, Fast Moving Commercial Goods and Water (collection, treatment, supply). Industries engaging with the DPMC will have the opportunity to hugely improve their efficiency, productivity, and to also receive help with compliance performance and reducing their carbon footprint. DPMC will facilitate this by demonstrating, developing, and delivering new digital technologies and assisting businesses with strategy, planning, skills and technology selection and acquisition and implementation.
- 2.2 Pace is required to fill the gap in the provision of digital support for businesses as part of COVID Recovery plans and to support government policies to improve manufacturing, through the use of digital technologies. Partners are working towards a launch in April 2022, with a formal opening in summer 2022. This requires agreements to be concluded by December 2021, which enables the tendering and procurement processes to be undertaken in the new year to meet those timescales.
- 2.3 A detailed Collaboration Agreement is now being prepared between the Council, the University of Strathclyde and Centre for Process Innovation (CPI), that covers the operational and financial responsibilities of each of the parties for Phase 1. As well as the Collaboration Agreement, there will be a series of agreements between partners to cover specific aspects of the project that are outlined in paragraph 4.3 of this report.
- 2.4 Phase 1 will be located in a building owned by Booth Welsh at Riverside Way, i3 Irvine Enterprise Area, which is within a central location within i3. This will provide businesses with the opportunity to benefit from being in proximity to a company like Booth Welsh who are established within the process engineering sector. Both the University of Strathclyde and CPI were keen to choose this location for that reason. In addition, it also helps create a cluster of industry and academia, in tandem with surrounding planned investment in flexible business space through the Ayrshire Growth Deal.
- 2.5 A space of around 645 square metres in size will be modified to accommodate a range of digital technologies, lab space, training and office facilities. The University will lease the space from Booth Welsh for a period of 5 years. It is envisaged that the negotiations for the lease will be completed by the end of December 2021.
- 2.6 The University will be responsible for the refurbishment, management and operation of the centre and any relevant statutory consents. The funding for refurbishment will be provided by a grant of up to £450,000 from Scottish Enterprise (SE) to North Ayrshire Council. The Council will provide the grant fund to the University with conditions mirroring those set by SE.

- 2.7 The University will also be responsible for the sourcing, purchase, installation and management of the equipment for the centre's demonstration areas, ranging from more basic digital equipment to artificial intelligence and robotics, with commercial off-the-shelf hardware and software including virtual reality goggles, high performance computers, servers, and unity software. Specialised industrial requirements include programmable logic controllers (PLC), supervisory control and data acquisition (SCADA) and business software such as SAP.
- 2.8 It is proposed that the Council provides an allocation of £1M, with an initial grant fund of £590,000 to the University of Strathclyde to purchase equipment set out within an initial agreed list. The balance of £410,000 will be subject to further agreement(s) during the course of the Phase 1 project term.
- 2.9 The Centre for Process Innovation will also take responsibility for supporting the revenue funding and securing income for the centre. CPI will also bring specific technical and commercial expertise in process and pharmaceutical manufacturing, and will strengthen industrial ties and research expertise.
- 2.10 The initial staff complement at DPMC Phase 1 will be 7 posts (1 managing director, 1 technician and 5 engineers). Staff numbers will gradually increase over the time frame of Phase 1, subject to a gradual increase in membership income as the centre grows. At this time, the University and CPI have committed £3M to support these posts. An additional post focussed on business development and funding is currently being explored. The centre's engineers will have expertise to provide demonstrations and training to businesses.
- 2.11 The University of Strathclyde have experience in operating other specialist centres that rely on core income streams of membership and in-kind contributions, collaborative research and development grants and funding from the High Value Manufacturing Catapult. Research income is anticipated to come from partners looking to develop IP (intellectual property) sensitive projects and also from non-membership companies looking to take advantage of DPMC expertise and for one-off solutions to their specific issues. Research and development income will come from a consortium of DPMC, process manufacturing companies and technology providers working together to solve challenges proposed by UK government in the areas of artificial intelligence, supply chain resilience, etc. All income will be re-invested into the operation of the centre.
- 2.12 DPMC is a ground-breaking project which will bring an anchor institution into North Ayrshire and the welcome involvement of CPI. There are a number of key risks including lack of interest from businesses and failure to secure all revenue income. The Collaboration Agreement and legal agreements/conditions of grant will set out how the parties will work together to mitigate these risks.

### **3. Proposals**

- 3.1 It is proposed that Cabinet agrees to:

- a) proceed with the proposals for Phase 1 of the Digital Processing Manufacturing Centre project;

- b) the signing of a Collaboration Agreement for Phase 1 between North Ayrshire Council, University of Strathclyde and the Centre for Process Innovation;
- c) contribute £1M to Phase 1 of the project in the form of a grant to the University of Strathclyde, subject to appropriate conditions; and
- d) note that the Council will receive a grant of up to £450,000 from Scottish Enterprise that will in turn be passed on to the University of Strathclyde for the fit out of the Phase 1 premises.

#### **4. Implications/Socio-economic Duty**

##### **Financial**

- 4.1 The main financial implications of the project for the Council relate to investment of £1.45M and are as follows:
- i) The Council will contribute £1M from its approved budget for the DPMC project as its allocation towards Phase 1. The AGD Programme Management Office is writing to the UK Government to seek confirmation that the approach is acceptable. The Council will grant £1M to the University of Strathclyde for the purchase and installation of equipment. This arrangement will be subject to the Council complying with appropriate regulations relating to grant funding and to the University accepting any conditions relating to the grant. The Council will control the allocation of the grant through agreement on areas and amounts of spend as required, with a first tranche of £590,000 based on current estimated costs. It should be noted that the University's position regarding the implications for VAT recovery are still being assessed. However, at this stage, the Council's financial planning assumption is that the University will not be able to recover VAT on the equipment purchases, and therefore the Council's grant funding assumption is based on the gross position, i.e. to include VAT rather than being net of VAT.
  - ii) the Council will accept a grant from Scottish Enterprise for £450,000 for refurbishment work. The Council will then provide the grant fund to the University with conditions mirroring those set by SE. It should be noted that SE's grant is conditional on a number of factors and outcomes, including the Council's investment of £1M into Phase 1; and
  - iii) University of Strathclyde will be responsible for sourcing revenue funding to support the ongoing operation of the facility. The project's financial appraisal forecasts income from membership and collaborative research and development, that will increase gradually over the five years.

##### **Human Resources**

- 4.2 University of Strathclyde have appointed a DPMC Project Manager to lead on the development and co-ordination of the project. Staffing requirements for Phase 1 are set out within the Project Plan as a background paper. At the commencement of the project, the centre would have the posts outlined in paragraph 2.10 above.

## **Legal**

- 4.3 In support of the launch of Phase 0 (online), an MoU was approved by Cabinet in June 2021 and has been signed by the Council, University of Strathclyde and CPI. A Collaboration Agreement is now being progressed by the partners' legal teams. The main legal implications for Phase 1 of the project are:
- i) the management of grants. NAC will require to ensure that the conditions of grant set out by SE are complied with by the University of Strathclyde. As a condition of grant, SE require that NAC contribute a total of £1M to Phase 1 over the course of 5 years;
  - ii) the purchase and supply of equipment for the project by way of a grant from NAC to University of Strathclyde. Arrangements regarding the appropriate procurement, care, ownership, re-purposing and disposal, require to be set out and agreed between University of Strathclyde and NAC;
  - iii) agreement on a lease for the building between Booth Welsh and the University of Strathclyde; and
  - iv) consideration of UK Government policy on Subsidy Control. It is considered that DPMC will be a non-economic research & development facility and therefore the subsidy control regime is not likely to apply for Phase 1.

## **Equality/Socio-economic**

- 4.4 The project will provide much needed services for process industries to help them grow and to attract inward investment to an area of above average unemployment and low business investment. It will provide an important training and development service for businesses in North Ayrshire and beyond, looking to benefit from emerging technologies. The centre will seek to make processing industry sectors more attractive and accessible to young people and women – groups that are currently identified as being excluded from economic growth opportunities. It will introduce a major academic anchor institution to the local area, offering the opportunity of collaborations with local companies, schools and colleges and creating wealth in the local economy, through job opportunities and supply chains. It will considerably increase the profile of the i3 Enterprise Area as a flagship project, and help to attract further investment and jobs.

## **Environmental and Sustainability**

- 4.5 The DPMC project will enable businesses to improve the efficiency of their productivity and adapt their processes to modern technologies, supporting the Council's low carbon and digital ambitions. Any environmental implications of Phase 1 of the project will be addressed as part of the necessary building warrant application process.

## **Key Priorities**

- 4.6 The DPMC project will strongly support the priority outcome contained in the new Council Plan 2019-2024, for North Ayrshire to have an inclusive, growing, and

enterprising economy and the aims of the Community Wealth Building Strategy and Recovery and Renewal Plan.

### **Community Wealth Building**

- 4.7 The wider Ayrshire Growth Deal programme of skills and inclusive growth, supports projects at i3. The DPMC proposal will provide an important service for local businesses encouraging innovation, increasing productivity and promoting low carbon processes. It will specifically look to train our youth and existing workers on digital technologies to take advantage of emerging opportunities.
- 4.8 The DPMC's vision aligns with North Ayrshire Council's key strategies regarding Recovery and Renewal and Community Wealth Building. In particular, the project will help achieve one of the Council's Community Wealth Building objectives; to encourage regional and national institutes to invest in our communities and the local economy. The project will also make a strong contribution to the Manufacturing Recovery Plan for Scotland, through collaboration, business transformation and skills development.

### **5. Consultation**

- 5.1 The University of Strathclyde, National Manufacturing Institute Scotland, Ayrshire College, Scottish Enterprise, Skills Development Scotland, and industry are part of a Steering Group that have informed and guided the development of the DPMC project. Businesses have also been surveyed directly on whether they would use the facility - with a positive response. An update was provided to the Irvine Locality Planning Partnership in June 2021.

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### **Background Papers**

DPMC Phase 1 Project Plan