

# CHESHIRE EAST COUNCIL

## Cabinet

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<b>Date of Meeting:</b>	16 <sup>th</sup> September 2014
<b>Report of:</b>	Director for Economic Growth and Prosperity
<b>Subject/Title:</b>	Alderley Park Investment Fund (Ref CE 14/15-6)
<b>Portfolio Holder:</b>	Councillor Peter Raynes, Finance / Councillor Don Stockton, Housing and Jobs

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### 1.0 Report Summary

- 1.1 Alderley Park, now under the ownership of Alderley Park Ltd (a company formed by Bruntwood, Manchester Science Parks and the Council), is a major asset of international quality and reputation. Cheshire East Council has played a pivotal role in transforming the site into a flourishing and diverse science park since the announcement by AstraZeneca in early 2013.
- 1.2 As a major strategic employment site within Cheshire East, the site is of paramount importance to the local economy and the site also plays a pivotal role in the wider North West science ecosystem. Indeed, its comprehensive infrastructure offering are strong differentiators from competitor science parks, and much of the facilities and assets on site are unique in Europe. This makes it a cornerstone of the attractiveness of the North West science landscape.
- 1.3 As a member of the Alderley Park Taskforce and an investor in the site alongside Manchester Science Parks (MSP), Cheshire East Council is at the vanguard of promoting a strong and sustainable future for the site. Through its continued close collaboration with partners, a clear need has been identified for collective action to ensure that new start-ups and growing SMEs on site are fully supported and nurtured. In addition to the business support services already available, there is growing demand for early-stage investment funding.
- 1.4 As such, there is a will amongst partners to establish investment fund arrangements which will specifically address the current market failure in the provision of comprehensive investment funding for life science SMEs, and the imbalance between the funding available to companies in the North West, and those in the South East of the UK. It is proposed that investment funds target the following:
  - Spin outs from AstraZeneca and academic institutions wishing to establish at Alderley Park

- SMEs in the UK looking to relocate to Alderley Park in order to grow and expand
- Inward investors

1.5 In addition to this, it is evident that the success of the world class science assets on the site can only retain their quality if there continues to be world class science R&D being carried out at Alderley Park. The provision of such investment funding has the potential, alongside other interventions, to increase the number of jobs on site from the 5000 estimated to be created through the existing MSP investment programme to c.7000. This would move the level of site occupancy beyond the peak level of occupancy under AstraZeneca.

1.6 The purpose of this report is to seek Cabinet approval for an investment in a fund by Cheshire East Council of £5million. To date, partners have allocated £10m (AstraZeneca £5m; Bruntwood £5m) to investment funding and it is intended that this be used to attract further high net worth investors. Such an investment would be a proactive intervention by the Council and is a further demonstration of its position at the vanguard of innovation and growth in the UK. No other local authority has so far invested in equity funding for life science companies at this scale, and the Council is, therefore, in an unrivalled position at the forefront of local authority action to support and grow the life science industry in the UK.

## **2.0 Recommendations**

1. That Cabinet delegate to the Portfolio Holder for Finance, subject to the findings of the independent advisor's final report and the determination of detailed investment policies and appropriate fund structure, the authority to make the investment.
2. That subject to the decision of the Portfolio Holder for Finance, budget be provided and officers be authorised to take all necessary actions to set up the Fund and undertake the proposed investment, including the procurement and appointment of a Fund Manager, and in line with the findings of the independent advisor's final report and the determination of detailed investment policies and appropriate fund structure.

## **3.0 Reasons for Recommendations**

- 3.1 The 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*
  - Change Project 1.3 (*Investment to support business growth*).

- 3.2 Alderley Park is of significant importance to both the Cheshire East and wider North West economies, and the Council's involvement in a targeted investment fund for SMEs located on site is a key intervention for ensuring the future sustainability of both the science park on site, and subsequent job creation and business growth.
- 3.3 The Council's involvement in an investment fund would also provide a formalised and robust mechanism to deal with requests for investment from life science SMEs either already located at Alderley Park or considering relocating there. Once the Investment Strategy has been set up and agreed by the Council, it will be up to the appointed Fund Manager to determine where the funds are invested, in line with this Strategy.

#### **4.0 Wards Affected**

- 4.1 The site is located part within Chelford ward, and part within Prestbury ward. However, the positive impacts of supporting the growth of SMEs will be applicable over a wider area.

#### **5.0 Local Ward Members**

- 5.1 Councillor George Walton (Chelford), Councillor Paul Findlow (Prestbury), and Councillor Frank Keegan (Alderley Edge).

#### **6.0 Policy Implications**

- 6.1 The proposals put forward in this report are considered to be aligned to the Government's stated intention that the UK becomes a global hub for life sciences, capable of attracting and nurturing world-leading talent.
- 6.2 This proposal also accords with, and is complementary to the following:

*Ambition for All: Sustainable Communities Strategy 2010-2025: Priority 2 Create conditions for business growth*

- Harness emerging growth opportunities;
- Create a climate attractive to business investment.

*Cheshire East 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*

- Ensure that Cheshire East maintains and enhances its role as a 'knowledge economy';
- 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;

- Macclesfield and its hinterland sustain their current position as one of the most successful parts of the regional economy.

## **7.0 Implications for Rural Communities**

- 7.1 The location of Alderley Park within the Prestbury and Chelford wards means that a successful and sustainable future for the site is of benefit to the rural communities in the area in terms of job creation and retention.

## **8.0 Financial Implications**

- 8.1 As stated in the report, the reasons for the Council's involvement in a targeted investment fund are to help ensure the future sustainability of the science park, supporting job creation and business growth for the benefit of the local economy, with related favourable effects on business rates income. The Council has set aside funds for increasing the longer term financial independence and stability of the Council; it is proposed that this reserve be used to finance contributions to the Alderley Park investment fund.
- 8.2 Independent external advice has been obtained, from a company with significant skills and experience in this sector. Informed by that advice, the report describes the need and rationale for the Council's involvement in investment; sets out high level investment criteria reflecting appropriate risk management considerations; and recommends a particular fund structure that will support the investment and financial objectives of both the Council and its partner MSP.
- 8.3 In order to implement the proposals, it will be necessary to detail the investment policies formally, create the Fund structure with Brunwood and appoint a Fund Manager, to deliver the objectives in accordance with the investment criteria, over the life of the Fund (recommended to be 15 years).

## **9.0 Legal Implications**

- 9.1 The Council is undertaking this project under The General Power of Competence (Localism Act 2011). The Council needs to be mindful of the State Aid implications of investing in the Fund and how these can be addressed as set out in the Executive Summary report at Appendix 1.
- 9.2 The preferred option as identified is for the Council to become a limited partner in a limited partnership (LP). The LP will in turn appoint the fund manager, following a fully compliant procurement exercise.
- 9.3 An LP is a legal entity formed in accordance with the Limited Partnership Act 1907. An LP broadly resembles an ordinary

partnership save that an LP has two categories of partner, a general partner and a limited partner.

**Limited partners.** An LP will have one or more limited partners who will invest capital in the LP, will not take an active role in the LP's operation, and will have limited liability up to the amount of the capital that they have contributed.

**General partners.** The LP will have general partners who have responsibility for managing the LP's business and have unlimited liability for the firm's debts and obligations.

- 9.4 Legal Services will be providing ongoing support to the Council as the project develops and external legal advice will be provided.

## **10.0 Risk Management**

- 10.1 The risks of making equity investments, and investments in this sector, are acknowledged. The report reflects the external professional advice obtained. It summarises the recommended fund structure and importantly, sets out high level investment criteria that reflect the necessary risk management principles, including the focus of investments made by the Fund. Clearly, it is intended that investments are made in a number of companies in a range of sub-sectors, such that risks are spread and a reasonable return is achieved, over the 15-year lifetime of the Fund.
- 10.2 Failure to establish a sustainable and long term source of investment funding for SMEs at Alderley Park will severely undermine the efficacy of the site as a multi-occupier science park. This will significantly reduce the level of job creation on the site, and will undermine the delivery of the agreed vision for the Alderley Park to remain as a world-class science asset.

## **11.0 Background and Options**

### **Context**

- 11.1 Following AstraZeneca's announcement of their planned withdrawal of R&D activities from Alderley Park by 2016, a Taskforce was established to consider how best to secure sustainable high value employment and investment at this major employment site. Through the sale of the site by AstraZeneca, Cheshire East Council and its partners within the Taskforce ensured a clear vision for the site was developed and agreed by all partners to secure a vibrant and prosperous future through the transformation of the site to an independent, self sustaining, world-class hub for life sciences, acting as an anchor for the sector in the North West.

- 11.2 As set out in the Alderley Park Development Prospectus (endorsed by Cabinet on the 7<sup>th</sup> January 2014), the emerging vision for the future of the site is for it to become a life science park, transforming from a single occupier to a cluster of life science businesses which complement and support existing and planned science facilities across the wider region, as part of a North West science ecosystem.
- 11.3 At the heart of the site's transformation into a multi occupant site is the existing incubation space at the BioHub. Over twenty companies are currently located at the BioHub, employing over 200 people, with a growing pipeline of companies showing interest, including around 25 potential start-ups from former AstraZeneca staff.
- 11.4 Whilst the BioHub continues to offer a successful programme of mentoring and support to both existing and potential SMEs, there remains a number of significant barriers to their establishment and growth. A recent BIS report identified a significant decline in the availability of both debt and equity funding for SMEs since 2007, with no visible signs of recovery, and a recent NESTA report identified that venture capital activity has now seen an overall 40% reduction over the past two years, with a shift in funding towards larger deals and more established companies. In addition to the decline in traditional funding sources, the investment into early stage life science companies is heavily biased towards the South East of England, with 73% of investment going to the 43% of companies in that region. As a result of this market failure, good quality business opportunities are underfunded or fail to attract any funding at all.
- 11.5 The provision of finance specifically to spin outs from AstraZeneca and academic institutions wishing to establish at Alderley Park; SMEs in the UK looking to relocate to Alderley Park in order to grow and expand; and inward investors would contribute to the already strong supply of facilities and skills, and would help to cement the site's position as a global centre of excellence and innovation. Indeed, the world class assets and equipment on site will only retain their quality and efficacy if there continues to be world class science research and development on site.

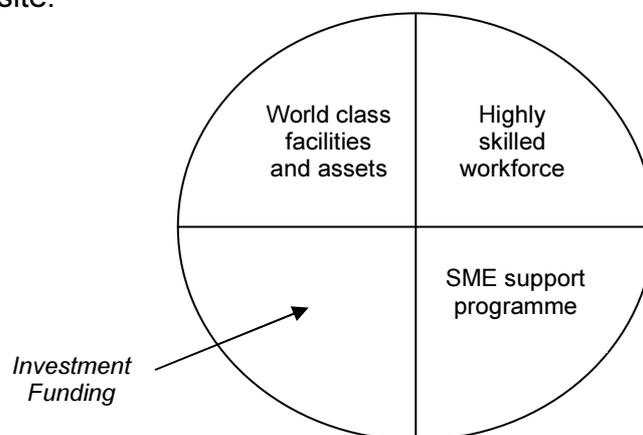


Figure 1 – Elements of a successful science ecosystem

- 11.6 In addition to this, the availability of investment funding could also help to secure the establishment and growth of a significant number of new start-up companies from former AstraZeneca staff who will not be re-locating to Cambridge. Without investment funding and the wider support available through the BioHub, it is likely that this immediate potential for business and job creation would be lost and would likely result in an outflow of highly skilled scientists from the local area. It is estimated that the provision of investment funding at Alderley Park alongside other interventions could increase the level of job creation from 5000 (as proposed under MSP's Investment Plan for the site) to c.7000. This would represent a level of employment on site in excess of that historically delivered at the peak of AstraZeneca's occupancy.
- 11.7 At the launch of MSP's vision for Alderley Park in May 2014, formal announcements were made by both Bruntwood and AstraZeneca that they would be providing investment funds of £5m each, as part of their commitment to the future growth of the site. By similarly contributing investment finance, the Council would be at the vanguard of local authority involvement in stimulating and supporting the growth of the life science sector in the UK, as no local authority has invested equity funding for life science companies at this proposed scale.

### **Investment Fund Objectives and Structure**

- 11.8 The Council has sought independent external advice to help determine the most appropriate fund structure, operating arrangements and investment policies that will help to deliver its aims and objectives and also facilitate joint-working with partners. The advice can be found at Appendix 1.
- 11.9 As noted in the independent report, historically fund investment in biotech/ life sciences has generated relatively low returns (though better than risk-free cash deposits). The economic objectives for investing in a fund are related to jobs created, and GVA created; there are a range of economic and social benefits for the Council:
- Some mitigation of the loss to the local economy of AstraZeneca disinvestment in the site, through new SME formation and growth
  - The growth of SMEs on site is likely to increase the provision of services to the site and lead to greater use of local businesses
  - Company formation and growth will recover some of the business rates income for the Council which will be lost as AstraZeneca withdraws from the site
  - Job creation and retention will have a positive impact on GVA for the Borough, particularly as the average value of highly

skilled staff at Alderley Park is £52,500, compared to the Cheshire East average of £27,600

11.10 The Council's advisors have recommended the following investment criteria, in high level terms, reflecting appropriate consideration of risk management principles:

<b>High Level Investment Criteria</b>
1. Investments will be spread over all life science sectors, such as instrumentation and services and not just the antecedent drug development or pharmaceutical focus, so as to spread the level of risk
2. Preference will be given to those companies employing large numbers of former AstraZeneca staff, so as to deliver the wider economic benefits which come from retaining them in the region and avoiding their displacement elsewhere
3. Investments will be targeted at the lower risk, later development stage opportunities
4. Investments will be targeted at firms with protectable IP and/ or high barriers to entry
5. Investments will be targeted at firms with strong management teams, to try to reduce the risk of company failure often associated with unproven and weak management teams
6. Investments will be targeted at firms with products and services which are market driven rather than purely research-led, to reduce the risk of company failure

11.11 Whilst it is understood that AstraZeneca are likely to focus their investment on incubation phase businesses, the objectives and investment criteria of the Council and Bruntwood are more closely aligned and it is recommended that they invest together in a "follow on" fund, being a "limited partnership" structure with a lifetime of 15 years that will:

- Invest in selective spin-outs from AstraZeneca and existing companies in the BioHub
- Invests in businesses transferring onto the Alderley Park site from elsewhere

11.12 This particular structure has a number of benefits for the Council and Bruntwood:

- The COUNCIL/ Bruntwood Fund can choose to only invest in the more commercial projects already located at Alderley Park
- The COUNCIL/ Bruntwood Fund can invest in companies re-locating to Alderley Park (inward investment)

- The structure is tax transparent, boosting the net returns to the Council and avoiding unnecessary tax leakage
- The Fund can be set up at a more measured pace, without delaying AstraZeneca's investment in its spin-outs

11.13 Subject to a positive endorsement of the proposed investment, it will then be critical that the Council develops more detailed investment policies, develops the Fund structure, and that a suitably qualified and experienced fund manager is appointed to establish the Fund and ensure its successful delivery.

11.14 Importantly though, in light of the recent positive Local Growth Fund announcement around a potential £40m Greater Manchester and Cheshire Life Science Investment Fund, it will be mutually beneficial to consider developing a Limited Partner fund structure which has the flexibility to accommodate both the Alderley Park Fund and another fund(s), whereby the latter facilitates investment in companies elsewhere in the Greater Manchester and Cheshire sub-region. This will be considered in our next discussions with Bruntwood and our partners in the respective LEPs.

## **12.0 Access to Information**

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

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