

**fBusiness Case – for projects requesting funding through the Enterprise Zone
Business Rate Retention Mechanism**

Project Name: 1. Alderley Park Block 22
2. Alderley Park Basement 23/24 Redevelopment

Applicant/Project Details

Lead organisation:	Alderley Park Limited
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Location of project (full address and/or location plan):	Block 21, Alderley Park, Macclesfield, Cheshire SK10 4TG
Total project cost:	£19.8m
Grant/loan requested - capital or revenue:	£4m

Purpose of the Business Case

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 will be on projects that unlock and accelerate the delivery of new floorspace.

The purpose of the Business Case application is to propose projects seeking EZ investments that meet the aspirations of the Development and Investment Strategy and the site specific Development Plans. The application is aligned with the principles of the Government’s ‘Green Book’ five case appraisal approach and seeks 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

The Business Case will be assessed by the EZ Board to determine the project's suitability for funding and scale of funding to be offered, if any. Further details as to the process for applications for EZ funding can be found within the Development and Investment Strategy.

Part 1 – Strategic Case

1. Please provide a brief description of the project, including its objectives, key deliverables, the purpose and type of intervention funding being sought (c. 500 words).

As AZ vacate the site, Alderley Park Ltd are handed a large amount of space in various conditions and uses of which a limited amount of stock is available to directly pass on to smaller life science occupiers. As AZ are currently decanting significantly slower than expected, it means that higher quality lab and office space is not being handed back in line with original forecasts. Due to the high demand that we are experiencing, compounded with the limited space available, it means that APL are forced to bring forward more complex redevelopment schemes. A lot of the site that has been handed back is either physically inaccessible directly from public realm areas or is in a currently un-lettable state due to either the condition or current use of the space, which in turn sees us moving forward with Block 22 earlier than expected.

The two projects to redevelop Block 22 and Blocks 23 & 24, sees the refurbishment of an ex vivo space to a modern laboratory facility with the capacity to be either chemistry or biology. The initial scope of the project will see a comprehensive strip out of what is currently a heavily cellurised building. Once this is complete, the intention is to fit out Block 22 to an enhanced shell and core to enable future customers to shape their own labs as they see appropriate. Block 23 & 24 would be completed to fully formed labs on a speculative basis.

Completing these separate projects would significantly assist in delivery the objectives for the site, which primarily include assisting in the target of 75,000 sq ft of science lettings per annum. Block 22 will specifically deliver labs & write up space of c. 11,000 sq ft, whilst 23 & 24 will deliver small to medium biology labs from 2,000 sq ft to 5,000 sq ft.

The delivery of this project is contingent of the delivery of a new Multi Storey Car Park and the completion of Royal London House. As the cover note details, with RLG taking occupation there is a significant reduction in the number of available spaces (although there will be upside the CEC in respect of rates). The new multi storey car park will deliver 2,247 spaces and is estimated to generate incremental rates of £0.75m pa. The appraisals for both Blocks 22 and 23/24 refurbishments assume a £4m EZ contribution towards the scheme cost (including an element allocated against the infrastructure cost). Without the car park, it is unlikely that the proposed schemes can be delivered successfully.

The proposal is for a tranche of Enterprise Zone funding to be applied to the project to bridge the gap to the minimum return required to enable private sector investment to proceed. We propose to structure the public sector investment on a recyclable basis. Specifically, the existing blocks currently have limited rateable value and we anticipate that once the project concludes, with the estimated annual rates to be c. £1.3m - this income is entirely incremental and can be further reinvested by the LEP once any associated funding costs are met. Rates are obliged to be paid by either the ultimate

tenants or the developer and as such, there is a high degree of certainty that the income will revert to the public sector over a period of time once the project is complete.

Originally the project costs were to be funded through a combination of Bruntwood equity and existing senior debt facilities. Unfortunately however, the high cost of repurposing the space means the scheme currently does not deliver a sufficient level of return to justify proceeding with the investment and the requirement for EZ grant funding is required.

This project will also assist with a number of CES EZ Development and Investment Strategy, such as providing opportunities for highly skilled workers, creating an attractive hub for these workers to base themselves in a high quality rural area.

Another fundamental aspect is the provision of a place to do business and to grow a business given the number of people, jobs and opportunities on site. Innovation is a key strategy of the site which again ties in.

2. Please provide detail as to how this project will contribute to achieving the aspirations for the Cheshire Science Corridor as established within the overarching Development and Investment Strategy and for your site as set out within your site specific Development Plan. In particular in terms of supporting (c.500 words):

- Vision
- Strategic objectives
- Target sectors
- Priorities for investment

The vision for Alderley Park within the Cheshire Science Corridor is that of a hub for the life science economy with a variety of occupiers co-locating across the park employing the significant human resource across the heavily and specially invested site.

The aspiration for the future of the site is to create a pioneering life science ecosystem & community leveraged on a range of occupiers and space (both laboratory and office) that will enable the entire park to flourish.

Developing both Blocks 22 & Blocks 23 & 24 directly assists in facilitating this by creating high end commercial space not currently available on the site.

In turn this directly assists with the ambitions of CSC Plan in terms of jobs numbers, with Block 22 creating an additional 500 and Blocks 23 & 24 creating an additional 250. It is also to envisage to attract new businesses, with Block 22 attracting around 10 and Blocks 23 & 24 attracting 20. With CSC forecasting 500 by 2030 which assists in continuing with the aspirational GVA per head created.

This project also ties in with the vision for Alderley Park to become a life science hub. It will provide unique opportunities for highly skilled workers that simply aren't available due to the bespoke nature of the facilities.

3. Which other local and national strategies will the project contribute to and how? E.g. Cheshire & Warrington Strategic Economic Plan (SEP); Industrial Strategy; Local Strategic Policy etc. (c.300 words)

At a national level life sciences is one of five sectors prioritised in the government's Industrial Strategy for accelerated expansion, and locally the Cheshire Science Corridor identifies Alderley Park as a centre of excellence for this sector. The strategy is centred upon building an ecosystem that allows start up businesses (including university spin outs), established SMEs and overseas investors to rapidly scale up their operations. This is achieved through provision of the physical infrastructure, skilled talent pool and patient capital funding sources.

Developing both Blocks 22 & 23 & 24 will contribute directly to SEP's targets in terms of added GVA (Block 22 at £45m of the anticipated £50bn with Block 23 & 24 at £25m*, and 500 and 250 jobs of the required 120,000 by 2040, from Blocks 22 & 23 & 24 respectively). Both these schemes also will contribute to the wider ambition of the SEP, broadening the labour catchment by housing a diverse range companies and skilled workers, improving the quality of the built environment and giving businesses easy access to markets and opportunities.

(1) <https://www.ons.gov.uk/economy/grossvalueaddedgva/datasets/nominalandrealregionalgrossvalueaddedbalancedbyindustry>

4. Please provide evidence of the market need or demand for the project (c. 200 words).

This project will directly provide space as required by the vision outlined above. Occupiers that require small, medium and large biology or chemistry labs and associated write up space from 2,000 to 5,000 sq ft to 10,000 sq ft will be catered for. Block 22 will provide floorplates of circa 10,000 sq ft for larger companies that require significant lab and write up space. Block 23 & 24 will provide lab and write up space for small to medium companies from 2,000 to 5,000 sq ft.

Unfortunately due to the unforeseen issue of receiving space back later than originally anticipated from AZ, we are now forced to push on with more complex and demanding schemes, and as such occupiers requiring these range of suite sizes are currently either being turned away or directed into unsuitable space. It is considered that due to the large amount of demand around this area and existing facilities on-site, the instigation of this project through closing the funding gap will quickly be met with letting of the space.

Please see attached list of enquiries which demonstrates the current demand for the site.

5. What is the rationale for intervention by the Enterprise Zone? What barriers/problems will the project address (e.g. market failure) and/or the opportunities it will unlock? (c. 200 words)

As noted previously, the rationale for intervention by the EZ is to unlock each of the schemes to progress in assisting delivering commercial space which does not currently exist and which would not come forward in the proposed timescales without public sector

intervention since both of the appraisals are not commercially viable. We have taken in new businesses as well as assisting in expanding space for existing businesses customers located in the park. These have ranged from small and medium companies to larger companies taking up a range of space, both office, lab and write up. The limiting factor here is the supply; whilst we have interest from these companies and a desire to bring these in, the quality of the existing space makes it difficult to attract new companies to agreeing deals.

Once each scheme has been delivered, the investments will attract new businesses that cannot currently utilise the facilities at the park. This investment will also enable the expansion of occupiers that are already located here.

The commercial gap between the project costs and value is due to both the high refurbishment costs and the requirements of the proposed occupiers leads to a viability gap which can be bridged by EZ funding.

Following this we will likely see the creation of a number of short term jobs (construction), c 331 (a 66:33 split between projects), and long term (occupiers/services/amenity) c. 750, whilst also unlocking c. £25m worth of additional investment. It is considered that the EZ intervention equates to c. £5k job across each of the schemes.

*job creation assumed at 1 per 120 sq ft

Part 2 – Economic Case

6. What are the main direct and indirect quantitative outputs that the project is expected to generate? Please populate the table below by financial year, adding additional rows as appropriate.

Expected Tangible Outputs	Direct or Indirect	2017 / 18	2018 / 19	2020 / 21	2021 / 22	2022 / 23	Future Years	Total
Floorspace created (sq m)								
Floorspace refurbished (sq m)				5,667	3,344			9,011
Brownfield land reclaimed (Ha)								
Businesses accommodated (no.)		-	-	15-30	cont.	cont.		C. 15-30
Business rates retained (£)				£1,05m	£250k			£1.3m
Jobs (FTE) – direct			-	750	cont	cont		
Jobs (FTE) – indirect			-	x	x	x	x	x
Jobs (FTE) – construction			-	331				331
Economic activity (GVA)			-	£80m	cont.	cont.	-	£80m
Other e.g. new road created (m)								

*<https://www.ons.gov.uk/economy/grossvalueaddedgva/datasets/nominalandrealregionalgrossvalueaddedbalancedbyindustry>

<http://www.871candwep.co.uk/about-us/key-statistics/>

** calculated at 16.6 construction jobs per £1m (HCA Guidance)

7. Generating additional Business Rate Revenue is the short-term priority for the Enterprise Zone. Please expand upon how the rates retained have been estimated, including calculations and assumptions (c.150 words)

Block 22 already has a separate assessment based on storage values of £130k rateable value, however the proposed refurbishment plans could lead to an incremental increase in rates of £120k pa forecast . This would likely increase at the next ratings listing (due in 2021) where the tonal value may increase to c£17psf which would deliver incremental rates of £0.4m.

Payments of the rates would commence from early 2021 based on a 12 month build programme currently assumed to commence in early 2020. Similar to Glasshouse however, we would be willing to commit to a start date within 12 months should the funding be approved.

Car parks - incremental rates of £750k pa with the new multi storey car park build programme currently scheduled for June 2019 to September 2020.

Royal London House occupation and extension will lead to incremental rates of £200k pa from summer 2020.

There are no material incremental rates assumed from Block 23/24 as these have already been reflected in the most recent ratings list as labs at c. £13 psf. The uplift post PC (est April 2020) is not as significant as on a new build such as Glasshouse although the additional £4 would likely generate c70k of annual incremental rates once incorporated into the listings.

In total, this would lead to £1.3m of new rates generated, which would demonstrate a payback of 3 years.

8. Are there any other wider benefits (including social, environmental and temporary effects) that the project will generate? (c. 200 words)

There will be an increase in the number of jobs brought into the Park and local area both in the long term via both businesses moving to the area and creation of new businesses, as well as the short term job creation in the construction timeline.

Whilst difficult to quantify, it is likely that opening up access to / from the facility to the wider site will foster innovation and collaboration between companies which contributes to the wider strategy and success of the business plan. This in turn will assist with developing skill sets of a wide degree of workers.

It is estimated that the creation of the space would create around 101 local construction jobs across the two schemes (using local & regional contractors) which will eventually lead to the creation of around 750 long term jobs (c. 500 for 22 and 250 for 23/24) that will utilise the space. This in turn will require a number of additional jobs to provide services and amenity.

As mentioned previously, the EZ funding would equate to c. £5k per job.

Other local benefits would include raising the overall profile of Alderley Park that a flagship laboratory scheme such as Block 22 & 23/24 would bring. To accentuate this further, it is anticipated that the high end science occupiers that would be attracted would further improve this. Speculatively bringing a scheme forward of this significance in a rural location, albeit in an established business park, would add to and improve upon market confidence. This in turn would improve the viability of future schemes with improved values and return.

9. Please demonstrate that the benefits of the project are additional, i.e. that the intervention does not simply displace other existing activity or would have been smaller or of a lower quality. (c. 150 words)

At present no commercial operator would be able to fund this redevelopment in the absence of public sector intervention as there is no direct return associated with the investment (as shown in the appraisal). However, this would not apply to the LEP who can retain the growth in the business rates that would be delivered.

This would, in turn, assist with the wider growth strategy that will be a range of space offered to occupiers.

Both Blocks 22 & Blocks 23/24 provides an opportunity to deliver a level of space that would serve the current level of demand. If we looked to reduce the overall cost (and therefore overall requirement) this would either be done by reducing the quality of the space, which in turn would create a barrier to occupiers wanting to utilise the site, or by reducing the quantum of space, which wouldn't satisfy the demand that there currently is.

Blocks 22 and 23 & 24 are simply unlettable and undeliverable without the MSCP and vice versa, so an allocation of costs needs to be attributed to the MSCP to justify the initial expenditure. Without this parking provision (given the limited transport links) customers would be unwilling to take either lab or write up space. Hence an allocation of funds from each of the schemes.

Part 3 – Commercial Case

10. Please describe how the project would be delivered and identify the key stakeholders. Please include who will act as Project Manager, how construction will be procured etc. (c. 300 words)

The redevelopment of Block 22 and Blocks 23/24 will be delivered via a traditional procurement route with all detailed and technical designs being completed prior to a competitive tender exercise.

The key design team behind both schemes consist of:

- Fairhursts Design Group acting as lead architect and principal designer;
- Booth King Partnership (BKP) as structural and civil engineers;
- Hilson Moran as mechanical and electrical engineers;
- Assent Building Control advising on regulatory matters; and,
- Richard Boothroyd & Associates (RBA) delivering quantity surveying and contract administration services.

In addition to the above, a variety of other specialists and consultants will play a smaller but still significant part in ensuring the developed designs for the scheme are in fitting with the Alderley Park's impeccable, precedential standards.

The project will be managed from inception to completion by Bruntwood's Building & Construction division who will report into Alderley Park Ltd (the client). Alderley Park Ltd are supported in this role by the likes of BioCity and MSP from a scientific facility perspective and Bruntwood's development team from a real estate angle.

Whilst a selection of potential principal contractors has not yet been compiled for the redevelopment of Block 22 & 23/24, the intention is to tender each project to 4 or 5 contractors who are competent and experienced in works of a similar nature and scale – i.e. £7m-12m construction and refurbishment projects involving commercial laboratory provisions. The construction contract is likely to be standard form JCT Standard Building Contract (SBC) with tailored amendments.

We currently have a high level estimated programme which forecasts that once the full design work has been completed (20 weeks), there will be a tender period of between 8-12 weeks, with the construction phase taking circa 9-12 months.

Drawdown of the grant will be conditional of the procurement of the building contract once the certainty on costs has been frozen. This will ensure a clear commitment to the balance of funding required to deliver the scheme.

11. Please demonstrate that you and the key stakeholders each have the appropriate capacity, capability, systems and expertise to deliver the intervention successfully. This could include examples of similar projects completed elsewhere (c. 200 words)

The Bruntwood team have worked with a number of these stakeholders across a number of projects both at Alderley Park and across the Bruntwood/MSP portfolio. Projects range

from city centre developments such as Neo and Union, to projects on the Manchester Corridor including the Bright Building and Citylabs, to buildings such as Cornerblock and Platform in Birmingham and Leeds respectively.

12. If procuring external partners for this project, please confirm and demonstrate that procurement will comply with public procurement requirements. (c 100 words)

No external funding partners outside the Alderley Park Ltd company will be procured.

However for the purposes of construction, we will undertake a rigid tender process to determine the contractor, which will be done in an open & transparent manner.

13. Please indicate how your project complies with the necessary regulations and requirements with regard to: (approx. 100 words)

- A. State Aid
- B. Legals (e.g. lease agreements, evidence of freehold and/or Memorandum of Understanding)
- C. Planning or other consents
- D. Other (please specify)

Please see the attached note on state aid which details our stance.

Alderley Park Ltd own the full freehold for the wider Alderley Park site and the block in question therefore no further permissions from landowners are needed.

Planning consent will be required but this will be reasonably minor in materiality as it will simply be changing two facades of the building (the introduction of glazing).

Part 4 – Financial Case

14. Provide a summary of the anticipated project costs, funding by source and revenue (adding additional lines as required). The figures should be supported by a development appraisal and evidence of costs where appropriate.

Project Item	Confirmed or Estimated	2017 / 18	2018 / 19	2019 / 20	2020 / 21	2021 / 22	Future Years	Total
Costs								
Construction	Estimated			-	10.5m	7.3m		£17.8m
Fees	Estimated			-	2m			£2m
Total Costs				-	12.5m	7.3m		£19.8m
Funding								
Total EZ Request				-	£2.7m	£1.3m		£4m
Other Public Sector				-	-	-		-
Private Sector				-	£9.8m	£6m		£15.8m
Total Project Funding				-	£12.5m	£7.3m		£19.8m
Revenue								
Total Revenue								Please see appraisal

Provide any supporting information here including evidence/confirmation of any matched funding.

Please provide a copy of your development appraisal and any supporting cost schedules.

15. Please explain why EZ funding is necessary, for example due to a funding gap, and how the project will ensure the minimum cost to the EZ (c. 250 words).

As outlined above the high cost of both the initial strip out, demolition and re-alignment of the existing facilities and supporting infrastructure alongside the fit out costs have led to a deterioration in the financial appraisal and therefore a delay in the project whilst solutions are explored. The development appraisal has been shared on an open book basis which clearly demonstrates that EZ funding is required to deliver the scheme based on a typical commercial appraisal.

As documented in the cover note, Bruntwood typically appraise schemes on a 15% internal rate of return on it's equity investment, with this scheme falling well short of what is required (currently 8%).*

As there is of course a finite pot of equity which a number of projects are competing for, it would determine that this return in isolation would be insufficient to secure the equity required to deliver the scheme.

With EZ funding of c. £4m (£1.2m for 22 & £2.8m for 23/24), it would likely mean that both projects would come much closer to achieving the required thresholds that will enable us to continue with the scheme.

Bruntwood are comfortable that enough market demand exists to an extent that with EZ funding commitment we would undertake both schemes on a speculative basis given its importance to the wider site plan.

As alluded to both the cover note and this document, a reduction in hurdle rate would still see us struggle to bring the scheme forward as the scheme would be competing for a finite pot of equity with other schemes in the Bruntwood pipeline.

* the accompanying appraisal demonstrates that in order for the scheme to achieve 15% IRR, there is a £1.2m and £2.8m gap for 22 & 23/24 respectively. This is predicated on life cycle costs, against the rent that would be achieved over the lifetime of the investment, less any major servicing costs such as service & estate charges and rates (during void periods), agent & legal fees, Bruntwood management fees (typically 3% of rent which covers staffing costs).

16. Has consideration been given to other alternative sources of funding which could be accessed to support this project? E.g. Commercial loan; Transport for North/Highways England; government funding in response to Energy Strategy or Industrial Strategy. If so, why have they been discounted?

Evergreen works best where there is a viable scheme which cannot proceed but for the availability of finance. In this instance, the challenge is the viability gap - hence the need for EZ investment. This would be similar for other forms of recyclable investment

funding. EZ funding works well since, whilst it is recyclable, the repayment comes from either the developer or the customer post PC which allows the scheme to come forward.

We would be unlikely to take development finance on this particular scheme (in addition to the EZ funding) since AP already has bank facilities that are secured via a first charge across the site in favour of the banks. Given that the funding is already there from Group equity sources, then the complexity and delay in putting in place loan and inter creditor agreements does not justify the capital involved.

17. Can you confirm and demonstrate that there is sufficient capability to meet the financial requirements and liabilities that flow from receipt of EZ support (e.g. to fund cash flow ahead of grant and to meet any cost overruns). (c. 200 words)

Bruntwood Scitech is the controlling vehicle behind Alderley Park Holdings and as such, is the ultimate project sponsor. Bruntwood SciTech is part of the Bruntwood Group and is a joint venture between Bruntwood and Legal and General. Bruntwood SciTech has hugely impressive growth plans with aspirations to have value at over £1.bn within 5 years, which provides some assurance as to the solvency of the Bruntwood Group and SciTech itself.. The project cash flows have been modelled as part of the shared scheme appraisal and clearly demonstrate the sources and uses of funding during the construction period, recognising that cash flows will need to be funded before grant drawdown. It is intended that the construction contract will be let before drawing down of LEP monies which will mitigate the likelihood of cost overruns. There will be regular monitoring and reporting of progress so that any potential issues or overruns are identified and mitigated at any early stage.

As the cover note suggests, Bruntwood and APL would offer both a completion guarantee and a cost overrun guarantee to be built into the agreement via an appropriate guarantor from within the Bruntwood structure.

Part 5 – Management Case

18. Please provide a programme for the project and insert the indicative timescales for the key project milestones in the table below:

Block 22	Indicative Timescale
Submission of Outline Business Case	1/5/2019
Funding Approvals	1/9/2019
Appointment of preferred developer / contractor	1/5/2020
Planning and other statutory approvals	1/9/2019
Work Commences	1/6/2020
Work complete	1/6/2021 (phase 1) 1/1/2022 (phase 2)
Final financial claim date	1/6/2021 (phase 1) 1/1/2022 (phase 2)

Block 23 & 24	Indicative Timescale
Submission of Outline Business Case	1/5/2019
Funding Approvals	1/9/2019
Appointment of preferred developer / contractor	1/5/2020
Planning and other statutory approvals	1/9/2019
Work Commences	1/6/2020
Work complete	1/6/2021 (phase 1) 1/1/2022 (phase 2)
Final financial claim date	1/6/2021 (phase 1) 1/1/2022 (phase 2)

19. What are the top five risks of your project and how do you anticipate to mitigate them?

Risk Register	Impact (H/M/L)	Likelihood (H/M/L)	Risk Mitigation	Action Owner

Construction	M	L	Appointment of appropriate contractor	AP Construction
Programme	M	L	Realistic and achievable programme	AP Construction
Economic downturn	H	M	N/A	N/A
Lettings	H	L	Appropriate Letting Strategy	AP Sales

20. Please identify any other significant constraints and confirm that project is deliverable having regard to these risks and dependencies. (c. 300 words)

It is considered that this project offers no other significant risks or constraints than any other development project. With appropriate strategy and management of the varying strands within that strategy, it is believed the project will be delivered on programme and within budget and that the lettings strategy will enable the project to achieve the returns to make the project successful.