

CHESHIRE EAST COUNCIL

Cabinet

Date of Meeting:	24 th March 2014
Report of:	Caroline Simpson, Director for Economic Growth and Prosperity and Peter Bates, Chief Operating Officer
Subject/Title:	Options Appraisal on the future of Alderley Park
Portfolio Holder:	Cllr Michael Jones, Leader of the Council/ Cllr Peter Raynes, Finance

1.0 Report Summary

- 1.1 Following an announcement in March 2013, AstraZeneca announced their intention to begin a sale process for Alderley Park. Through negotiations with the Chancellor and the Leader of the Council, AstraZeneca agreed to retain 700 jobs on site, but to move 2300 R&D staff to a new site in Cambridge.
- 1.2 The purpose of the report is to update Cabinet on the decision made using special urgency powers for the Council to invest in Alderley Park as part of AstraZeneca's sale process, and purchase a 10% stake in the Special Purpose Vehicle (SPV) for Alderley Park, and in addition to this, purchase a 3% stake in MSP, a partner to the Alderley Park SPV. This will provide a series of benefits and enable the Council to take an active role in shaping the future development of this key strategic asset.
- 1.3 This once in a lifetime opportunity has arisen as part of the preferred bidder's negotiations with AstraZeneca. The Council has been engaged via the preferred bidder (MSP) to explore how it may assist in ensuring that the future success of Alderley Park is realised. The private sale of the site by AstraZeneca to MSP is set to conclude by the 31st of March 2014, with both companies currently finalising legal and financial arrangements. The Council was required to confirm its intentions before the 11th March 2014 in order to be included within the wider deal.
- 1.4 The proposed investment in Alderley Park will complement MSP's growing portfolio in the Corridor Manchester area and it is recognised that the linking of strategy for both sites will be a critical factor in their combined success. With this in mind it is deemed beneficial for the Council to invest in both the company acquiring Alderley Park and directly in MSP itself.
- 1.5 Due to the urgency of this opportunity arising, the internal project management processes for Technical Enabling Group and Executive Monitoring Board have not been followed. In addition to this, due to the highly commercial nature of the opportunity, and its potential impact on the stock market position of a global firm, it was agreed by the Leader of the Council, in consultation with the Leaders of the Opposition Parties and Chairman of the Corporate Scrutiny Committee that an urgency decision would be more appropriate than a Cabinet decision. However, a senior project team including officers from legal, finance, and major projects has managed the process led by the Director for Economic Growth and Prosperity,

and Chief Operating Officer, with independent specialist advice sought from GVA Land and Property and Weightmans LLP. This process has been carried out fully in line with Cabinet Procedure Rule 53 in the Constitution.

1.6 Alderley Park is AstraZeneca's global lead centre for cancer research, and is a major asset of international quality and reputation. As a major strategic employment site within Cheshire East, Alderley Park is of paramount importance to the local economy. Under its current ownership, it contributes approximately £315m per annum to the Cheshire East economy through direct and indirect contributions, contributing in the region of £4m per annum in business rates alone. In addition to this, the site is a significant employer, and currently directly supports over 3000 highly skilled jobs. The significance of Alderley Park to both the local and sub-regional economies cannot be underestimated

1.7 Following independent advice, the Council has identified three different investment options. The risks and benefits of each option are investigated in detail in Schedule 1 and a clear independent recommendation is given that the Council invests in both MSP and the SPV for Alderley Park.

2.0 Recommendations

2.1 The following recommendations are submitted for approval:

- i. To note that an urgent decision was taken in line with Cabinet Procedure Rule 53 in the Constitution by the Leader, Deputy Leader, and Portfolio Holder for Finance in consultation with the Chief Executive, Chief Operating Officer and Section 151 Officer, Head of Legal Services and Monitoring Officer, and Strategic Director for Economic Growth and Portfolio Holder.
- ii. To note that the urgent decision gave approval for the Council to invest in Alderley Park as part of AstraZeneca's sale process to purchase a 10% stake in the SPV for Alderley Park, in addition to a 3% stake in MSP, a partner to the Alderley Park SPV.

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*), and
- Change Project 1.3 (*Investment to support business growth*).

3.2 Alderley Park is of significant importance to both the Cheshire East and North West economies. The sale of this world-class site represents a once in a generation opportunity for the Council to invest in its future.

4.0 Wards Affected

4.1 The site is located part within Chelford ward, part within Prestbury ward. However, ensuring a sustainable future for this site has potential implications for a wider area.

5.0 Local Ward Members

- 5.1 Councillor George Walton (Chelford), and Councillor J Paul Findlow (Prestbury).

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 Financial Implications

- 7.1 Land and development consultancy GVA has been employed by the Council to undertake an options appraisal and assess the benefits and risks on the Council's potential involvement in Alderley Park.

- 7.2 Manchester Science Parks Ltd (MSP) has been identified as preferred bidder for the purchase of the Alderley Park site from Astra Zeneca. It is proposed that the site is acquired, managed and developed by a special purpose vehicle (SPV) formed by MSP, Bruntwood Corridor Company Ltd and Cheshire East Council. The investment proposal for the site describes and presents cash flow estimates over the period 2014–2025, with regard to: capital development; lettings of office, laboratory, light industrial and conference space; and the disposal of land for residential development.

- 7.3 GVA has reviewed the investment proposal; supported the Council in reaching agreement with MSP on "Day 1 cost valuation" (purchase price, stamp duty, associated professional fees and bid development expenditure); assisted with the determination of an exit strategy for the Council (should it wish to withdraw from the SPV at some point); and has prepared a report on the business plan assumptions and options for consideration, including the advantages and risks of financial involvement.

- 7.4 The recommended options in this report include the Council securing a 10% stake in the SPV for Alderley Park; and also to acquire a 3% share in MSP itself. Approved budget resources will be required to fund the Council's contributions to this value.
- 7.5 The GVA report includes commentary on MSP's proposals, to provide further understanding of the sensitivities in the business plan to changes in extent of residential and/ or commercial development and the effects on returns for investors, including the Council. They conclude that in a range of alternative scenarios reviewed (e.g. higher capital and running costs; lower lettings and residential receipts), a positive return on investment should still be expected.

8.0 Legal Implications

- 8.1 These provisional legal implications are prepared following a meeting with GVA on 26th February and having had sight of the draft options appraisal report prepared by GVA, the Manchester Science Park (MSP) Shareholder Agreement, Articles of Association; the draft Subscription Agreement, Shareholders Agreement and Articles of Association; Working Capital Facility Agreement and the term sheet in relation to the Alderley Park SPV.

8.2 Shareholder Agreement, Articles of Association; Working Capital Facility and Term sheet (Alderley Park SPV)

- In summary the Council as a minor shareholder Alderley Park SPV will have limited powers. For example The Council will only have 1 Director out of 6, shareholder meetings can be called and concluded without the Council consenting or being present, there whilst there are certain pre-emption rights, effectively the Council's stake can be diluted. Whilst the Council can sell its shares to a third party the Council cannot require the other shareholders to buy it out. If 75% of the holders of the shares in the SPV accept an offer from a bona fide third party, there is a right for the Council to "tag" along and sell their shares to the third party on the same terms. However, if Bruntwood or MSP (the other shareholder in the SPV) wish to sell their shares to a bona fide third party, then if the sale of those shares would result in the third party acquiring a 35% interest or greater in the SPV, then the Council has the right to "tag" along and sell its shares to the third party on the same terms. This allows the Council the flexibility of leaving the Company if either of the other two shareholders sell out. Alongside this right, if any shareholder wishes to sell their shares, they must first offer them to the remaining shareholders but the Council may not wish to invest further at that time.
- Further, in relation to Reserved matters the only matter which requires the consent of all Shareholders, including the Council, is a change in the agreed business strategy i.e. owning, managing and developing Alderley Park. If the SPV wants to make any changes to the Business Plan (including increasing any management charges payable to Bruntwood) the Council's consent is not required. However, before any reserved matter can be put to the Shareholders for approval, it must first be discussed at a meeting of the Board of Directors. This meeting cannot be held unless the Council's nominated director (or his alternate) being present.

- In relation to the Working Capital Facility, 50% of the Facility is being drawn down day 1. Whilst there is an aspiration that once land is sold off for development, the Loan may be repaid in whole or in part, there is no obligation on the SPV to do so. The Facility will remain in place indefinitely and the monies can be reborrowed by the Company. There is nothing to stop the SPV for drawing down the second tranche of the Facility at any time following completion.
- Any contracts between Bruntwood and the Company must be on the basis of an arm's length agreement with a third party.
- Conflict of Interest: A standard provision in the articles of association is that a conflicted director cannot vote on any matter on which there is a conflict. Therefore the Council nominated director can recuse himself from any decisions that involve planning.

8.3 Shareholder Agreement, Articles of Association (Manchester Science Park or "MSP")

- The Council has subscribed for shares alongside the Manchester universities and other public bodies based in and around Manchester. As a 3% minority shareholder, the Council has very little power (which is normal in an investment of this size). The Council has the right to appoint one director to the Board.
- The objects of the Company is to manage and develop land and buildings for the purpose of providing facilities for use in *inter alia* advanced technologies, science, R&D, innovation and IT on the site at Pencroft Way, Manchester or in the Oxford Road Area. It further has the right to invest in opportunities in Greater Manchester or Cheshire East.
- The Council has the right to appoint a director to the Board of MSP but Directors meetings can be called and held without his consent. The management of the Company is delegated to a Management Committee
- Reserved matters can be approved by the holders of not less than 80% of the share capital of the Company. This means that at least 3 shareholders must approve any reserved matter.
- If any new investments are proposed, the Council may be asked to invest further. If it chooses not to invest further, its shareholding may be diluted by further investment from the existing or third party investors.
- The only way the Council can sell its shares in MSP is to find a third party buyer. It must offer the shares to the existing shareholders at the price offered by the third party buyer and if the shares are not taken up by the existing shareholders, then it can sell its shares.

8.4 State Aid

- As part of the negotiations in relation to the funding structure of any share purchase and Shareholders' Loan, the Council will have to have due regard to state aid to ensure its compliance with the Treaty on the Functioning of the European Union and EU Regulations on state aid. In this regard advice has

been sought from Weightmans LLP. The Council will have to be satisfied that the Market Economy Investor Principle applies for the following reasons:

- The value of the investment in the SPV has been objectively assessed.
- Other parties are investing in the SPV on similar terms.
- The Council is taking a commercial decision that is in its interests to have a financial stake in MSP as it considers that that strengthens its commercial position in the SPV and the Council's commercial interests regarding science parks generally.

8.5 Procurement issues

- In addition the Council will also have to pay due regard to its own Finance and Contract Procedure Rules and the Public Contracts Regulations 2006 in relation to any procurement implications and further advice may well have to be sought as negotiations with the Company progress.

8.6 Planning

- The Council will have to be mindful that any planning and development control matters relating to the Park are managed appropriately given that the Council may consider that it is conflicted in its dual role as investor in the site and as the local Planning Authority.

9.0 Risk Management

- 9.1 There is a significant risk that by not investing in the site itself, the Council sends out a clear message that public sector investment is not required. This could result in negative funding decisions by central government, which would severely impact on the business plan of the preferred bidder and the subsequent future viability of the site.
- 9.2 As a commercial venture, there is a risk that the aims and objectives of the preferred bidder might diverge from those of the Council. At this point, there is a risk that the Council is co-investing in activities at Alderley Park which it does not support for wider strategic or practical local reasons. The clear alignment of the preferred bidder's business case with the vision of the Council and the Alderley Park Taskforce over both the immediate and long terms means that this is not of significant concern. However, as part of the due diligence phase the Council will investigate a suitable exit strategy, should a divergence of objectives make its continued investment untenable.
- 9.3 Part of the funding proposal includes recycling some of the receipts of land disposal for residential development to support the growth of the science cluster at Mereside. As with any development, the delivery of residential units at Alderley Park will be subject to a full planning approval process and must fit within existing planning policy framework for the site. As the local Planning Authority, the Council may choose to refer a decision to the Planning Inspectorate if it feels conflicted in its dual role as investor in the site (and subsequently a potential financial beneficiary), and as the local Planning Authority. Also given that the site is within the Green Belt any future application may well be referred to the Secretary of State in any event depending on the scale of the development by the 2009 Direction.

- 9.4 As a shareholder, the Council will declare an interest and veto its rights to comment in any discussions around potential residential uses for the site.
- 9.5 As with any commercial investment, there is a risk that the business plan for the site is not realised, and the Council does not receive an adequate return on its investment.

10.0 Background and Options

- 10.1 Alderley Park is AstraZeneca's global lead centre for cancer research, and is a major asset of international quality and reputation. As a major strategic employment site within Cheshire East, Alderley Park is of paramount importance to the local economy. Under its current ownership, it contributes approximately £315m per annum to the Cheshire East economy through direct and indirect contributions. In addition to this, the site is a significant employer, and currently directly supports over 3000 highly skilled jobs.
- 10.2 As well as being of considerable importance to the local economy, Alderley Park 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 of significant importance to maintaining and building the reputation and subsequent attractiveness to investment of the North West science landscape.
- 10.3 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 on this major employment site. The Alderley Park Taskforce, chaired jointly by the Vice President of AstraZeneca and the Government's Life Sciences Business Advisor, comprises representatives of key stakeholder groups including Cheshire East Council (represented by Councillor Michael Jones, Leader), Cheshire and Warrington LEP, Manchester City Council and the University of Manchester.
- 10.4 A clear vision for the site was developed to secure a vibrant and prosperous future for Alderley Park through its transformation to an independent, self sustaining, world-class hub for life sciences, acting as an anchor for the sector in the North West. The role of Alderley Park as an anchor for the region is essential in addressing the current investment imbalance which currently exists between life science facilities in the South East, and the rest of the UK.
- 10.5 In line with this vision, the Taskforce aims to secure a sustainable future for the site that:
- Ensures that full advantage is taken of the opportunities the facilities on site offer;
 - Retains highly skilled professional employment in the region;
 - Supports existing supply chains and related businesses to minimise negative impacts from the scaling back of operations by AstraZeneca; and
 - Ensures that future development on the site is of an appropriate high quality, encouraging investment and employment opportunities in a manner which maximise benefits for the North West region as a whole.

- 10.6 Having regard to the existing world class facilities on site and the ongoing evolution of the life sciences/biomedical sector, 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. In order to ensure that the site continues to be an asset of world-class quality it is essential that the right type of future investment is secured so as to avoid the depreciation or loss of strategically important assets. The significance of Alderley Park to both the local and sub-regional economies cannot be underestimated.
- 10.8 There continues to be a high level of market interest from companies wishing to locate to the BioHub already established on site, and an independent Demand Assessment carried out on behalf of the Taskforce identified that there will be demand for 3700m² of specialist lab and office space per year, if the right conditions for growth are established at the site and the offer at Alderley Park is differentiated as part of a wider North West Life Science Cluster.
- 10.9 Twenty companies are currently located at the BioHub, with a growing pipeline of companies showing interest. In light of this success, the BioHub has now filled its allocated space at Alderley Park, and AstraZeneca have agreed to release an additional 50,000sqft to meet demand. However, it should be noted that the BioHub is currently only taking up about 10% of the available lab facilities on site. Whilst all stakeholders agree that a successful future of the BioHub will be paramount for the overall sustainability of the site and in delivering the future vision, this clearly demonstrates the scale of the challenge of creating a fully viable site, and the need for additional complimentary and necessary activities to be located at Alderley Park.
- 10.10 In order to clearly present the Taskforce's vision for the site, a Development Prospectus was produced and endorsed by the Cabinet of Cheshire East Council on the 7th January 2014. In line with the emerging Core Strategy, the Development Prospectus aimed to summarise the unique opportunities of the site, set out the clear vision for the site and demonstrate the commitment of major stakeholders to this vision, map out the intended planning process, and set out some high level principles to indicate how the vision might be realised in spatial terms.
- 10.11 The Development Prospectus reiterates the vision for the site, as set out in draft policy CS29 (Alderley Park Opportunity Site) of the emerging Core Strategy of the Local Plan. The draft policy supports the development of a life science cluster at Alderley Park but, acknowledges that the demand may not exist to support a life science centre of a scale comparable with the existing quantum of development on site. As such, the policy supports other uses where they are either demonstrated to be 'necessary' for the delivery of life science activities, or where they are 'complementary' to that core use. In addition, the policy requires that those uses accord with a Planning Brief/Site Masterplan to be produced and adopted as Supplementary Planning Document to support draft policy CS29.
- 10.12 Whilst the current planning position for Alderley Park is clearly linked to the Taskforce's future vision for the site, and does give some control over the future of the site, the Council has a considerable interest in ensuring that this

vision is delivered due to both the economic, social, and environmental significance of the site for both the immediate local, and wider area.

10.14 As part of the preferred bidder's (MSP) negotiations with AstraZeneca, Cheshire East Council has been approached with a once in a lifetime opportunity to invest directly in the future of Alderley Park and to ensure that the future success of the site is realised. The private sale of the site by AstraZeneca to MSP is set to conclude by the 31st of March 2014, with both companies currently finalising legal and financial arrangements. The Council was required to confirm its intentions before the 11th March 2014 in order to be included within the wider deal.

10.15 As a stakeholder in the Taskforce the Council has had a leading role in developing the vision for the site. In order to continue this influence following the sale of the site by AstraZeneca, the Council has investigated the potential for its investment in Alderley Park. Any potential investment by the Council is based on the following rationale:

- To maintain the regionally significant skills and employment base at Alderley Park.
- To safeguard economic growth in the area.
- To ensure delivery of the business plan proposed for the site.
- To give the Council a long term interest in the site, not a quick return.
- To secure best value for the Council's investment.

10.16 The proposed investment in Alderley Park will complement MSP's growing portfolio in the Corridor Manchester area and it is recognised that the linking of strategy for both sites will be a critical factor in their combined success. With this in mind it is deemed beneficial for the Council to invest in both the company acquiring Alderley Park and directly in MSP itself as the link with MSP will be of paramount importance to the economic viability of Alderley Park in the medium to long term. The existing contacts and relationships of MSP will enable Alderley Park to be more closely aligned with the academic and health science assets in Manchester, thereby creating a more powerful and robust commercial proposition for the benefit of both Alderley Park, and the wider sub-regional economy.

10.17 In addition to this, there is a clear message from Government that local authorities are expected to play a lead role in providing their own assets to support sites of this nature, in addition to any potential funding from central government. By investing its own resources in the site, the Council will send a clear message to Government that it fully supports Alderley Park and this could help to secure additional public sector funding in the medium to long term, which will be of significant value to the future viability of the site. By investing alongside key public sector partners such as Manchester City Council and Manchester University, Cheshire East Council also sends out a clear message to Government that it puts collaboration at the heart of its economic development approach.

10.18 Following independent advice, the Council has identified three different investment options. The risks, benefits, and costs of each option are investigated in detail in Schedule 1 and a clear independent recommendation is given that the Council invests in both MSP and the SPV for Alderley Park.

10.19 As evaluated in the Independent Options Appraisal in Schedule 1, investing in the SPV for Alderley Park alongside MSP will mean that the Council has a greater likelihood of having some influence over the form and direction of the business plan for Alderley Park. Alongside having a greater awareness of events and progress at the site, the Council will have a seat at the table in ensuring that employment and wider economic benefits of the site can be maximised.

10.20 In addition to investing in Alderley Park itself, the Council has also been approached with the opportunity to invest in Manchester Science Parks (MSP) alongside Bruntwood, Manchester City Council, the University of Manchester and other shareholders, as a result of a wider reallocation of shareholdings. As a result of such an investment, the Council may benefit from greater influence over the business plan for Alderley Park, and will be able to develop links with a wider range of institutions which may bring direct benefit to Alderley Park.

11.0 Access to Information

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

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