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# **Alderley Park Options Appraisal**

## **Executive Summary**

Cheshire East Council

**March 2014**

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# 1. Introduction

Alderley Park is presently home to Astra Zeneca (AZ), a global biopharmaceutical research company. In 2013, AZ announced its intention to consolidate its UK operations in Cambridge, with a phased withdrawal from the site in Alderley Park.

Further to AZ's announcement, the Alderley Park site was marketed for sale and in January 2014 the preferred bidder was announced to be Manchester Science Parks (MSP). AZ and MSP have committed to a deadline of 31<sup>st</sup> March 2014 for completion of the sale and both parties are currently finalising legal and financial arrangements.

MSP are engaged in an ongoing process of forming a business plan for Alderley Park, which incorporates life science industries and biopharmaceutical research, office development, light industrial accommodation and the sale of a portion of the site for residential development to cross subsidise further investment into the employment-led uses at Alderley Park.

The site is a key regional strategic location and it is for this reason that the Council wishes to support the successful delivery of MSP's business plan. Initial discussions have taken place between MSP and the Council as to the nature of the Council's role at the site.

The purpose of this report is to assess the advantages and risks to the Council of various options for involvement at Alderley Park.

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## 2. Background

The site is presently occupied by AZ which announced in 2013 the decision to concentrate its UK operations in Cambridge, which will host AZ's global research centre and corporate HQ. The site at Alderley Park will therefore become surplus to AZ's requirements.

Alderley Park is currently home to around 3,000 employees and 1.7 million sq ft of accommodation in an overall site area of 400 acres. Alderley Park has a highly skilled workforce, world-class buildings and equipment and is therefore an extremely valuable contributor to the economy in Cheshire East and in the north west of England.

Since 1997, over £300 million has been invested in new facilities at this site. An additional £250 million has been invested over the same period in upgrading existing assets and infrastructure. The standard of facility is unparalleled in the north west.

The site has the potential to become a destination location for businesses. Complementing the scientific facilities, the site also includes;

- High specification offices
- Conference facilities
- Sports and leisure facilities
- Gymnasium
- Two restaurants with seating for a total of 650 people
- Car parking for 4,000 vehicles
- Significant infrastructure and utilities capacity

Alderley Park is at a tipping point in its future. A focussed business plan and targeted investment will capitalise on the existing high quality assets and will enable smaller businesses and start-ups to benefit from class leading facilities which would otherwise be beyond reach. This is essential to Alderley Park's ongoing status as a knowledge economy hub.

The acquisition of Alderley Park is therefore a once in a lifetime opportunity to capitalise on a unique proposition;

- Established, in-situ, highly skilled workforce
- World class buildings and equipment
- Existing infrastructure and capacity for expansion
- Broader value creation to cross subsidise investment into the employment base

In January 2014, AZ announced MSP as the preferred bidder for the site.

MSP is an established operator in the science and research sector. It has a clear strategic interest in the north west of England – its major shareholder is Bruntwood, a north west property company with assets of approx. £950m and net assets of approx. £280m. Other shareholders include Manchester City Council, the University of Manchester, Manchester Metropolitan University and the City of Salford.

MSP and AZ have committed to a deadline of 31<sup>st</sup> March 2014 for the completion of the sale of Alderley Park. In advance of this date, both parties are finalising legal and financial arrangements.

Throughout the period of bidding for the site, MSP have been refining a business plan for Alderley Park. The plan places the retention of skilled jobs at its core, providing a platform for those AZ employees who do not relocate the Cambridge.

The predicted end product of the business plan is;

- 1 million square feet of employment space
- In excess of 4,500 full time employees on site
- Over £18 million of capital investment
- An internationally important bioscience campus

The Council has a clear desire to secure the successful delivery of MSP's business plan at Alderley Park – it will maintain the skills base in the borough, secure jobs and help to deliver broader economic benefits.

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## 3. Proposed MSP Business Plan

### Overview

The business plan proposes a 'bioscience campus' as the core of a strategically important business community with around 4,500 employees in 1 million sq ft of business space.

Wider employment uses including a conference centre, high quality office space and light industrial space will be provided in the parkland setting, with a proposed investment of £18 million over a 10 year period to improve public realm, infrastructure and to decommission redundant facilities.

Part of the funding proposal includes recycling some of the receipts of land disposals for residential development. The delivery of residential development on the site is subject to a formal planning process and the grant of planning consent. This has yet to be achieved.

### Investment

The expected £18 million of capital expenditure over a 10 year period will deliver the following;

- Demolition or mothballing of circa 700,000 sq ft of outdated buildings
- New public realm and investment in infrastructure to allow the site to be multi-occupied
- Refurbishment of retained buildings

The business plan produced by MSP contains a number of aspects which are clearly aligned with the aspirations of the Council. We envisage that the Council will require a role in Alderley Park going forward in order to have an influence in ensuring its delivery.

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## 4. The Role of the Council

The Council's role in Alderley Park is to be confirmed, but is based on the following key objectives:

- To maintain the skills and employment base at Alderley Park
- To safeguard economic growth in the area
- To deliver the proposed business plan for the site
- To give a long term interest in the site, rather than a quick return
- To gain some ability to influence events and the direction of the Alderley Park Business Plan
- To secure best value for the Council's investment

The strategic importance of the site for both the local and regional economies means that there is a clear opportunity to implement the Council's wishes and to deliver a successful redevelopment of this key site.

The site currently employs over 3,000 highly skilled staff, and the MSP business plan indicates that in excess of 4,500 jobs will be located on site.

In addition to the economic benefits of the anticipated job creation levels, a successful Alderley Park brings a wide raft of broader benefits for the Borough by:

- Reaffirming the Borough's reputation, and indeed that of the North West region, as an attractive location for investment.
- Sending out a clear message that Cheshire East is 'open for business'.
- Increasing the overall market opportunity for the life science ecosystem in both the Cheshire and Warrington sub-region and wider North West region.
- Addressing the £315m per annum economic impact of AstraZeneca's disinvestment in the site.
- Retaining a number of the highly skilled, world-class scientists already employed in the region.
- Catalysing already successful collaborations with other public bodies, including Manchester City Council.

The Council's interest in Alderley Park must be long term and the business plan must be offered every opportunity to succeed. The Council has clear objectives for the successful delivery of new employment and its role in the site will revolve around this rather than the short term realisation of capital receipts from site disposals.

The ability of the Council to influence this strategy in a meaningful manner is fundamental to its involvement in Alderley Park.

Underlying all of this, any investment from the Council must demonstrate best value. MSP's business plan has the potential to generate financial returns, but also exposes the Council to financial risk, should it invest in Alderley Park.

The Council has considered a number of options to achieve its objectives at Alderley Park.

- **A non-financial interest in Alderley Park eg forming part of the JV board for the site**
  - A role on the board of Alderley Park, with the Council's voting rights and ability to influence the business plan to be confirmed. No financial contribution from the Council and no financial returns to the Council
  - The Council exercises control over the nature of development and on the extent of land sales to cross-subsidise employment uses by acting in its capacity as planning authority
- **A financial stake in either the JV for Alderley Park, or in MSP, or in both**
  - A 10% stake in the SPV for Alderley Park. Timing and value of returns to the Council in line with the business plan for the development
  - A 3% stake in MSP, a partner to the Alderley Park SPV. Timing and value of returns to the Council to be confirmed



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## 5. Options Analysis

### General Considerations – Business Plan

Although the Council is joining the proceedings at a relatively late stage, it has had an opportunity to consider the degree to which the business plan meets its objectives on investment and employment generation.

Given that there is limited scope for the Council to negotiate or effect any changes to the plan in advance of the deadline date for completion of 31 March 2014, the focus has been on verification and assessment of the business plan and identification of those aspects which do not meet the Council's requirements

The Council is satisfied that the current business plan allocates appropriate investment to employment creation and that MSP possesses the skill set for delivery. It is engaged with MSP's proposals and wishes to see implementation of the business plan proposals.

### General Considerations – Due Diligence

MSP have spent significant time and cost in verifying and understanding the site information and the cost implications.

In contrast, the Council has had limited time to satisfy itself as to the risks and costs arising from the information provided. We have listed below key areas for consideration;

- Mix of uses, rents and voids
- Land disposals
- Building and site areas
- Structural survey
- Asset schedule
- Rating liability

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- Expected utility costs and suitability of the site for subdivision
  - Staff and running costs requirements
  - Demolition and mothballing costs
  - Site access and highway proposals
  - Ground conditions
  - Legal and title

The Council has undertaken an initial review of MSP's due diligence, which is satisfactory. We recommend that the Council verifies MSP's work in greater detail in advance of the proposed completion date of 31<sup>st</sup> March 2014. Where due diligence has been undertaken by 3<sup>rd</sup> parties it may be possible to secure a duty of care and reliance from the relevant consultant. Alternatively, the Council may review reports produced by MSP's consultants.

## **General Considerations – Robustness of the business plan assumptions**

On the same principles as described above in due diligence, the Council must build upon its initial review of the information provided to satisfy itself that the business plan assumptions are solid and realistic. There are two key consequences of this;

1. The financial viability of the development and the risk to the Council's potential financial return
2. The likelihood of the business plan being delivered and whether there is sufficient market demand and value to justify the investment proposals which will deliver in excess of 4,000 jobs.

We have below assessed specific merits and risks of the options open to the Council.

## **A non-financial role on the Alderley Park board**

This option has not been proposed by MSP to the Council. It is being considered as a route to gain influence at Alderley Park, without financial investment and therefore without the corresponding financial risks.

The Council has already taken a steering role as part of the Alderley Park Task Force since the announcement of AZ's vacation of the site. A number of organisations have been party to such discussions, with the collective aim of safeguarding employment and skills in the region. The proposed non-financial role would be an extension of this, maintaining dialogue with MSP to ensure that the economic and political requirements of the development are represented.

We expect that a non-financial role would enable the Council to act in an advisory capacity, making representations, but without direct influence on the business plan or the allocation of resources.

The main route of influence open to the Council would be in its capacity as planning authority.

## Advantages

- A 'seat at the table', direct involvement and an awareness of overall strategy for Alderley Park.
- The ability to establish and maintain links with other interested parties such as the region's universities and the life science and research communities.
- A lower chance of 'vested interest' implications (for example the granting of valuable planning consents) as the Council has no direct financial interest in the site.
- Limited financial risk to the Council.
- There remains the potential for indirect financial benefit to the Council from the economic regeneration of Alderley Park.

## Risks

- As-yet undefined role and influence on the board. Our discussions with MSP indicate that little influence would be afforded to the Council.

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- The failure of the Council to invest in the site does not send a positive message to other potential public sector investors who may be considering allocating funding to Alderley Park.
  - Reliance on planning authority powers to influence the overall direction and extent of development may be insufficient to address the Council's objectives.

## **10% stake in the Alderley Park SPV**

MSP have proposed that the Council secures a 10% stake in the Alderley Park with an ongoing commitment to invest at 10% of the overall equity requirement.

The Newco is proposed to be a JV, to which the Council will be a party. Our discussions with MSP indicate that the majority of decision making will lie with the majority shareholder ie MSP. Nonetheless, the Council will maintain the right to a detailed understanding of proposals for development and the progress of the business plan, via its financial investment and its place on the board of the JV.

### **Advantages**

- The Council will have a seat at the table and first-hand experience of the evolution of occupier interest and how the JV can maximise the employment benefits.
- Investment by the Council may enhance the prospects of further public sector funding to support the employment creation aims of the development.
- A greater involvement in the site for the Council offers a greater likelihood of it having some influence over the form and direction of the business plan.
- There is potential for Council input to the evolution of the business plan and the ongoing management of the site, post-acquisition by the JV.
- The Council may share directly in the financial benefits of the economic regeneration of Alderley Park.

### **Risks**

- The Council will have minimal formal decision making powers or rights under the terms of the JV

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- The Council will not be able to materially influence how the JV safeguards employment and investment in changing market conditions. The Council has however negotiated an exit arrangement from the JV if commercial development falls below a certain level.
  - A suitable mitigation strategy for the Council in dealing with a planning application on the site will be to refer it to the Secretary of State for determination. This will remove the Council from the decision making process and provide impartiality.
  - If the business plan fails to perform as expected, there may be a requirement for increased equity inputs from the Council.

### **3% stake in MSP, a partner to the Alderley Park SPV**

MSP have made an offer for the Council to acquire a 3% share in MSP. Bruntwood is the current majority shareholder in MSP (51%). This is proposed to increase to 63.9% as part of the Alderley Park acquisition, as Bruntwood invest further into MSP.

Other shareholders include Manchester City Council, the University of Manchester, Manchester Metropolitan University, and the City of Salford. It is proposed that the Council and Central Manchester NHS Foundation Trust both become shareholders.

The Council will become party to a wider forum of life science, research and related institutions through its holding in MSP. It may also provide another layer of influence in the site at Alderley Park.

### **Advantages**

- The investment in MSP may give greater influence over the business plan for Alderley Park.
- More of a partnering approach with MSP.
- The Council will develop links with a wider range of institutions which may bring direct benefit to Alderley Park.

## Risks

- The Council must undertake due diligence to satisfy itself as to the risks and returns of investment into MSP.
- The ability to influence the direction of Alderley Park is limited – MSP has a number of stakeholders with greater equity shares than the Council.
- In isolation, investment in MSP provides an opportunity to become involved in Alderley Park, but this is one step removed from direct involvement.

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## 6. Recommendations

We recommend that the Council invests in MSP and the Alderley Park JV on the basis of the following facts and subject to the following provisos;

1. From a property perspective, MSP's business plan for Alderley Park combines commercial development activity and acceptable financial returns. The business plan assumptions are reasonable and are based upon examples from MSP and from on-site occupiers such as BioCity.

The costs of entry to the Council are reasonable and reflect the requirements of the site acquisition process, the vendor's requirements for assurances and the advanced nature of the opportunity which is being offered to the Council.

Subject to the due diligence recommendations below, the overall proposition for Alderley Park provides an acceptable balance of risk and return for the Council's financial investment.

2. Financial investment by the Council increases the likelihood of it having influence in the direction the JV

The non-financial role affords more of an arm's length relationship with the Alderley Park JV partners. It promises a lower level of Council involvement, a lesser likelihood of the Council being party to occupier negotiations and the Council being informed of investment and strategic decisions by the JV, after the decisions have been made.

The financial role demonstrates the Council's commitment to continued investment in employment at Alderley Park.

The key reason for the Council considering any form of involvement in Alderley Park is to maximise the chances of success in retaining and creating employment opportunities. It is clear that a financial stake for the Council gives it;

- A seat on the JV board
- Greater contact with influential partners and stakeholders

- An understanding of progress and challenges at an early stage

Compared with a non-financial role, the above affords the Council greater influence and a more informed position from which to achieve its objectives.

3. Confirm and finalise the due diligence process prior to the site acquisition on 31<sup>st</sup> March 2014

The Council must be satisfied that the building blocks of the business plan are accurate. We have highlighted below our comments on aspects of due diligence;

- Business plan assumptions and letting strategy – in the time available, there is little value for the Council to add by undertaking additional due diligence in areas such as rental values, assumed void periods, the mix of uses, residential land sale assumptions, planning strategy, delivery structure and financial return for the Council's investment. We consider the due diligence for these aspects to be satisfactory.
- Site information and running costs – this is an area of due diligence which is ongoing and MSP continue to investigate this in the run up to completion on March 31<sup>st</sup>.

In order to meet the project timetable and as a means of managing costs, the Council should not aim to duplicate MSP's work. It should obtain a warranty and duty of care from MSP's consultants in favour of the Council, or should review and verify:

- Building and site areas
- Structural survey
- Asset schedule
- Rating liability
- Expected utility costs and suitability of the site for subdivision
- Staff and running costs requirements
- Demolition and mothballing costs



- Site access and highway proposals
  - Ground conditions
  - Legal and title
- Terms of the senior loan from Bruntwood Group Ltd to the JV – financial advice should be sought on the acceptability of the terms of the senior debt to be provided by Bruntwood Group Ltd to the JV.
- The terms of the JV and the Council's rights – the draft documents have been provided for the Council's review. The full legal and cost implications of these documents and the JV arrangements are to be confirmed. The conditions precedent for the Council to exit the JV and the mechanics of this are to be formally agreed and documented. Confirmation is required that state aid regulations have been complied with. Legal advice is required on all of these matters.
- Investment in MSP – MSP have provided company financial accounts and detail of the range of the company's activities. Financial advice is required by the Council to assess the value of the opportunity.