

Policy and Sustainability Committee

10.00am, Tuesday, 25 February 2020

BioQuarter – Strategic Business Case

Executive/routine Wards Council Commitments	Executive All 1, 2, 6, 31
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1. Recommendations

- 1.1 It is recommended that Committee:
- 1.1.1 agrees the Strategic Business Case (SBC) as provided in Appendix 1;
 - 1.1.2 agrees to contribute up to £500,000 to fund the further development of the business case and run the related procurement process;
 - 1.1.3 notes that a Prior Information Notice (PIN) will be posted in the Official Journal of the European Union (OJEU) in April/May 2020 setting out the intention to proceed with the procurement of a commercial development partner and seeking market feedback; and
 - 1.1.4 notes that a further report will be brought to Committee in June 2020 providing an update on progress, seeking approval of the outline business case, approval to enter into a new legal entity (TopCo) and seeking agreement to start the formal procurement process.

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BioQuarter – Strategic Business Case

2. Executive Summary

- 2.1 This report requests approval to progress with the next stage of the BioQuarter project and requests £500,000 of funding as the Council's contribution towards the development of the business case and procurement exercise.
- 2.2 A Strategic Business Case (SBC) is also provided which sets out the rationale for proceeding with this project. Life Sciences is a significant sector in the UK economy employing 90,000 people. The BioQuarter is a key player in this sector and exists to improve people's lives, health and well-being. The BioQuarter site is identified in the Local Development Plan (LDP) as an area for life science development that supports wider growth and regeneration in South East Edinburgh. It is also recognised in the draft City Mobility Plan (CMP) as an area of growth where further transport infrastructure is required. It has significant potential to contribute to the City's Economy Strategy and Council Commitments, particularly in relation to the inclusive growth and net zero carbon agendas.
- 2.3 An Outline Business Case (OBC) will be reported to Committee in August 2020 and approval will be sought at that stage to enter into TopCo and then commence the formal procurement process. Thereafter, it is envisaged that a Full Business Case (FBC) will be provided once a preferred bidder has been identified and final approval will then be sought from Committee and Council to proceed with the establishment of a further legal entity, proposed to be a joint venture involving TopCo and the preferred bidder (DevCo).

3. Background

- 3.1 In 1997, Scottish Government obtained planning permission for land in the Little France area of Edinburgh, approximately four miles from the City Centre. This allowed the relocation of the city's Royal Infirmary and the University of Edinburgh's Medical School from their historic sites in the City Centre. Development commenced immediately and in 2002 NHS Lothian opened the first building to patients – the new Royal Infirmary of Edinburgh. At the same time the University completed the first phase of relocation of the College of Medicine and Veterinary Medicine with the move of medical teaching and

research to the adjacent Chancellor's Building. In 2007 the site was named Edinburgh BioQuarter.

- 3.2 Over these past 20 years, the site has developed extensively and has seen investment of around £520m of capital with a further £330m of capital investment planned for the next five years for buildings, infrastructure and specialist equipment. Funding to date has been by the individual partners, research councils and philanthropic and government investment.
- 3.3 During this time a private sector partner was procured and a partnership was formed. Unfortunately, this coincided with the global economic crisis in 2007/8 and as a result the partnership was not able to move forward, and the parties mutually agreed not to pursue the partnership further.
- 3.4 In 2017, the Council agreed to become a formal partner in the BioQuarter and subsequently entered into a Collaboration Agreement with the other three project partners - the University of Edinburgh, Scottish Enterprise and NHS Lothian. The governing body for this is the BioQuarter Strategy Board.
- 3.5 On [21 March 2019](#) the Housing and Economy Committee agreed to a review of the use of the City Strategic Investment Fund (CSIF) to ensure it is deployed to meet the priorities of the economy strategy and wider city development and regeneration aims. The Council subsequently agreed on [21 November 2019](#) to reallocate CSIF funding and set aside £2.15m to be used over a five-year period to fund the progression of major developments in the city which will make strategic contributions to the city's economy and which would not otherwise not be progressed. The BioQuarter was identified as one such project.

4. Main report

BioQuarter - Today

- 4.1 The UK has one of the strongest and most productive Life Sciences industries in the world. In 2015, the Life Sciences industry generated approximately £20.7bn turnover and 90,000 jobs for the UK. The BioQuarter is already a key player in this arena. It exists to advance healthcare discoveries, improve people's lives and enhance health and well-being.
- 4.2 The BioQuarter is currently home to a community of around 8,000 staff and students and significant numbers of patients and visitors. The site is a melting pot of talent in commercial research and development, clinical and academic, research, healthcare and data driven innovation. At its heart is the Royal Infirmary of Edinburgh, a circa. 900 bed acute teaching hospital. The research strengths of the site include neuroscience, regenerative medicine, medical informatics and translational medicine.
- 4.3 BioQuarter is developing over time but already has some notable successes having helped to incubate several new spin-out companies from the University since 2012.

- 4.4 The current commercialisation space at BioQuarter is primarily located in Building Nine and is owned and managed by Scottish Enterprise. Building Nine opened in 2012 and consists of a mix of incubator and grow-on space for life sciences companies. It has been home to more than 25 SMEs, all at varying stages of growth and from across the life sciences spectrum. Currently there are 14 companies based in Building Nine, all of which take advantage of the unique environment that the BioQuarter offers.

BioQuarter - Vision

- 4.5 The BioQuarter is already a flagship development within the Life Sciences sector with a unique combination of specialist activities. By building on its existing expertise/facilities and by attracting, creating, and growing world class companies, the BioQuarter has the potential to grow from a national to a global centre of excellence.
- 4.6 The vision is to deliver a life science led mixed use quarter in the South East of Edinburgh that will attract new businesses, entrepreneurs, investors, researchers, healthcare providers and which would be a powerful tool in both local and regional economic and social regeneration.
- 4.7 Phase 1 of the masterplan for the site is likely to include a new public square, an incubator hub, laboratories and office accommodation totalling approximately 42,000sqm, a range of residential developments including, ancillary space such as a quality hotel, bar, gym, retail, nursery and after school care provision, high quality public realm throughout the site and improved public transport and access arrangements.
- 4.8 The site is already identified in the current Local Development Plan although the new masterplan will require consultation and further development. This process has begun with the Planning Service where advice will be sought on the best approach to be taken. The masterplan will be reported to the Council's Planning Committee in due course.

Strategic Business Case

- 4.9 Following discussion around how to deliver the new vision, the BioQuarter Strategy Board supported the option of procuring a private sector partner. This partner will need to have demonstrable experience in Life Sciences development and will need to be able to provide funding for the venture. A new partnership would then be formed with the four existing partners, which will acquire the remaining land from Scottish Enterprise and develop BioQuarter at the necessary pace and scale to achieve the desired outcomes.
- 4.10 Appendix 1 contains the SBC which has been prepared to provide the rationale for proceeding with this project, sets out the proposed approach and covers, financial assessment, demand assessment, economic impact and community engagement and inclusion. It identifies a wide range of benefits including:
- 4.10.1 the creation of a high-quality large-scale sustainable development in the city, with zero net carbon ambitions;

- 4.10.2 an attractive town centre square and 'place', capable of supporting a range of events;
 - 4.10.3 an open and welcoming atmosphere, with space and facilities that can be used by citizens both locally and across the city of Edinburgh;
 - 4.10.4 additional new residential development, including a range of affordable housing;
 - 4.10.5 improved international positioning in the market for life sciences companies, Data Driven Innovation businesses;
 - 4.10.6 enhanced support for early and later stage growth of companies in the life sciences sector;
 - 4.10.7 improved health and care research and services through enhanced joint working between clinicians, patients, researchers, communities, government and business;
 - 4.10.8 enhanced Edinburgh and Scottish skills base in the life sciences and Data Driven Innovation sectors; and
 - 4.10.9 Total permanent jobs, in the long term, of 9,325 FTE and a further 7,734 FTE jobs relating to construction activity.
- 4.11 The SBC provides a compelling case for proceeding with the project and it is recommended that Committee agrees to proceed to the next stage of the project - the development of an OBC.

TopCo and DevCo

- 4.12 In order to proceed with the project, legal advice has been sought on the best company structure to be used, considering the proposed operations, desired outcomes and the level of control sought. Consideration has also been given to the governing rules of each of the partners. It is proposed that two companies both limited by shares will be established – TopCo and DevCo.
- 4.13 TopCo will be set up initially as the contracting authority for the procurement of a private sector partner and thereafter will have responsibility for oversight of DevCo. Each of the four partners will have a 25% shareholding.
- 4.14 DevCo will be established once a private sector partner has been secured. It is envisaged that this will also be a company limited by shares with TopCo holding a portion of the shares and the private sector partner being the only other shareholder. It is envisaged that the partner will be the majority shareholder and that the company will be classified to the private sector, allowing it to operate more freely than if it were classified to the public sector. To ensure that the direction of the company continues to be aligned with the objectives of the public sector partners, a mission statement will be built into the shareholder agreement.
- 4.15 DevCo will then enter into an option agreement with Scottish Enterprise to provide for the purchase of the remaining BioQuarter land and will draw down the plots subject to performance in terms of project funding and necessary consents being secured.

5. Next Steps

- 5.1 Subject to approval by the Policy and Sustainability Committee officers will work with the BioQuarter Programme Team to progress the project.
- 5.2 The high-level programme for the project is as follows:
 - 5.2.1 Marketing launch at MIPIM March 2020.
 - 5.2.2 OJEU Prior Information Notice - April/May 2020.
 - 5.2.3 TopCo established and formal procurement start – Q4 2020.
 - 5.2.4 Selection of private sector partner and formation of DevCo – Q4 2021.
 - 5.2.5 Construction start – Q3 2022.
 - 5.2.6 First occupation – 2024.
- 5.3 In order to proceed with the formal procurement process the OBC will first need to be developed and then agreed by all partners.
- 5.4 For the procurement of a private sector partner it is proposed to establish a company limited by shares (TopCo) of which the Council will have a 25% shareholding. The main purpose of this company will be to perform the contracting authority role for the procurement of a commercial development partner although this will not be the only function of the company.
- 5.5 A report will be brought back to Committee in June 2020 setting out the OBC and the proposed articles of association of TopCo. It will seek agreement for the Council to enter into the company, start the procurement process and develop the FBC.

6. Financial impact

- 6.1 As set out above, £2.15m of the CSIF is ring-fenced over the next five years to support the progression of major developments in the city which would otherwise not be progressed. Subject to the agreement of this report, up to £500,000 of this amount will be used to cover the Council's share of the cost of developing the business case and procuring a private sector partner.
- 6.2 A detailed cost plan for these stages of the project has been developed by the Programme Team including all necessary services: legal advice in relation to procurement, state aid and company law, financial modelling and tax advice, commercial advice, economic and social impact analysis, and technical services in relation to planning and design. Including 10% contingency the total cost is estimated at £1,572,054.
- 6.3 This is broken down as follows:
 - 6.3.1 OJEU Procurement of JV Partner – £705,400;

- 6.3.2 Independent Commercial Advice for Partnership – £43,200;
 - 6.3.3 Development of Business Case to FBC Stage – £227,088;
 - 6.3.4 TopCo and DevCo Legal Structures – £117,452;
 - 6.3.5 Master Planning and Statutory Consents – £336,000; and
 - 6.3.6 Contingency – £142,914.
- 6.4 This cost will be divided equally between the Council, NHS Lothian, University of Edinburgh and Scottish Enterprise. This amounts to £393,014 per partner.
 - 6.5 A report is provided elsewhere on the agenda setting out the cash flow position of the CSIF. It takes account of the allocation of strategic programme funding to a number of activities, including BioQuarter. There are sufficient funds available for the allocation to this project to be made.
 - 6.6 Further reports will set out expenditure incurred and will seek agreement for further expenditure should this be necessary. At the current time, it is not envisaged that the £500,000 budget will be exceeded in moving the project through to FBC stage.

7. Stakeholder/Community Impact

- 7.1 The delivery of the BioQuarter project is anticipated to result in positive impacts on stakeholders and the wider community as identified in the SBC. The BioQuarter already has a community outreach programme that it delivers. As the project develops, community and stakeholder engagement will continue and will be ramped up over time.
- 7.2 The assessment of impact, either positive or negative, will continue to be measured as the business case is developed through different stages. Planning permission will also be required in due course and full technical assessments in relation to physical and environmental impacts will be provided as part of this process.

8. Background reading/external references

- 8.1 None.

9. Appendices

- 9.1 Appendix 1 – BioQuarter – Strategic Business Case (restricted document)