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Cheshire Science Corridor Investment Programme: Business Case Appraisal

Alderley Park – Block 22 and Block 23/24 Refurbishment

FINAL DRAFT

CHESHIRE & WARRINGTON

LOCAL ENTERPRISE PARTNERSHIP

September 2019

Contents

Disclaimer

In light of the recent Referendum concerning the UK's membership of the EU, we are now in a period of uncertainty in relation to many factors that impact the property investment and letting markets. At this time organisations involved in the industry are reflecting on the potential implications of the UK leaving the EU. Since the Referendum date it has not been possible to gauge the effect of the impact on rental and capital values, along with other elements affecting property appraisal. Cushman & Wakefield continues to closely monitor market developments and trends in order that we can provide clients with the most up to date advice. The views contained in this document are provided in the context of this market uncertainty and as such our estimates and opinions are susceptible to change. Development appraisal results are particularly sensitive to changes in key variables such as cost and values. Accordingly we advise that clients have regard to this risk and may need to commission further advice before acting on the opinions expressed.

1.0 Introduction and Project Summary

Introduction

1.1 The overarching Development and Investment Strategy for the Cheshire Science Corridor sets out the vision, objectives and investment priorities for the Enterprise Zone. In order to maximize the scale of the Business Rate Retention re-investment pot, the focus of investment in the early years (0-5 years) will be on projects that unlock and accelerate the delivery of new floorspace and will attract high quality occupiers and which deliver the following outcomes:

- Facilitates additional business rate retention
- Supports job creation
- Increases economic growth
- Facilitates business start ups
- Supports business expansion
- Attracts private sector investment

1.2 Towards this aim, landowner and developer stakeholders with projects which can contribute to the aspirations of the Development and Investment Strategy and their own site specific Development Plans have been invited to work alongside the Growth Director to develop and submit a Business Case for investment.

1.3 This paper provides an external technical review of the Business Case submitted by Alderley Park Limited (APL) in respect of two projects to **refurbish Block 22 and the basement of Blocks 23/24 at Alderley Park** within the Enterprise Zone.

1.4 The Business Case and this technical review are aligned and with the principles of the Government's 'Green Book' five case appraisal approach and structured accordingly to determine:

- Strategic Case – The case for change and fit with strategic objectives
- Economic Case – The outcomes of investment and value for money
- Commercial Case – Capability to deliver
- Financial Case – Justification of cost to EZ and other stakeholder commitments
- Management Case – Programme and risk management

1.5 This paper will conclude with a recommendation as to the 'reasonableness' of the EZ investment ask against the objectives of the Investment Programme and in respect of each of the five appraisal cases. It will raise any points around negotiation and conditions should the LEP be minded to approve the investment request. The Business Case and this paper will then be assessed by the EZ Board to determine the project's suitability for funding and scale of funding to be offered, if any.

Project Overview

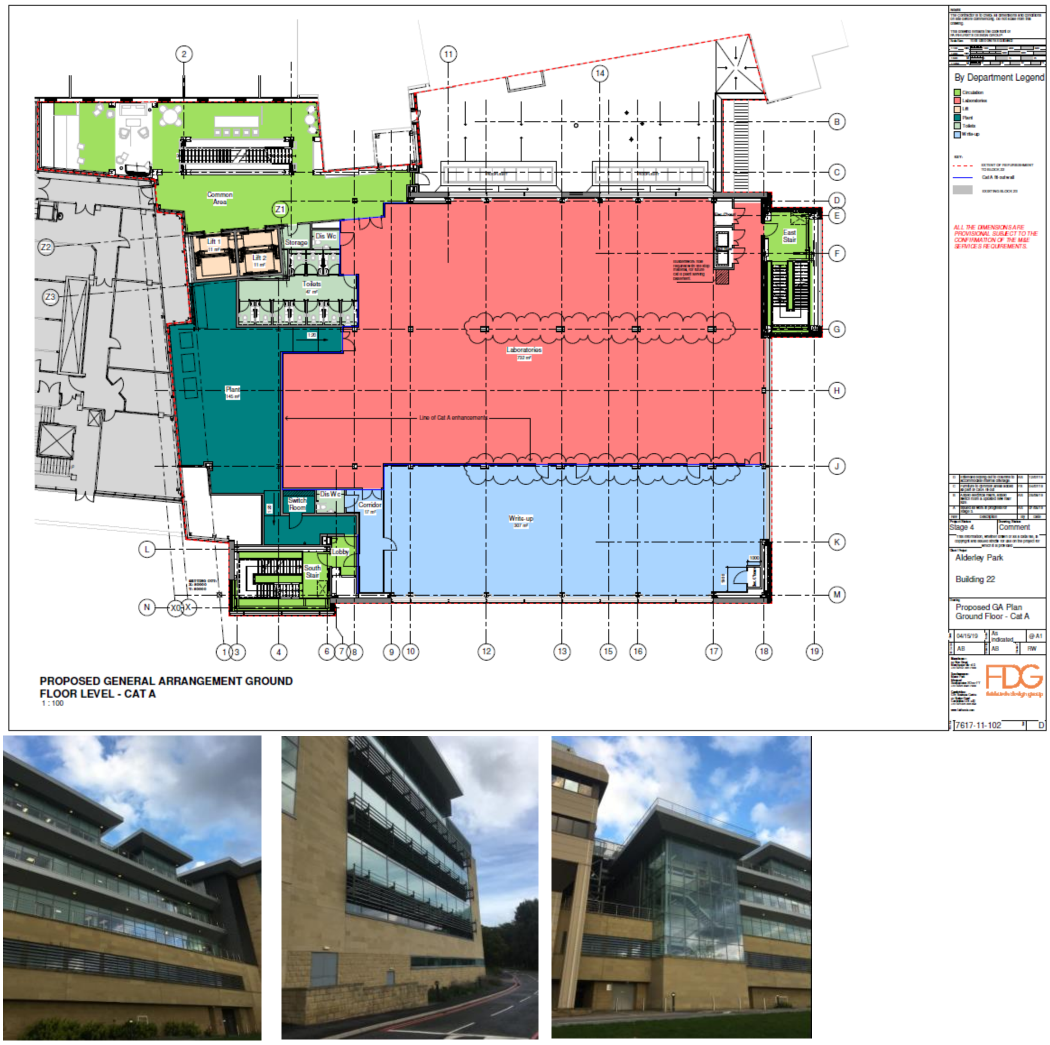
1.6 The Business Case was initially seeking a £6 million grant from the EZ Retained Business Rate Investment Support Fund (BISF) to deliver a £19.8 million joint project to strip out and comprehensively refurbish Block 22 and the basement of Blocks 23 and 24 at Alderley Park to provide c.97,000 sq ft (9,011 sq m) of refurbished laboratory and write up space. It also includes an allocation towards the delivery of a new 2,247 space multi-storey car park (MSCP) for the site.

1.7 Following discussions with the applicant and negotiation around value for money and the length of Business Rate 'pay back', the EZ ask has been reduced to £4 million with the funding shortfall to be met from APL resources drawing on either its bank facilities or via additional shareholder equity as required.

1.8 The intervention proposed is made on the basis of a gap in financial viability which is preventing APL meeting their minimum internal rate of return (IRR) as they continue to reposition the Alderley Park site as a multi-occupancy life science park in order to retain the jobs, skills and economic assets following the on-going departure of Astra Zeneca who previously owned and occupied the whole site.

1.9 The applicant and owner of the site, Alderley Park Limited (APL), is a subsidiary of Manchester Science Partnerships (MSP) a pro-active land owner with a strong track record of delivery across the North West.

Figure 1.1 Indicative Proposals for Blocks 22-24 at Alderley Park and Existing Building



Source: APL

2.0 Appraisal of Project

Strategic Case

2.1 The Strategic Case seeks to tests the justification for public sector intervention and fit with strategic objectives at the local and wider scale.

Contributes to the aspirations of the Cheshire Science Corridor Development and Investment Strategy and site specific Development Plan (Q2)	SATISFACTORY

The Business Case considers that the proposed scheme contributes to achieving the aspirations of the overarching Development and Investment Strategy for the Cheshire Science Corridor through the attraction of new businesses and creation of new jobs which will assist the LEP's aspirational GVA per head targets.

The response focuses on the contribution the project could make to the site specific aspiration to create a pioneering hub for the "life science ecosystem and community" leveraged on a range of occupiers and space (laboratory and office) co-locating and employing significant human capital on a heavily specialised site. The Block 22 and Blocks 23 and 24 projects help facilitate this through the creation of high end commercial space not currently available on site and opportunities for highly skilled workers.

Whilst the response is vague, the project could be deemed to have good strategic fit and we consider could support the CSC Investment Strategy as follows:

- **Vision** – The project has clear and demonstrable strategic fit with the Vision to be *"an internationally renowned science and technology cluster"* with a focus on life sciences. The space created by the project has the potential to house *"world class businesses, research and talent"* and can contribute to the *"economic driving force of the Northern Powerhouse"*.
- **Target sectors** - The Strategy states that all science and technology activities will be welcomed within the EZ but targets four key sectors reflective of existing strengths – including life sciences. The proposal to provide new chemistry and biology laboratory and write up space suited to life science businesses is aligned with this.
- **Strategic objectives** – The project could be considered to contribute directly to the majority of strategic objectives identified including:
  - Unlocking and accelerating the delivery of new or refurbished commercial floorspace;
  - Attracting and retaining high quality occupiers;
  - Generating new jobs;
  - Raising the profile of the CSC nationally and internationally
  - Supporting economic growth and specifically through sector/cluster development
  - Attracting and retaining talent
- **Priorities for investment** – The short term priority (5 years) for investment established in the overarching Strategy is for projects within EZ sites which deliver new or refurbished floorspace. The proposed project clearly fits this priority, bringing a significant volume of vacant/underutilised storage floorspace back into use within the short-term timescale. This will enable the generation and retention of new business rates by the EZ which can support further reinvestment and growth.

The Business Case makes no specific reference to the vision and aspirations set out within the Alderley Park Development Plan.

Demonstrates clear fit with wider local and national strategies (Q3)	SATISFACTORY

The Business Case demonstrates fit with other relevant local and national strategies as follows:

- Life sciences identified as one of five priority sectors in the Government's Industrial Strategy.
- Alderley Park is identified as a Centre of Excellence within Cheshire and Warrington.
- The project will contribute directly to the SEP's target for £50bn GVA and 120,000 jobs by 2040. It will also support the wider ambition to deliver new floorspace and diversify the labour catchment.

Evidenced market need and demand for the project (Q4)	SATISFACTORY

The Business Case describes how AstraZeneca's slower than anticipated rate of decantation has left Alderley Park with a lack of supply of commercial office space ready and available for re-occupation. As a result, APL have been forced to progress more complex schemes such as that proposed at Block 22 and Blocks 23 and 24. The high costs of repurposing such space (formerly in-vivo laboratory space) relative to achievable values presents a financially unviable position relative to APL's required returns (IRR). A development appraisal has been submitted with the Business Case demonstrating this unviable position.

In terms of the demand argument, the Business Case states that occupiers are currently being turned away or directed to unsuitable space due to the lack of existing supply. A vacancy schedule indicates c.50,000 sq ft of currently available space across the Park is spread across a number of buildings and reported to be of low quality and therefore difficult to let. On the demand side, a schedule of enquiries has been provided demonstrating interest from 51 businesses for c.330,000 sq ft of bioscience (laboratory and office) and tech/office space at Alderley Park over the next two years – over 6 times the existing available supply.

The project proposes a mix of small, medium (2,000-5,000 sq ft in Blocks 23/24) and large (10,000 sq ft in Block 22) biology and chemistry labs and associated write up space which could respond to a broad range of occupier demand requirements. Enquiries range from 100 to 60,000 sq ft and around 40% could be accommodated within the space proposed within this project. This supports the demand case and the applicant's confidence that the space will let quickly.

The need for the MSCP is also aligned to a shortfall in supply relative to anticipated employee growth at the Park over the next three years and challenges in respect of alternative travel methods given semi rural location. There are currently 2,500 spaces catering for 2,000 staff, but 6,000 employees are anticipated. Without the new 2,247 space MSCP, the ability to attract and retain businesses and staff at Alderley Park, and continue its successful delivery of new space is severely constrained.

Clear rationale for public sector intervention (Q5)	SATISFACTORY

The applicant reiterates the viability gap associated with the high costs of refurbishing laboratory space to the standard required of occupiers and delivering the required parking provision relative to achievable value. The development appraisal submitted evidences this position and public sector intervention is required to overcome this barrier and unlock the opportunity to meet the demand of new and expanding businesses and to provide new floorspace with appropriate parking amenity, jobs, economic activity and business rate retention. The potential to attract pe-lets of a scale and covenant strong enough to support development is very unlikely given the space is targeting SMEs.

Justification was requested of APL as to why other elements of Alderley Park have been able to be delivered without the requirement for EZ funding. The applicant has subsequently responded that each project is considered on the basis of risk and reward by both sets of shareholders (Bruntwood and L&G) creating less discretion than previously on the trade off between commercial return (15% minimum) and wider strategic rationale.

The previous Glasshouse project required EZ subsidy and the Block 22-24 projects are deemed undeliverable and unlettable without an allocation of costs to the required MSCP which has impacted upon viability. Consequently, the project is unable to compete with other schemes in the stakeholder's portfolio for what is a finite pot of equity and as such, the proposed scheme will not be delivered for the foreseeable future without EZ financial support.

Whilst not explicitly stated, this represents a 'negative externality' market failure in which a lack of viability results in a disincentive for private capital/borrowed finance to be invested in the provision of speculative commercial space. As such, the proposed speculative development cannot progress without public sector intervention.

Economic Case

2.2 The Economic Case considers the anticipated quantitative and qualitative outcomes of investment against objectives and tests value for money.

Delivery of targeted quantitative outputs in line with the overarching Investment Strategy – floorspace, jobs, GVA (Q6)	SATISFACTORY

The Business Case sets out a number of anticipated economic outputs as a result of the proposed refurbishment of Block 22 and Blocks 23 and 24, all of which respond directly to the aspirations of EZ investment in the short-term. The applicant's estimates compared to ours are as follows:

Output	APL Estimate	Cushman & Wakefield
Refurbished high quality laboratory space	97,000 sq ft (9,011 sq m)	-
New businesses accommodated	15-30	-
Business Rate retention/uplift (see Q7)	£1.3 million per annum	£271,200 per annum
Tenant jobs created (gross)	750	225-300
Temporary construction jobs supported	331	-
GVA per annum	£80 million	£13.4 to £18 million

Our assessment of the economic outputs based on the information provided is as follows:

- **New businesses accommodated** – We have not been provided with a schedule of accommodation to determine if the estimated 15-30 new business assumption is reasonable relative to the units proposed. It is however anticipated that Block 22 will accommodate up to 10 tenants on single floorplates of up to 10,000 sq ft to be fitted out to their own specification, whilst Blocks 23 and 24 will be fully formed labs of 2,000-5,000 sq ft with the potential to accommodate up to 20 new businesses. An element of sub-division will flexibly respond to demand explaining the range within the estimate.

- **Direct Jobs** – An employment density of 120 sq ft (11 sqm) per job has been applied equating to 750 gross tenant jobs across the scheme. It is assumed that this calculation is based upon HCA Employment Density Guidance (2015) which suggests a similar ratio of 129 sq ft (12 sqm) per job for office space. However, we would consider laboratory space to have a lower employment density than offices. Incubator or R&D space at 30-40 sqm per employee under HCA guidance is likely to better reflect the proposed future use and would equate to a much lower figure of 225-300 jobs.

- **Cost per Job -** See Q9 for gross to net additionality assumptions. APL make reference to a cost per job figure of £8,000 but this is based on their gross tenant job estimate and no attempt is made to net the job figures. On a net basis and based on C&W's lower net job estimates (129-173 jobs), value for money from the EZ ask of £6 million is estimated at c.£46,500 to £34,700 per job depending on final funding request – representing low to medium value against HCA public sector spend benchmarks. The reduction in EZ ask to £4 million improves this calculation to c.£31,000 to £23,100 per job, repressing good to medium value for money against the same benchmarks.

- **Construction Jobs** – We would agree with APL's estimate for construction jobs based on an HCA labour co-efficient ratio of 16.6 jobs per £1 million annual construction spend for private commercial development. This equates to an estimate of 331 FTE temporary construction jobs of one year in duration based on the £19.88 million construction estimate for the full scheme within the development appraisal.

GVA – Is stated within the Business Case at £80 million GVA per annum based on their estimate of 750 jobs and an estimated GVA per employee of £104,000 taken from a 2017 report by pwc entitled "The Economic Contribution of the UK Life Sciences Industry" which has been provided as supporting evidence. This is a national level indicator but demonstrates the high value of the Life Sciences sector to the economy. However, applying this figure to our estimate of net jobs created (129-173) suggests an annual GVA figure in the region of £13.4m to £18m, considerable lower than the applicant's assumption.

Estimation of Business Rate Retention per annum and over the lifetime of the EZ (Q7)	SATISFACTORY

Annual Retention Estimate

An annual retention rate of £1.3 million is identified in the Business Case. Following request for clarification, this has since been refined down slightly to £1.2m based on the following:

- **Block 22** – Existing rating assessment of £130,000 RV per annum based on storage uses. Refurbishment of 5,590 sq m to laboratory space has been estimated (and now evidenced) to generate a revised RV of £630,000 equating to £317,500 per annum in Business Rates, or an uplift of c.£252,000. This is lower that the additional £270,000 per annum estimated within the Business Case.

- **Block 23/24** – Already included in Rating List as office and laboratory space with an RV of £111,000 (Block 23) and £135,000 (Block 24). No change is anticipated in respect of Block 24, but a small uplift to RV £124,000 for Block 23 owing to adjustments in vacant space and enhanced quality. This could equate to c.£6,500-£7,000 per annum in additional retained rates to the LEP, much lower than the £75,000 per annum estimated within the Business Case.
- **MSCP** - £750,000 per annum based on new provision and uplift on existing given its current inclusion in the overall AZ assessment. The covering note indicates an unevidenced rate of £163 per space has been applied to c.4,600 spaces of which 2,247 are new (£750,000 per annum). However, this is RV and not Business Rate return which would be closer to £378,000 per annum.
- **Royal London House** – Occupation and extension will generate an additional £200,000 per annum from summer 2020

Very limited detail or evidence has been provided to justify the Business Rate Retention estimates made and there appears to be considerable confusion regarding lettable areas, rental levels and rateable value, appropriate business rate multipliers and the assets that can be included in the EZ payback claim. As a result, we would consider the current APL Business Rate Retention estimate to be a significant over estimation. Based on a high level review of the 2017 Valuation Office Agency Ratings List, we would consider:

- **Block 22** – 7,742 sq m (83,340 sq ft) of storage space at a base rate of £28 per sq m and equating to £130,000 RV is included in the Rating List. Applying the 2019/20 Standard Multiplier of 50.4 results in £65,520 per annum in Business Rates. Assuming a base rate of £130 per sq m could be achieved for laboratory and office space as is evidenced at Blocks 23/24 within the Rating List, and utilising APL's submitted assumptions regarding floorspace and usage, we would agree with the applicant's estimate of an RV totalling £630,000 and an annual business rate figure of £317,500, an uplift of c.£252,000 per annum on the current level and representing the additional rate retention to the LEP.
- **Blocks 23/24** – A mix of lab and office units totalling 4,585 sq m (49,354 sq ft) are already included within the 2017 Ratings List providing a total RV of £544,000 per annum (£409,000 Block 23 and £135,000 Block 24). As most units in this block are smaller, applying the Small Business Multiplier of 49.1 equates to £267,000 in Business Rates per annum. The base rate applied to this office and laboratory space is already at the £128-130 per sq m level and applied to a greater volume of floorspace than the 3,362 sq m (36,189 sq ft) identified in respect of the basement area of this block within the submitted development appraisal. As such, we do not anticipate any uplift in Business Rates as a result of the refurbishment.
- **MSCP** – We would argue that the uplift in Business Rates from the relisting of the existing MSCP can not be attributed to the repayment calculation here, nor can the entirety of the new provision proposed. We understand that an allocation of £12,000 per space has been assumed. Based on the development appraisal, £3.48m of the original £6m EZ ask is attributed to the new MSCP, equating to 290 of the 2,247 proposed spaces. Applying a figure of £135 per space as is the case at Jordangate MSCP in Macclesfield (closest comparable and lower than the unevidenced £163 per space assumed by APL), this equates to an RV of £39,000 and an annual Business Rate of £19,200.

  However, it could be also be argued that as the EZ investment has enabled the construction of the MSCP as a whole, the additional rates retained on all 2,247 spaces could be attributed to the Business Case, on the strict understanding that a future claim is not made against the MSCP in any other funding request. This would dramatically increase the RV to £303,300 (£135 x 2,247 spaces) equating to an annual rate retention of £149,500.

- **Royal London House** – Whilst the uplift in Business Rates attributed to this scheme will indeed benefit the EZ's rate retention pot, it is not an element of this bid and as such should be excluded from the consideration.

The above suggests, when accounting for the whole MSCP rates, an annual Business Rate retention of £401,500 (or just £271,200 per annum if only accounting for allocated spaces) once existing baseline rates are taken into account. This represents a very significant reduction on the £1.29 million set out by APL. Further, rate retention in the early years could be lower given the phased timing of delivery of the new space and the potential for void rate relief. It is strongly recommended that the achieved business rates should be monitored throughout the lifetime of the project.

EZ Lifetime Retention and Repayment Estimate

No estimate of lifetime retention is provided. On the basis of our annual rate retention estimate of £401,500 (rather than the applicant estimate), the potential return over the lifetime of the project relative to the development programme (assuming occupancy on completion in early 2021 for Block 22 and September 2020 for the MSCP) would suggest a total of £8.2 million over the remaining 20-21 years of the EZ. This assumes full occupancy throughout this period.

On this basis, and assuming continuous full occupancy and no rate mitigation measures, the full repayment of the revised EZ £4 million investment ask would take in the order of 10 years, compared to the 4.6 year estimate made by APL in the Business Case using their rate retention estimates. This is on the cusp of the acceptable pay back period compared to other competing EZ investment projects witnessed to date which represents a potential risk to investment and more limited opportunity to invest in other 'better value' projects. However, it also represents a notable improvement on the unacceptably long 22 year pay back period calculated in respect of the original higher £6 million EZ ask applied to only the allocated MSCP spaces or 14.8 years when the full car park rate retention was accounted for.

Rate Mitigation Measures

APL mention in their covering letter but do not reiterate within the submitted Business Case their commitment not to implement rate mitigation measures post practical completion until the capital sum from the EZ is repaid. With unknown void rates the expectation of covering potentially significant empty rates in order to provide a return to the LEP could be overly onerous to APL, but likewise could lead to a significantly longer repayment period to the LEP.

The project will deliver wider social, environmental or other wider benefits (Q8)	SATISFACTORY

The applicant's response clearly identifies the project's potential to deliver a range of valid and reasonable wider benefits, including:

- Re-iteration of job creation estimates and the attraction of new businesses
- Additional jobs within the wider services and amenities offer
- Potential to foster innovation and collaboration between companies leading to the development of skills and contribution to wider Alderley Park strategy
- Enhanced market profile of Alderley Park as a flagship laboratory scheme
- Speculative development will enhance market confidence in this location, improve viability and therefore viability of future schemes

The applicant has considered the impacts of additionality (Q9)	SATISFACTORY

It is evident from the Business Case and supporting development appraisal that the Block 22 and Blocks 23-24 projects are not financially viable and as such it is considered reasonable that it would not be deliverable by any commercial operator for the foreseeable future without the support of EZ investment.

Consideration is given as to the potential for a smaller funding ask through either a reduction in the quality or quantum of space refurbished. However, a reduction in quality would reduce the market appeal and achievable rental levels, while a smaller quantum of space would fail to satisfy the anticipated scale of demand. Further, the MSCP allocation is considered critical to attracting and retaining tenants given semi-rural location. The applicant has subsequently agreed to reduce the funding ask from £6 million to £4 million whilst retaining the proposed quality and quantum of space.

The applicant makes no attempt to quantify the impacts of additionality. We would consider the following additionality impact assumptions to be reasonable in respect of this case. The assumptions are based on HCA Additionality Guidance for regeneration through physical infrastructure at the sub-regional level together with other information provided by the applicant. We have applied these to the gross job estimates identified in Q6 which reduced the net tenant jobs to 129 to 173 jobs:

- **Deadweight –** 0% as without EZ intervention the scheme would not progress for the foreseeable future due to a lack of viability or investor return.
- **Displacement –** 30% reflective of the potential re-location of businesses to but could also support the reallocation of skills as AstraZeneca exit the site
- **Leakage –** 40% given Alderley Park's spatial positioning, it is likely that a reasonable proportion of new jobs will be taken up by residents from outside of the Cheshire & Warrington LEP area including Greater Manchester and Staffordshire.
- **Substitution – C**ould be a challenge if occupiers relocate to Blocks 22-24 specifically to take advantage of the Business Rate discount incentives on offer.
- **Multiplier Effects -** Assumed at 1.37 of indirect/induced employment effects based on HCA composite multiplier for employment uses at the sub-regional level.

Commercial Case

2.3 The Commercial Case assesses the capability of the applicant to deliver the project as proposed within the Business Case and in line with regulatory requirements.

Clear delivery strategy in place and key stakeholders identified (Q10)	SATISFACTORY

A clear and appropriate delivery strategy appears to be in place with the proposed refurbishment project being delivered via a traditional procurement route. A team of professional and experienced advisors to develop the detailed and technical designs are already in place and individually identified within the Business Case. Once fully designed, the intention is stated to tender the works to 4 or 5 contractors with the competence and experience to deliver projects of a similar scale (value) and specialism (commercial laboratory provisions). A JCT Standard Building Contract for construction is anticipated.

Bruntwood's Building and Construction Team will manage the project from inception to completion, reporting directly to Alderley Park Ltd (client). APL will also be supported by BioCity and MSP (scientific facilities) and Bruntwood's Development Team (property). Bruntwood are also assumed to ask as marketing agent although this is not stated.

A high level development programme has been considered which appears reasonable.

Experience of Delivery (Q11)	SATISFACTORY

Bruntwood is a major shareholder of APL, and is a large developer and landlord with extensive experience of delivering complex property refurbishment projects for commercial occupiers, then retaining and managing the buildings to a high quality. Examples include Bright Building and City Labs within Manchester Science Corridor. Completed refurbishment works elsewhere within Alderley Park also supports the case, including progressing towards the repurposing of 125,000 sq ft at the Glasshouse building which is due to complete in November 2019 at c.40% let and has been supported by £3.8 million of EZ Business Rate Reinvestment Funds.

Any procurement of external partners can be demonstrated to comply with public procurement requirements (Q12)	SATISFACTORY

The Business Case states that no external funding partners will be procured outside of APL. However, a number of external (non-funding) consultants have been named in the design team. It is assumed that these were procured directly.

It is stated that a rigid tender process will be implemented to procure a contractor which will be clear and transparent, however no confirmation is given that it will comply with public procurement requirements. It is recommended that should the LEP be minded to approve, this is a condition of funding.

The project complies with necessary regulations with regard to: i) State Aid ii) Legals iii) Planning iv) Other (inc. Ownership)	SATISFACTORY

State Aid – No consideration of compliance with State Aid regulations is provided within the Business Case. However, an independent legal State Aid opinion has been provided by Addleshaw Goddard (dated 20 May 2019) which considers the funding request to be compliant under Article 26 of the GBER (Investment Aid for Local Infrastructure). Aid intensity is within the 50% allowance of eligible costs and a case is made for including the MSCP as critical to 'research infrastructure'.

We are concerned that the €20m per infrastructure project investment cap has been exceeded (totalling €22.9m) when the refurbishment of the two blocks and MSCP are considered together. In response, it is proposed that the two projects are considered separately in State Aid terms and this is reflected in the fact that two separate legal opinion letters are provided for each block to bring investment below this threshold. Given that a single Business Case has been submitted to the EZ, some further consideration as to how the EZ ask and rate retention payback ratios are split between the projects will likely be required. Further, the letter states that it is provided on a 'non-reliance basis' which calls into question its use.

Legal/Ownership – APL are reported to own the freehold of the site. Evidence of ownership in the form of a solicitor's letter, Sale Agreement or HM Land Registry title should be provided as evidence as part of any legal agreement to fund. **Planning Consent** – Planning consent will be required for the refurbishment of Blocks 22-24 but is considered by the Business Case to be minor and relate solely to the changing of two facades through the introduction of glazing. Regardless, this process should be factored into the programme to ensure swift delivery and ability to quickly respond to the opportunity of refurbishment.

Financial Case

2.4 The Financial Case provides a critique of the costs and revenues identified within the development appraisal to test the justification of the scale of 'ask' for Enterprise Zone investment.

Anticipated costs and values are identified and evidenced (Q14)	SATISFACTORY
Two very high level development appraisals have been submitted with the Business Case to evidence the costs, values and viability gap associated with the Block 22 and 23/24 schemes and demonstrate the £5.97 million investment requirement. The 'gap' is based on APL's requirement to meet its minimum internal rate of return of 15% (calculated on net development value). On the costing side, a brief scope of works and schedule of construction costs is provided alongside some supporting floorplans of the proposal, however it is understood that designs could change which could have an impact upon costs. The EZ ask should not be increased as a result of any such growth in costs, however should cost savings be possible, this should be reflected in the ask. The MSCP cost allocation for each block is understood to be linked to the scale of refurbished floorspace within each block and at a rate of £12,000 per space. In terms of the values, a rental level of £20 per sq ft is assumed for the larger space within Block 22 and £22 per sq ft for the smaller spaces within Blocks 23/24. This is reported to be based on recent deals including £19 per sq ft at Block 19. Whilst no evidence of achieved rental levels are provided, an extract form a valuation report by JLL assumes £18.00 per sq ft for office space and £22 per sq ft for labs within Blocks 23/24 based on current condition (date unclear). It is estimated that rental levels would need to be in the order of £24 per sq ft to make the scheme viable which does not appear realistic. The yield assumption of 6.75% is understood to be based on a report previously undertaken by CBRE, but this has not been provided as part of this application. An extract from the JLL valuation report assumes notably less bullish yields of 10.0% to 12.5%. However, this would serve to decrease the value and increase the viability gap if applied. As would rent free periods which have not been accounted for within the development appraisal.	

Funding requirement is demonstrated to be at minimum cost to the Enterprise Zone (Q15)	SATISFACTORY
A development appraisal has been provided to evidence the existence and scale of the viability gap for which the initial scale of EZ funding was sought (£6m). This has been supported by a high level cost plan and some evidence to justify the value assumptions which would appear to suggest that the identified gap and EZ 'ask' represents the minimum cost to the EZ. However, further design work is required and this could impact upon the costs of the scheme. Regardless, this will be a risk to APL and should not be passed onto the LEP in the form of an increased funding request.	

It is reported that 15% internal rate of return on APL's equity investment is the minimum acceptable commercial hurdle rate given finite resources and the number of competing projects. Without EZ investment, the return is estimated at 8% - insufficient to support delivery. This development appraisal includes a 15% IRR based on life cycle costs against lifetime rental return less major servicing costs, and fees. This equates to £2.54 million return.

Following negotiation, the EZ ask has subsequently been reduced to £4 million in order to ensure an acceptable rate retention payback period to the EZ. This will clearly negatively impact upon APL's IRR. A revised development appraisal has not been submitted, but it is understood that the funding shortfall will be met from APL resources drawing on either its bank facilities or via additional shareholder equity. APL also intends to help mitigate this funding gap through a review of the costs but given no change in design is proposed, this is unlikely to yield a significant reduction. Maintaining the proposed quality of build should be a condition of EZ funding.

It is understood that the contraction of works will be subject to a competitive tendering process and costs will be procured on a 'fixed basis'. If the selected contractor offers a lower cost, this should be reflected in reduction of EZ funding requested. Any increase in cost should be at the risk of APL.

The retention of Business Rates is considered to represent the 'return' on EZ investment but is unlikely to generate a return for a number of years (see question 7). No offer of partial repayment is proposed within the submitted Business Case, for example through an overage share should values exceed those anticipated within the development appraisal.

Alternative funding sources have been considered and reasonable discounted (Q16)	**SATISFACTORY**

A loan in the form of North West Evergreen has been considered but discounted as the challenge of a viability gap does not support the recyclable nature of such finance investments.

Commercial development finance is discounted as APL already has group equity sources/bank facilities that are secured via a first charge across the sites in favour of the banks.

APL has now agreed to fund a greater proportion of the project through its own bank facilities or shareholder equity, thus reducing the EZ ask and demonstrating a willingness to commit additional resource.

Confirmation of sufficient capability to meet financial liabilities of EZ support (Q17)	**SATISFACTORY**

Bruntwood SciTech (a JV between Bruntwood and Legal & General) is the controlling entity behind APL and is the ultimate project sponsor. Ambitious growth plans with aspirations to have value of over £1.5bn within 5 years is reported to provide assurance as to the solvency of the Bruntwood Group and SciTech.

On request for further evidence as to their financial capacity, a link to a news article (dated 15th July 2019) has been provided. The article reports that Bruntwood SciTech has agreed a three-year, £185m funding deal, including a £125m investment loan to refinance elements of their portfolio, including Alderley Park, Manchester Science Park, Manchester Technology Centre and Platform, in Leeds. The money is a green loan, with Santander, NatWest, HSBC and Lloyds Bank each having 25% shares in the combined £185m facility.

The applicant has additionally confirmed that the capital plans for Blocks 22 and 23/24 are included within the current budget and therefore funded from within group equity resources. This is also implied to be the case under the lower EZ ask, with APL agreeing to source the additional funds required through these means. We would strongly recommend that further due diligence and evidence of the financial capacity to meet the financial liabilities of the proposed scheme is provided as a condition of any funding offer. Public and private sector funding are programmed at a similar rate, but the requirement to fund in advance of the grant drawdown is recognised and accepted. It is stated that construction costs will be fixed and regular monitoring will mitigate against cost over-runs. Bruntwood and APL would also offer both a completion and cost overrun guarantee to be built into the agreement via an appropriate guarantor.

Management Case

2.5 The Management Case reviews the proposed project programme including in light of identified constraints and approach to risk management and mitigation.

Identification of deliverable project programme and key milestones (Q18)	**SATISFACTORY**
No project programme is provided beyond headline milestone dates within the Business Case which indicates a start on site in November 2019 for Blocks 23/24 and February 2020 for Block 22, with works completing for both in January 2022. This is reported to be due to the fact that the design for the scheme is still in its infancy. This represents a c.2 year development programme in each case which appears reasonable. The greatest risk to programme is likely to be start on site as confirmation of EZ investment, appointment of a contractor and remaining planning approvals are required and yet to be implemented. Alderley Park is currently able to offer science based occupiers a financial Business Rate Discount incentive of up to £275,000 over 5 years as part of the EZ status. This incentive will no longer be available from April 2021 and so will not benefit the new occupiers of Blocks 22 and Blocks 23/24. Should a funding offer be made, we would recommend a guaranteed long-stop start date for the project is agreed and progress monitored as completion will impact upon the scale and pace of the business rate retention return.	

Consideration of top five risks and sensible approach to mitigation (Q19)	**SATISFACTORY**
Just four risks have been considered. The risks identified are appropriate and a realistic overview of their likelihood and scale of impact on delivery is provided. The apportionment to risks is fair but the proposals to mitigate and/or manage each identified risk is weak and could be expanded upon further. Mitigation measures focus on due diligence to reduce risk potential rather than actions should risks occur. The adoption of a more considered and detailed formal Risk Register incorporating regular risk identification and scheduling throughout the project will support pro-active project management and risk mitigation should EZ funding be granted.	

Confirmation that the project is deliverable with regard to identified constraints (Q20)	SATISFACTORY
Many of the key deliverability constraints have already been overcome in that the site is within APL's ownership and planning is largely secured. It is indicated that the project will be fully designed and a professional team appears to already be in place to achieve this. A register of some of the key risks have been identified and some mitigation measures considered. The viability gap remains the key constraint to delivery. Overall, the project is considered deliverable subject to the granting of EZ funding. However, it is recommended that should the LEP be minded to grant funds, a clawback clause is implemented if the project is not delivered within an agreed time period.	

Declaration (Q21)	SATISFACTORY
The Business Case Declaration has been signed and dated.	

3.0 Conclusions and Recommendation

3.1 Based on the information provided, the application for £6 million of EZ Retained Business Rate Investment Support Funding (BISF), which following negotiation has subsequently been reduced to £4 million, to comprehensively refurbish Block 22 and the basement of Blocks 23 and 24 at Alderley Park to provide c.97,000 sq ft (9,011 sq m) of refurbished laboratory and write up space plus and allocation towards a new MSCP on the basis of a gap in financial viability can be summarised and concluded as follows:

Strategic Case

3.2 The project can demonstrate good strategic fit with the overarching Cheshire Science Corridor Development and Investment Strategy; the site specific Development Plan and a number of wider local and national strategies for economic growth. There is a clear 'demand' for the project although market evidence is limited and a lack of financial viability illustrates the 'need' for public sector intervention to address an identified market failure.

Contributes to the aspirations of the Cheshire Science Corridor (Q2)	SATISFACTORY
Demonstrates clear fit with wider local and national strategies (Q3)	SATISFACTORY
Evidenced market need and demand for the project (Q4)	SATISFACTORY
Clear rationale for public sector intervention (Q5)	SATISFACTORY

Economic Case

3.3 A number of reasonable and quantitative project outputs are identified, some of which are evidenced. However, we consider the job creation figure to be a significant over estimate based on office rather than laboratory accommodation. As a result, value for money on a cost per job basis relative to the EZ ask was considered low to medium, but following the reduction in EZ ask now stands at medium to good value for money. The project can however demonstrate delivery of wider benefits in the form of local spend, collaboration, skill development and enhanced market profile and confidence.

3.4 Our Business Rate Retention Estimate, when accounting for the whole of the MSCP allocation is £401,500 per annum (£271,200 per annum if only accounting for allocated spaces). This is significantly lower than the £1.3m estimated within the Business Case and is increasing the repayment period to 10 years (based on full occupancy) compared to APL's 4.6 year estimate. This is on the cusp of the acceptable pay back period and represents a risk to investment and more limited opportunity to invest in other 'better value' projects.

Delivery of targeted quantitative outputs in line with the overarching Investment Strategy – floorspace, jobs, GVA (Q6)	SATISFACTORY
Estimation of Business Rate Retention per annum and over lifetime of the EZ (Q7)	SATISFACTORY
The project will deliver wider social, environmental or other wider benefits (Q8)	SATISFACTORY
The applicant has considered the impacts of additionality (Q9)	SATISFACTORY

Commercial Case

3.5 The site is in the ownership of the applicant APL and the scheme has outline planning approval supporting commercial deliverability. A clear and appropriate delivery strategy and experienced project manager is in place, including a named design team and a contractor will be selected though a competitive tendering process to secure an experienced contractor and fixed costs consummate to the required quality.

3.6 An independent State Aid legal opinion has been provided but could indicate that the project exceeds the €20m investment cap established under Article 26 of GBER if both Blocks can not be demonstrated to be considered as individual projects. Further consideration as to how the EZ ask and rate retention payback ratios are split between the projects will likely be required. Confirmation of compliance with public procurement requirements will be required to support funding.

Clear delivery strategy in place and key stakeholders identified (Q10)	SATISFACTORY
Experience of Delivery (Q11)	SATISFACTORY
Any procurement of external partners can be demonstrated to comply with public procurement requirements (Q12)	SATISFACTORY
The project complies with necessary regulations with regard to State Aid; Legals; and Planning (Q13)	SATISFACTORY

Financial Case

3.7 The original scale of EZ funding requested (£6 million) is evidenced through a development appraisal identifying a gap in viability, although this is based on APLs IRR hurdle rate rather than a usual 'developer profit'. Following negotiation, the EZ ask has subsequently been reduced to £4 million in order to achieve an acceptable rate retention payback period to the EZ. This will clearly negatively impact upon APL's IRR, but alongside the evidence provided now indicates that the gap and EZ request now appears to represent the minimum cost to the LEP. Bruntwood is considered to have the financial stability to meet financial liabilities including cost over-runs but evidence will be required as a condition of funding.

Anticipated costs and values are identified and evidenced (Q14)	SATISFACTORY
Funding requirement is demonstrated to be at minimum cost to the Enterprise Zone (Q15)	SATISFACTORY
Alternative funding sources have been considered and reasonable discounted (Q16)	SATISFACTORY
Confirmation of sufficient capability to meet financial liabilities of EZ support (Q17)	SATISFACTORY

Management Case

3.8 Bruntwood SciTech (the controlling entity of APL) is an established property developer and manager with extensive experience of refurbishment projects of a similar scale and value proposed, including early and on going projects at Alderley Park. A number of external professionals make up the delivery team. Although the building contractor is yet to be confirmed, they will be selected through a competitive tendering process. A sensible risk register is set out but lacks mitigation. In this sense, the management case is considered to be largely met.

Identification of deliverable project programme and key milestones (Q18)	SATISFACTORY
Consideration of top five risks and sensible approach to mitigation (Q19)	SATISFACTORY
Confirmation that the project is deliverable with regard to identified constraints (Q20)	SATISFACTORY
Declaration (Q21)	SATISFACTORY

Recommendation

3.9 The project can make a strong case to supporting the aspirations of the EZ in terms of delivering new employment floorspace, attracting science sector businesses and creating high value jobs in target sectors. However, completion in 2022 will miss the 5 year Business Rate Discount incentive; the high cost of the MSCP relative to job creation limits value for money on this measure; and the pace of rate repayment is limited by the existing baseline on Block 23/24.

3.10 However, following negotiation the applicant has reduced the EZ ask from £6 million to £4 million, showing genuine willing to deliver the scheme and ensuring that the projects meet the required 10 year rate retention pay-back period on EZ investment. That said, this requires the full MSCP allocation to be accounted for in the rate retention calculation, so should not be considered for any future funding bid. Further, being at the cusp of the rate retention acceptability measure could severely constraining the scale of funds that could be re-invested into future projects.

3.11 There is also likely to be some remaining clarification required regarding State Aid compliance with the combined Block 22 and Block 23/24 project exceeding the €20 million investment cap. The applicant and LEP should satisfy themselves that the Business Case application can demonstrate sufficient 'split' of the two projects from a legal perspective.

3.12 Should the LEP be minded to approve the EZ funding request, is should be capped at the requested £4 million, with any cost savings passed on to the LEP in the form of a reduced funding request, and any cost over-runs to be covered by the applicant, APL. A final review of costs once the works have been tendered is recommended and should be built into the legal agreement.

3.13 This technical review will be presented to the EZ Board in September 2019 for a funding investment decision.