

CHESHIRE EAST COUNCIL

CABINET

Date of Meeting: 7 January 2013
Report of: Head of Development
Subject/Title: Alderley Park Bio-Incubation Centre
Portfolio Holder: Cllr Jamie Macrae

1.0 Report Summary

- 1.1 This report is further to an informal report to Cabinet on 13th August 2012, which gave an initial direction to proceed with the measures now detailed in this report.
- 1.2 AstraZeneca UK Ltd (AZ) has invited the Council to participate and invest in a Joint Venture (JV) to establish and operate a BioScience Incubator centre for new and existing small businesses in the bioscience sector. The JV will be an independent, not-for-profit company operating as the first element within a new BioScience Park at Alderley Park.
- 1.3 AZ, with the Council's support, have developed this proposal for a BioScience Incubator that will be a 5,000 sq m purpose-built facility that will provide the accommodation, technical facilities (e.g. wet and dry labs), and business support to nurture new and small bioscience businesses. Occupiers may be in AZ's current or future supply chain, or even direct competitors, as the facility will be independently managed by a bioscience specialist facilities management company, on a contract basis to the proposed Joint Venture company.
- 1.4 The BioScience Incubator is budgeted to cost £20m to establish (including land values, design, construction, specialist laboratory equipment and associated facilities), and will build on the experiences of similar facilities elsewhere in the UK, including BioCity in Nottingham.
- 1.5 Following early discussions with AZ, momentum has rapidly gathered behind this proposal, which has already resulted in the allocation of £5m Government funding towards the project¹. As well as approaching the Council, it is seeking the participation of a University in the JV, which could add value to the project through a further investment and access to a wider network in the academic / scientific community. With the support of the Council, AZ is also seeking funding from other sources, including the European Regional Development Fund (ERDF).
- 1.6 There is strong support from a wide range of stakeholders, both in industry and the public sector, including from local MPs, Cheshire & Warrington LEP, Greater Manchester LEP and universities. AZ has already been approached by companies seeking premises even prior to co-ordinated soft market testing.

2.0 Decision Requested

2.1 Cabinet is requested to:

- i) Give in principle agreement to proceed in collaborating with AstraZeneca UK Ltd and other interested parties in order to establish a not-for-profit Joint Venture company with the purpose of promoting and providing business incubation premises and support to businesses in the bioscience sector.
- ii) Endorse the Council seeking to become a member of the Joint Venture Company, with the representation of the Portfolio Holder for Prosperity & Economic Regeneration as its nominated Director.
- iii) Agree to support the allocation of £1m funding to the Joint Venture Company referred to in i) and ii) above, in the form of a repayable loan. This is on the basis that the Council does not seek clarification from the European Commission, and is cognisant of the risk identified in section 8 relating to State Aid and a potential requirement for the Council to recover part of the loan interest from the JV. The loan will be repayable to the Council upon key milestones being achieved. These milestones will be determined during the due diligence process to ensure that they support, rather than constrain, the development of the BioScience incubator. This allocation is subject to the approval of the project business case that is in the process of being taken through the TEG/EMB project approval process.
- iv) Delegate responsibility for approving the detail relating to i), ii) and iii) above, to the Interim Chief Executive or his identified nominee, in consultation with the Cabinet Member for Prosperity & Economic Regeneration, and subject to consideration by the Monitoring Officer and the Chief Financial Officer.

3.0 Reasons for Recommendations

3.1 The proposed BioScience Incubator project relates directly to the Council's key priority: *A growing and resilient local economy*. It is also prioritised in the Council's Three Year Plan:

- Outcome 2: *Cheshire East has a strong and resilient economy*),
- Priority 1 (*Local Economic Development*), and
- Change Project 1.3 (*Investment to support business growth*).

Direct benefits

- 3.2 The project has the potential to create 440 jobs associated with the BioScience Incubator and further jobs in the wider BioScience Park in the long term, as successful businesses grow and take on mainstream commercial premises.
- 3.3 This project will strengthen our relationship with AZ as the Borough's largest private sector employer in both strategic and operational terms, thereby helping to ensure job retention and employment growth in our local economy. The direct

benefits of this include the retention / increase of residents in the Borough that contribute directly to the Council through Council Tax.

- 3.4 Additionally, through the development of both the BioScience Incubator premises and subsequent phases of the BioScience Park, the Council will benefit directly through the generation of additional business rate income.

Indirect benefits

- 3.5 Amongst the indirect benefits of the project, the Council will gain a positive reputation in engaging with an initiative of this nature, through:
- collaboration with an existing key employer
 - investing in an incubation centre that stimulates the formation and growth of new innovative businesses in a high-value sector
 - providing a loan mechanism, which enables to Council to recover its funding when the incubator is viable commercially (so minimising interference with mainstream commercial market).
- 3.6 The creation of the BioIncubator and Science Park will have strong synergies with current AZ activities at Alderley Park, as it will provide a unique hub for pharmaceutical innovation and biotech enterprise on surplus land/accommodation. Companies located on the site would have access to AZ's state-of-the-art facilities, know-how and human capital. Similarly, discussions to date have indicated that there will be complementarities with other bioscience / R&D activities elsewhere in the UK, including with the Keele University Science Park and MediPark.

4.0 Wards Affected

- 4.1 The proposed BioScience incubator project will be located in the Chelford ward, but the nature of its operation determines that all wards are likely to benefit.

5.0 Local Ward Members

- 5.1 Cllr George Walton (Chelford ward)

6.0 Policy Implications including - Carbon reduction - Health

- 6.1 As well as contributing directly to the Council's key priorities and its new Three Year Plan, this proposal accords with and is complimentary to:

Ambition for All :Sustainable Community Strategy 2010-2025:

- Harness emerging growth opportunities
- Create a climate attractive for business investment
- Revitalise Macclesfield

Cheshire East Council Corporate Plan 2011-2013

Objective 2: Grow and develop a sustainable Cheshire East: foster economic growth and regeneration through providing the right environment for businesses to grow

Cheshire East Economic Development Strategy:

- Macclesfield and its hinterland sustain their current position as one of the most successful parts of the regional economy
- ensure that Cheshire East maintains and enhances its role as a 'knowledge economy', through innovation in its businesses and skills development in its workforce.
- facilitate economic growth through progressing schemes that will create jobs and improve the attractiveness of the area as a place to invest, live and visit.

6.2 In planning policy terms, the Alderley Park site is designated a 'Major Developed Site in the Green Belt' under policy GC4 of the Macclesfield Borough Local Plan. This policy permits limited infill / redevelopment proposals. The National Planning Policy Framework (NPPF) also permits limited infilling or the partial or complete redevelopment of previously developed sites (brownfield land), which does not have a greater impact on the openness of the Green Belt and the purpose of including land within it. The proposed site for the incubation centre is on brownfield land, therefore subject to the development not having a greater impact on the openness of the Green Belt, and complying with the criteria set out in policy GC4 the development would be considered "appropriate".

6.3 At this stage, no direct equality impacts are identifiable. However, fuller consideration of equalities impacts will be undertaken in establishing the terms of the JV and its Business Plan, and in the terms of contracts between the JV and Third Parties.

7.0 Financial Implications (Authorised by the Director of Finance and Business Services)

7.1 It is proposed that the Council invest £1m into the Joint Venture Company that is in the process of being established, through a funding agreement. It has been assumed that this will be treated as capital expenditure in accordance with capital financing regulations.

7.2 The government considers it appropriate that such expenditure should count as capital expenditure, so that the cost can be properly met from capital resources rather than having to be charged as a revenue cost. The reason for treating as capital expenditure is that it comes under the capital control regimes and limits the ability of local government to make loans to third parties.

7.3 The £1m will be repaid to the Council with interest upon key triggers being achieved in the funding agreement. These are likely to relate to occupancy levels and income targets, but have not yet been determined. It is expected that the £1m will be a loan to the JV for which the principal and interest is recovered in full between Years 5 and 15.

- 7.4 As this transaction will have capital control implications, it will need to be included in the Council's calculation of its capital financing requirement and funded either by application of a capital receipt or through revenue provision for debt repayment. The timing of debt repayment can be treated flexibly to co-incide with the loan repayments from the JV.
- 7.5 The financing arrangements for the loan and the repayment terms will be subject to more detailed assessment to be included in the business case and evaluated through the project approval process.
- 7.6 In addition to the costs identified above, in progressing with the recommendations of this report the Council will incur additional costs:
- indirect costs in relation to officer time (approximately £1,500 - £3,000 pa), funded from existing staffing budgets
 - independent advice on State Aid and the proposed Joint Venture arrangement (approximately £10,000, to be funded through Economic Development & Regeneration earmarked reserves)

8.0 Legal Implications (Authorised by the Borough Solicitor)

- 8.1 The assistance being provided by the Council in the form of a subsidised loan may constitute State aid which would require notification to the European Commission for approval. However, external lawyers acting for Astra Zeneca have put forward an argument that there is no State aid to the Joint venture and the Joint Ventures partners. Following discussions it was conceded that there is always an element of risk involved in running a "no aid" argument as it depends on the parties own assessment that no aid is involved. If the Commission were to investigate they could disagree with this assessment.
- 8.2 It is considered that the risk that the Council could be deemed to have granted State aid illegally is low, given that what is proposed in this report, and the guidance provided by the Department for Business Innovation and Skills (BIS) . However members need to make a judgement on whether that risk is acceptable.
- 8.3 If the Commission were to investigate and find that the loan provided by the Council included an element of illegal State aid, then it would not impose a financial penalty on the Council, but instead the Council could be compelled to recover the aid from the beneficiary, which here would be the joint venture company. If no agreement could be reached with the Company then the illegal element of the aid would have to be recovered through litigation. The aid element would be assessed as the difference between the commercial interest rate that the beneficiary would have paid on the open market and the subsidised interest rate granted by the Council i.e. it would not be the £1m subsidised loan but a much smaller amount.
- 8.4 The alternative to taking any risk would be for an application to be made to the European Commission to provide authorisation. The application would need to be

made through BIS who could take the view, given the cost and circumstances, that they were not prepared to assist, and so the Council would still have to make a decision on whether the risk was acceptable. In addition any application made by BIS is likely to take between 2 and 18 months, this does not include the Council making an application to BIS and awaiting their decision as to whether they were prepared to actually make the application to the Commission. The timescales involved may jeopardise the Council's involvement in the project.

9.0 Risk Management

9.1 In addition to the risk identified in the Legal implications section above (8.1 - 8.4), the other key risks in relation to this project are identified below, along with proposed mitigation and contingency measures.

Key Risk	Mitigation / Contingency
Any funding by the Council to a JV could be considered to be State Aid.	The Council is obtaining specialist independent State Aid advice, which will inform whether and how it proceeds.
The JV could end or fail, exposing the Council to legal, financial and reputational risks.	The terms in the Joint Venture and funding agreements will minimise these risks, through exit and other arrangements.
Low demand for accommodation/high failure rate of startups generates negative financial returns	The form and composition of the JV (with AZ and University), as well as potential availability of 3rd party seedcorn funding will reduce this risk. AZ has already been approached by companies seeking premises even prior to co-ordinated soft market testing. No one else in the North West is offering this set of benefits.
Planning permission is refused	Mitigated through early pre-application discussions. Although not actively considered, alternative plans could be identified if required.

10.0 Background and Options

10.1 Over recent months the Council has been liaising with AstraZeneca with a view to supporting their future operations and investment in Cheshire East. As the largest employer in the Borough, with approximately 6,000 employees at its two sites at Alderley Park and Macclesfield, their strategic importance is of genuinely global significance. As a single business it currently generates approximately 2% of the UK's GDP, but the company realises that it needs to adapt its approach to remain competitive.

10.2 The North West is home to a diverse range of bio medical businesses and specialist facilities including some which have the advantage of clinical, University or Research Council co-location. Over recent years, many companies in the biotech/pharmaceutical sector have collaborated with universities, local authorities and regional development agencies to support the development of new businesses within the sector, to stimulate new technologies, commercial

ventures and job creation. Studies conducted by BioNow (membership organisation for life science businesses in the North of England) indicate consistent growth of the NorthWest biomedical cluster in terms of the number of biomedical companies (8.6% growth per annum) and employment (6.5% growth per annum). Studies also show that existing incubator units in the Northwest region are full or approaching capacity.

- 10.3 Drawing on experiences of bioscience innovation elsewhere in the UK and Europe, AZ have now identified the opportunity for a BioScience incubation facility at its Alderley Park site, which is the hub of its global R&D operations. The company, with the Council's support, have developed a proposal for a BioScience Park which will nurture smaller bioscience businesses. The first phase of such a development would be the construction and operation of a BioScience Incubator – a £20m 5,000 sq m purpose-built facility that will provide the accommodation, technical facilities (e.g. wet and dry labs), business support to nurture new and small bioscience businesses, and even a potential seedcorn fund. Occupiers may be in AZ's current or future supply chain, or even direct competitors, as the facility will be independently managed by a bioscience specialist facilities management company, on a contract basis to a proposed Joint Venture company.
- 10.4 There is significant opportunity to develop a pharmaceutical Bioscience Park on around 8 acres of surplus land at Alderley Park, which is a major R&D site in the AZ network, employing around 3,300 of its own staff and 4,500 in total (including suppliers), as well as a further 2,000 AZ employees at its Macclesfield Hurdsfield site. Global pharmaceutical companies are restructuring and downsizing to meet changing market conditions - the project would enable a transition towards an 'open innovation' model, based on networking and flexible collaborations with academia and small- medium sized enterprises,
- 10.5 Within the BioScience Park the aim is to develop an incubator facility to attract new and small bioscience businesses which would benefit from the synergies of being based on a world-class pharmaceutical R&D site with access to AZ's state-of-the-art facilities and scientific know-how. The incubator (5,000 sq m) is sized to accommodate 400 professional staff. The management/operation of the incubator would be contracted out by the JV company to a specialist operator which has a track record of developing and operating bioscience incubation and innovation facilities. It would therefore have its own identity/branding.
- 10.6 The prospects for the project's success are strong - a bioscience focus would differentiate it from other science parks and foster a cluster effect - the close proximity of entrepreneurs, academics, start-ups, competitors, suppliers and partners would generate a locally collaborative environment that would be internationally competitive, rivalling similar facilities in the US and Europe.
- 10.7 As a world class pharmaceutical R&D site, Alderley Park can provide a highly supportive environment to attract and nurture innovative bio-pharmaceutical SMEs. The Bioscience Park could offer facilities for AstraZeneca staff to take over redundant or under-utilised molecular assets for ongoing development. The

retention of skills within the company and locality is key, which the co-location at the Bioscience Park will support.

- 10.8 With the support of the Council, local MPs, the LEP and the sector organisation BioNow, AZ has been successful in being allocated £5m from the Government's Regional Growth Fund (RGF) towards the cost of the BioScience Incubator. It is proposed that a Joint Venture company be formed, comprising AZ, Cheshire East Council and a university. It is proposed that the JV will be a not-for profit company limited by guarantee. The RGF allocation is subject to due diligence, which will include identification of other funding being in place.
- 10.9 Alternative and additional options for funding being considered include:
- £1m contribution from CEC, as a form of loan investment to be returned upon certain key triggers in the lifetime of the BioScience Incubator project (e.g. related to occupancy levels or income targets achieved)
 - University partner funding
 - European Regional Development Fund (ERDF) – capital grant
 - LEP Growing Places Fund – loan
 - NW Evergreen Fund (EU JESSICA funds) – loan
 - Pension Fund investment
- 10.10 Consultation by AZ with key stakeholders and other Science Parks demonstrates support, and the international appeal of a pharma cluster.
- 10.11 A detailed Project Delivery Plan for the JV is being developed for March 2013, led by AZ. This will address governance, management, funding, milestones/performance indicators, risk management, and publicity.

11.0 Access to Information

- 11.1 The background papers relating to this report can be inspected by contacting the report writer:

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¹ Regional Growth Fund allocation 19th October 2012, <http://www.bis.gov.uk/policies/economic-development/regional-growth-fund/round-three>
Allocation is subject to confirmatory due diligence.