

# CHESHIRE EAST COUNCIL

## Cabinet Member for Finance

---

**Date of Meeting:** 30<sup>th</sup> March 2015

**Report:** Executive Director of Economic Growth and Prosperity

**Subject/Title:** Greater Manchester and Cheshire Life Science Investment Fund

**Portfolio Holder:** Councillor Peter Raynes

---

### 1.0 Report Summary

- 1.1 On the 16<sup>th</sup> 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.
- 1.2 Following this decision, an opportunity arose for the Cheshire and Warrington LEP and Greater Manchester LEP to submit a joint bid to Government for an allocation of Local Growth Funding. This was successfully approved in November 2014, increasing the size of the Fund to potentially over £40m with a subsequent increase in benefits to the sub-region in terms of both job creation and business growth.
- 1.3 The proposed sub-regional Fund works on the same premise as the original Alderley Park Fund, with the overall objective to provide necessary investment funding to life science SMEs located across the sub-region. However, given the availability of additional funding, a number of opportunities have arisen for the Fund which go beyond the original proposals for a fund targeted purely at Alderley Park in relation to the stage of companies being invested in and the ringfencing of any funding within the geographical area.

### 2.0 Recommendations

- 2.1 To note the update on progress from the Cabinet decision of the 16<sup>th</sup> September 2014 relating to the Council's investment in the Alderley Park Investment Fund.
- 2.2 To approve the following updates to the proposed Greater Manchester and Cheshire Life Science Investment Fund:

- To approve the proposed ring fencing of funds across the geographical fund area as set out in the report, and for inclusion in the Investment and Operating Guidelines (IOGs).
- To approve the Council's contribution to be "pooled" with those of other investors and invested in companies across the target area, as part of the Limited Partnership Structure.
- To approve the proposed enlargement of the stages of company to be invested in, as set out in the report, and for inclusion in the IOGs.

### **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 By successfully securing an additional £20m investment into the proposed Fund through the Local Growth Fund, the scope of the Fund can be increased to enable more investments in more companies across the sub-region. This in turn will bring increased economic benefits to the Borough, particularly through the availability of investment funding for life science companies located beyond Alderley Park.

3.4 The increase in the Fund size also enables a higher number of investments which will help to spread the risk to investors across a larger portfolio.

### **4.0 Wards Affected**

4.1 The Alderley Park 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 All

## **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 Alderley Park by supporting job creation and business growth for the benefit of the local economy, with related favourable effects on business rates income. £5m has been set aside in an earmarked reserve for this purpose.

8.2 Under the enlarged sub-regional Fund, the Council's investment will in practice be pooled with those of other investors and as a result, all investors will invest in all companies and will receive a return proportionate to their contributions to the Fund. Therefore, in practice there is no "direct" link between the Council's contribution and investments in companies at Alderley Park, and similarly no direct link between the performance of companies at Alderley Park and the Council's likely returns. The Council's contribution will be invested in companies across the Greater Manchester

and Cheshire sub-region, as a result of investment decisions by the Fund Manager and in line with the IOGs.

- 8.3 The enlargement of the Fund to over £40m through the addition of the Cheshire and Warrington LEP and Greater Manchester Combined Authority as co-investors enhances the likely economic benefits to Cheshire East by increasing the level of funding available to companies in the Borough, particularly those not located at Alderley Park. In addition to this, the ability to invest in a greater number of companies will help to further spread the risk of any investment.
- 8.4 External legal advice is currently being sought by the Council on the proposed Limited Partnership Structure.
- 8.5 As a key advantage of the proposed Limited Partnership structure is its tax transparency, consideration will need to be given to the tax implications of the Council having to invest in the Limited Partnership through either a newly created or existing company.
- 8.6 As the Council is the accountable body for monies channelled through the Cheshire and Warrington LEP, clarification must also be sought about how the LEP's contribution to the Fund will be invested and whether this will require investment via a company.

## **9.0 Legal Implications**

- 9.1 The main legal implications relating to the fund and the structure of a limited partnership have already been stated in the report to Cabinet of 16<sup>th</sup> September 2014.
- 9.2 Council is able to rely on various powers to participate in the project and invest in the fund. These are:
- the exercise of powers of investment contained in s.12 of the Local Government Act 2003; and
  - any express powers to support the particular activities of the fund such as the powers in Part 5 of the Local Government and Public Involvement in Health Act 2007; and
  - The general power of competence (section 1 of the Localism Act 2011)

## **10.0 Risk Management**

- 10.1 Investment in companies is inherently risky, and companies operating in the life sciences sector present particular risks for potential investors.
- 10.2 The Council has received advice from a respected expert in the field, in relation to matters concerning investment in this sector, and notably with

regard to the proper establishment of an investment fund and the appointment of professionally qualified and experienced fund managers to make decisions on the actual investments in particular companies, in accordance with the policies (investment and operating guidelines) to be determined by the Council and its partners.

- 10.3 As noted elsewhere in the report, a larger fund is inherently more stable as a result of having a wider spread of portfolio companies and having a larger amount of money to deploy into those companies which, therefore, counteracts the diluting effect of later funding rounds.
- 10.4 There are certain considerations, relating to being part of a larger fund and reaching agreement on policies with a wider group of investor partners. These issues – relating to geographical scope and “stage” of potential investee company development – are specifically discussed in the report.
- 10.5 Regarding determining appropriate fund structures - including the legal form(s) through which the Council can invest its money, and the LEP invest its Local Growth Funding – it is worth noting that external legal advice is being obtained. It is recognised that whilst the Council is seeking to receive return of at least its initial investment, the Local Growth Fund money delivered by Section 31 Grant to the LEP will require the investment returns to be recycled firstly within the LEP region, and secondly within the life science sector. Consequently, the outcomes relating to Cheshire East and the Cheshire and Warrington LEP are very different and this will drive a differing legal structure.

## **11.0 Background and Options**

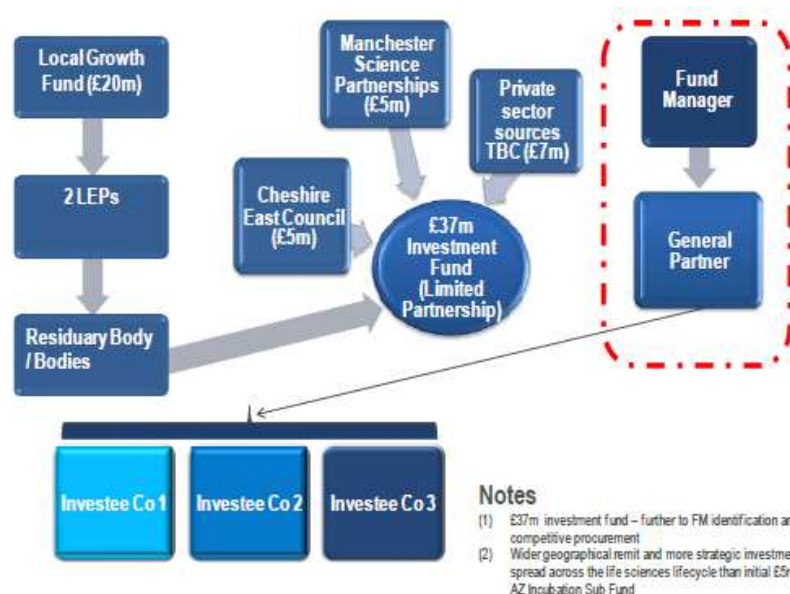
- 11.1 On the 16<sup>th</sup> September 2014 Cabinet approved a £5m investment by the Council into the proposed Alderley Park Life Science Investment Fund, alongside match investments from AstraZeneca and Manchester Science Partnerships (MSP). The Cabinet decision delegated authority to the Portfolio Holder for Finance to take all necessary actions to set up the Fund and undertake the proposed Council investment in the Fund.
- 11.2 Following this decision, an opportunity arose for the Cheshire and Warrington LEP and Greater Manchester LEP to submit a joint bid to Government for an allocation of Local Growth Funding. An in-principle award totalling £20m was confirmed subject to the completion of detailed business case for the Fund.
- 11.3 On behalf of the two LEPs, Cheshire East Council procured the services of an independent financial advisor to develop the detailed business case. This was submitted to Government in early November 2014 and was formally approved on the 25<sup>th</sup> November 2014. As part of the detailed business case, the match funding for the LGF award was achieved by combining the already committed monies for the Alderley Park Fund (funded through contributions from CEC, MSP and AstraZeneca) as part of

the wider sub-regional Greater Manchester and Cheshire Life Science Investment Fund.

- 11.4 The successful bid to Government allows the size of the Fund to be increased significantly to potentially over £40m, with a subsequent increase in benefits to the sub-region in terms of both job creation and business growth.
- 11.5 The proposed sub-regional Fund works on the same premise as the original Alderley Park Fund, with the overall objective to provide necessary investment funding to life science SMEs located across the sub-region. Under the current proposed structure, funding is identified from the following sources:

Source of Funding	£million
AstraZeneca (ring fenced for Alderley Park)	5.0
Bruntwood/ Manchester Science Partnerships	5.0
Private sector match – to be identified	7.0
<i>Sub-total private sector funding</i>	<i>17.0</i>
Cheshire East Council	5.0
LGF	20.0
<b>Total</b>	<b>42.0</b>

As was originally proposed for the Alderley Park-specific fund, a Limited Partnership structure would be used:



- 11.6 In collaboration with partners and with support from independent financial, legal and procurement advisors, the Council is currently developing the detailed documentation for the proposed Fund in order to undertake a procurement to appoint a fund manager ready for a Fund launch in late Spring 2015.

- 11.7 Whilst the award of £20m from Government is welcome news for the sub-region, and ultimately benefits a wider number of companies in the Science Corridor, this context differs somewhat from that considered when the original Council decision was made to invest in a fund purely for Alderley Park. As a result, a number of opportunities need to be considered:

### 1. Ring-fencing within the geographical area

Under the current Limited Partnership structure, the investments of each of the partners would be combined and would be allocated to companies at the discretion of the Fund Manager, subject to them meeting the requirements set out by partners in the Investment and Operational Guidelines (IOGs). Whilst a minimum of £10m has been ringfenced for Alderley Park (in effect to represent the CEC and MSP investments), the Council's investment will in practice be pooled with other investors and will be spread across the wider areas of Greater Manchester and Cheshire and Warrington. Therefore, in reality all investors will invest in all companies, proportionate to their contributions into the Fund, and all investors will receive returns from the Fund proportionate to their respective contributions, regardless of the physical location of the companies.

As a result, whilst the primary consideration for the Council's investment is to create jobs and business growth at Alderley Park, as a Limited Partner the Council will also invest in companies beyond Alderley Park, and beyond the LEP area into Greater Manchester due to the pooling of funds within the Limited Partnership structure.

In order to balance the need to reduce restrictions on how the funding can be invested whilst still ensuring that the investment in Cheshire and Warrington is maximised, it is proposed that the IOGs set out a required sum for investment in companies in certain locations within the target area in line with the below table:

<b>Suggested allocations</b>	<b>Value</b>	<b>Mechanism for enforcement</b>
Funding formally ringfenced for Alderley Park	£10m (to reflect the CEC and MSP original investments, and in addition to the further £5m AZ investment already allocated).	Formally through the IOGs given to the Fund Manager. This would formally require the Fund Manager to allocate a minimum of £10m of the Funding in companies at Alderley Park. Should the performance of the fund manager deviate from this significantly, this would represent a breach of performance targets.

Cheshire and Warrington LGF allocation	£8m	This will be monitored through the IAP and if the allocations need to be reconsidered, the IAP will make recommendations to the Limited Partners. This would encourage the Fund Manager to allocate in line with the proposal as a minimum in each of the LEP areas.
Greater Manchester LGF allocation	£8m	
Flexible allocation	£11m	This remaining funding (representing the as yet unraised private sector investment) would be unallocated and would be invested by the Fund Manager in line with demand, anywhere in the sub-region.

These numbers are based upon securing the private sector match of £7m and a total fund size of £42m. In the event that the additional private sector match is not raised, there will be a potential claw-back of some of the Local Growth Fund monies. In extremis, this would result in the fund size contracting to £30m, including the £5m AstraZeneca incubation monies. These ringfenced allocations also need to include the fund management fees and, therefore, the whole allocation will not be available to invest into companies.

Investing in a broader geography beyond Alderley Park will allow the Council to share in a greater proportion of external funding and also ensure that the Council can take an active role in shaping this cross-LEP project. There are also additional safeguards through wording in the IOGs which can be put in place to ensure that money that it has allocated to support companies at Alderley Park can be invested in companies who require follow-on funding, in order to account for availability of very early-stage seed funding through the existence of the AstraZeneca sub-fund on site.

## **2. Stage of companies to be invested in**

Under the original Alderley Park Investment Fund proposals, investments were to be targeted at SMEs. The incubation process would enable more sensibly thought-through investment proposals to be made available to the Fund Manager and the costs of assistance provided to those potential investee companies in preparing their business case is being met by the incubation fund.

However, no such pre-start funding exists elsewhere in the Greater Manchester or Cheshire and Warrington LEP areas. It has, therefore, been suggested that greater flexibility is given under the sub-regional



Fund to allow some investment in very early stage companies, subject to demand and to them meeting the requirements set out in the IOGs.

This increases the number of companies which could be invested in by the Fund, subject to investments matching the requirements set out in the IOGs, which in turn spreads the risk for investors.

It should be noted, that experiences of similar Funds elsewhere suggest that the majority of investments by a Fund of this size are likely to be “follow-on” (i.e. in companies which have already received investment funding) and that investments in very early stage start-ups would be risk managed by the Fund Manager and would likely be only small in size (in terms of individual investment tranches).

### **3. Investing in a Limited Partnership**

As identified in the original report to Cabinet of the 16<sup>th</sup> September 2014, the recommended structure for the fund is an English Limited Partnership structure.

External legal advice continues to be sort to support this innovative project going forward particularly in relation to the proposed Limited Partnership Structure and related matters. In addition as the accountable body for monies channelled through the Cheshire and Warrington LEP, clarification must also be sought about the implications of the proposed structure on the Local Growth Fund contribution to the Fund and whether this will require investment via a company.

As a key advantage of the proposed Limited Partnership structure is its tax transparency, consideration will need to be given to the tax implications of the Council having to invest in the Limited Partnership.

## **12.0 Access to Information**

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

Name: Matt O'Neill  
Designation: Major Projects Manager  
Tel No: 01270 685629  
Email: [matt.o'neill@cheshireeast.gov.uk](mailto:matt.o'neill@cheshireeast.gov.uk)