

Cheshire East Council

Cabinet

Date of Meeting: 10 November 2015

Report of: Executive Director for Growth and Prosperity

Subject/Title: Greater Manchester and Cheshire Life Science Investment Fund – Approval of Representative to the Investment Advisory Panel

Portfolio Holder: Councillor Peter Groves – Finance and Assets

1. Report Summary

- 1.1 Following AstraZeneca's announcement of its decision to relocate the majority of its R&D activity from Alderley Park by 2017, Cheshire East Council has played a pivotal role in securing a sustainable future for the site as a world-class life science park. To date the Council has supported the creation of over 400 new jobs on the site at the BioHub incubator, and has assisted in securing the site's first international investment by an American company. The Council continues to be a vocal supporter of the award-winning business support programmes being delivered on site, and has assisted in securing £1.1m Regional Growth Funding for the expansion of the business incubator.
- 1.2 As part of the site sale process the Council invested alongside the new owner, Manchester Science Partnerships (MSP), securing the future of the site and leveraging over £110m of private sector investment. Earlier this year, the Council approved a Development Framework for the site which aligned Manchester Science Partnerships' vision for the site to national and local planning policy. The Council has also worked closely with colleagues in Greater Manchester to produce a joint Greater Manchester and Cheshire Life Science Strategy, which embeds Alderley Park's role at the heart of the sub-regional cluster and its contribution to the Northern Powerhouse.
- 1.3 As part of the Council's wider efforts to support the long term growth and sustainability of Alderley Park and wider life science activity in the Borough, the Council has worked closely with partners in Greater Manchester and Cheshire and Warrington to create an innovative life science investment fund which will provide critical investment funding to SMEs and encourage their growth. The £30m Fund has been established through a £5m investment by both the Council and Manchester Science Partnerships, alongside a £20m Local Growth Funding award.
- 1.4 The fund will support a minimum of 58 life science businesses to grow over 15 years, creating a minimum of 370 jobs and occupying over 200,000 sqft of

space at Alderley Park. Through this intervention, a GVA uplift of £40.3m over 15 years will be delivered.

- 1.5 As part of the set-up process, an Investment Advisory Panel (IAP) is to be created, comprised of representatives of the initial investors (Cheshire East Council, Cheshire and Warrington Enterprise Partnership, Greater Manchester Combined Authority, and Manchester Science Partnerships), and two independent, non-voting specialists with broad experience of the life science sector.
- 1.6 The role of the IAP is:

To hold the Fund Manager to account, on behalf of the Limited Partners, regarding its management of the Fund under the Fund Management Agreement to be entered into between the Fund Manager and the General Partner.

To provide an information conduit between the General Partner (and Fund Manager) and each of the individual Limited Partners.

To provide a mechanism for obtaining Limited Partner approvals for certain types of approval (“Investee Consent” or “Consent”, as defined in the Limited Partnership Agreement) under delegated written authority from each of the significant Limited Partners to their respective representatives on the IAP.

- 1.7. The IAP will meet quarterly (plus other ad hoc meetings as required) to review the quarterly fund report and to review the Fund’s performance in general. The panel will review the Fund’s audited accounts, and will receive quarterly updates including but not limited to management accounts for the Fund; a list of all active investments, provisions and divestments; a schedule of progress in meeting key performance indicators; and details on the health of the portfolio.
- 1.8. It is proposed that the Portfolio Holder for Finance is appointed as Cheshire East Council’s representative on the IAP, with support being provided by the Inward Investment and Business Engagement Manager and specialist finance colleagues as required.

2. Recommendation

- 2.1. To note the role of the Investment Advisory Panel and its proposed membership
- 2.2. To confirm the appointment of the Portfolio Holder for Finance as the Council’s representative on the Investment Advisory Panel, with support from the Inward Investment and Business Engagement Manager.

3. Other Options Considered

- 3.1. Options are considered as part of the background and chronology section of the report.

4. Reasons for Recommendation

- 4.1. As an initial investor, Cheshire East Council has been allocated one membership place on the Investment Advisory Panel. The role of the Council's representative will be to support the collective appraisal of the Fund and Fund Manager's performance, and to act as a conduit for information between the Fund Manager and the Council.

5. Background/Chronology

- 5.1. On the 16th September 2014 Cabinet approved a £5m investment by the Council into the proposed Alderley Park Life Science Investment Fund, alongside match investments from AstraZeneca and Manchester Science Partnerships (MSP). The Cabinet decision delegated authority to the Portfolio Holder for Finance to take all necessary actions to set up the Fund and undertake the proposed Council investment in the Fund.
- 5.2. The provision of such 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.
- 5.3. Following the successful award of £20m Local Growth Funding, the Council has worked closely with the Greater Manchester Combined Authority, Cheshire and Warrington LEP and MSP to expand the proposed Fund, with a subsequent increase in benefits to the sub-region in terms of both job creation and business growth. Since the successful award of LGF funding, a Portfolio Holder decision was taken on the 30th March 2015 to address the increase in geographical focus of the Fund.
- 5.4. As set out in the original business case for the Council's investment, a fully OJEU compliant procurement process has been undertaken to identify a Fund Manager for the Fund. This process was managed on behalf of all investors by Transport for Greater Manchester, with specialist financial and legal input from FiveLines Consulting Ltd/ Amberley Advisory, and Eversheds LLP. The appointment of the preferred bidder was approved by a Portfolio Holder Decision on the 13th July 2015
- 5.5. Following the successful appointment of the Fund Manager, the Council is now working with partners to establish the Fund. As set out in the original business case for the Fund (as approved by Cabinet on 16th September 2014) an Investment Advisory Panel (IAP) will be established with

members drawn from the initial investors, together with two non-voting independent members with broad experience of the life science sector. The purpose of the two independent members is to provide the required level of knowledge and understanding to enable the IAP to hold the Fund Manager fully to account.

5.6. The IAP's objectives are:

To hold the Fund Manager to account, on behalf of the Limited Partners, regarding its management of the Fund under the Fund Management Agreement to be entered into between the Fund Manager and the General Partner.
To provide an information conduit between the General Partner (and Fund Manager) and each of the individual Limited Partners.
To provide a mechanism for obtaining Limited Partner approvals for certain types of approval ("Investee Consent" or "Consent", as defined in the Limited Partnership Agreement) under delegated written authority from each of the significant Limited Partners to their respective representatives on the IAP.

5.7. The IAP will meet quarterly (plus other ad hoc meetings as required) to review the quarterly fund report and to review the Fund's performance in general. The panel will review the Fund's audited accounts, and will receive quarterly updates including but not limited to management accounts for the Fund; a list of all active investments, provisions and divestments; a schedule of progress in meeting key performance indicators; details on the health of the portfolio

5.8. As an initial investor, the Council is entitled to appoint a representative to the IAP. This representative will represent the Council and perform the functions listed above. In particular, the representative will:

- Provide updates and share relevant information between the Fund Manager and the Council.
- Vote on behalf of the Council in matters requiring investor approvals.
- Review any potential conflicts of interests and consult on potentially sensitive investments, particularly where these might be of reputational risk to the Council
- Review the performance of the Fund Manager particularly with regards to the objectives of the Council and the investment targets set relating to the Alderley Park and Cheshire geographical areas.
- Develop the profile of the Fund through stakeholder engagement with key external partners

6. Wards Affected and Local Ward Members

6.1. All.

Implications of Recommendation

7. Policy Implications

7.1 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.

7.2 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*).

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 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.

8. Legal Implications

8.1 Previous reports have outlined the legal implications relating to the structure of the fund, the Council's powers to invest in the fund and the procurement of the Fund Manager.

8.2 Under the provisions of the Limited Partnership Act 1907 a limited partner's liability in a limited partnership is limited to the amount of capital contributed by it provided that limited partner does not become involved in the management of the partnership. The Council cannot as a limited partner participate in the management of the fund and this role will be fulfilled by the General Partner. The IAP's role therefore as outlined in 1.5 above will be to provide a conduit for information between the General

Partner and the Limited Partners and to hold the Fund Manager to account.

- 8.3 The IAP should ensure that they do not participate in the management of the fund and look only to confirm whether a particular course of action or investment raises any concerns from the IAP's perspective rather than recommending a particular course of action or investment.

9. Financial Implications

- 9.1 The Investment Advisory Panel representative will oversee Cheshire East's investment of £5m in the Greater Manchester and Cheshire Life Science Fund. The Fund Manager has been charged with generating a commercial return for investors over the 15 year term of the Fund and a key component of the IAP's role will be to monitor the financial performance of the Fund.

10. Equality Implications

- 10.1 N.A

11. Rural Community Implications

- 11.1 As set out in the Portfolio Holder Decision on the 30th March 2015, the Fund Manager is required to invest £10m of the total fund into companies at Alderley Park. The location of Alderley Park within the Prestbury and Chelford wards means 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.

12. Human Resources Implications

- 12.1 It is proposed that the Portfolio Holder for Finance is appointed as Cheshire East Council's representative on the IAP, with support being provided by the Inward Investment and Business Engagement Manager and specialist finance colleagues as required.

13. Public Health Implications

- 13.1 There are no public health implications associated with this report.

14. Other Implications (Please Specify)

- 14.1 None

15. Risk Management

15.1 The Council and its partners have received specialist expert advice from the following sources to ensure that the fund has been established in a way that suitably protects the interests of all investors. This includes:

- Eversheds – specialist legal advice on behalf of all investors
- FiveLines Consulting Ltd and Amberley Advisory – specialist investment advice and project management on behalf of all investors
- BlueSky Corporate Finance Ltd – specialist financial and commercial advice on behalf of the Council and the Cheshire and Warrington LEP.

16. Access to Information/Bibliography

16.1. Reports as published on Council website.

17. Contact Information

Contact details for this report are as follows:-

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