

**AGENDA ITEM 10**

**REPORT TO THE TEES VALLEY  
COMBINED AUTHORITY CABINET**

**30 NOVEMBER 2018**

**REPORT OF THE  
INVESTMENT DIRECTOR**

**PORTFOLIO: INVESTMENT & BUSINESS GROWTH**

**FUJIFILM BIOCAMPUS PROJECT– PHASE 1**

**SUMMARY**

The report considers the request from Fujifilm Diosynth Biotechnologies UK Limited (“FDBUK”) for investment to support the development of its Phase 1 Biocampus at the existing Billingham site (‘the Project’).

The Project Involves the relocation of most of the staff currently working in temporary buildings into a new purpose built building on the North Site and is seen as a key enabler for subsequent phases of investment and development planned by FDBUK for the site. The investment will support the provision of 4,000 square metres of high specification office space, potentially convertible to laboratory space and will house circa 250 existing staff and support the attraction of 50 additional high value jobs.

**RECOMMENDATIONS**

It is recommended that the Combined Authority Cabinet:

- i. notes the request from FDBUK for £7.062m of Combined Authority funding to support the £14.5m Project as described in this report;
- ii. approves the request for £1.625m grant and £5.437m loan funding on the basis of the recommendations of the funding appraisal; and
- iii. authorises the Interim Managing Director to take all necessary steps to negotiate and complete appropriate funding agreements (including appropriate collateral / security arrangements) with FDBUK on the basis set out in this report and taking into account any issues arising as a result of the due diligence process.

## DETAIL

### Project Description

1. FDBUK is seeking a total investment from TVCA of £7.062m (£1.625m grant and £5.437 loan) to support this project that will enable the significant extension and development of the Billingham site campus and the attraction of additional inward investment to the site.
2. The funding support from the Combined Authority is to contribute to new replacement premises to be built adjacent to FDBUK's existing Billingham campus on a site it has already purchased. The additional site development will replace existing manufacturing and administration/business support functions which are presently housed in eight temporary modular buildings. When complete the new premises will extend to 4,000 square metres and house circa 300 staff (including 50 additional jobs), principally working on manufacturing and administration/business support functions.
3. FDBUK is a global, first rank Contract Development & Manufacturing Organisation operating at the leading edge of biopharmaceutical science and technology. It has a strong track record of making successful capital investment and has expanded in Billingham from 90 employees to circa 600 today. FDBUK worked with CPI on the recent bid for the new National Vaccines Manufacturing and Development Centre – the bid was not successful but both organisations continue to liaise on future opportunities in the sector.
4. On 1<sup>st</sup> March 2017, Fujifilm Corporation launched FDB as a standalone division of the group and announced its target to bring the Division's revenue to 100 billion yen (approximately £700 million) by 2024 - a fourfold growth over six years.
5. FDBUK's vision for their Tees Valley site is to create a thriving bioscience campus and it is developing a phased masterplan for the creation of the Fujifilm BioCampus. Phase 1 of these plans are the subject of this report.
6. Phase 1 of the BioCampus is the enabling phase to allow for decanting from existing premises and the subsequent creation in the later phases of purpose-built business space on the existing site, to sustain existing jobs and enable further expansion. The key objectives include:
  - a. Develop & agree the masterplan for the overall campus site;
  - b. Planning consent and delivery of suitable accommodation for 300 staff;
  - c. Retention of existing staff and creation of 50 new posts in the Tees Valley;
  - d. Site infrastructure; and
  - e. Diversion of traffic on Belasis Avenue and agreements with neighbouring and utilities companies on impact and mitigation of road closure (to enable both the current and new parts of the site to operate as a coherent whole).
7. Subject to securing the delivery of Phase 1, FDBUK's vision includes the following 2 further phases to be delivered in the medium term ,which could potentially deliver a further 150 to 200 jobs:-
  - **Phase 2:** Construction of an Innovation Centre and infrastructure based on customer demand and organisational efficiency. The objective of this future phase is to provide suitable infrastructure and build an Innovation Centre, to

replace some existing laboratories, expand overall capacity of the R&D function, enable business growth in existing technologies and to add capacity for newer technologies.

- **Phase 3:** Currently there are 5 “production streams” for biologic drugs in 3 separate production plants. Due to several restrictions not all 5 can be operated at full capacity at the same time. Phase 3 will require further investment in expanding this capacity and enable an increase in plant occupancy, with the aim of being able to operate all production streams in parallel and increase to 7+ production streams at any time. In addition to provide infrastructure and manufacturing capacity for processes based on novel technologies such as gene & cell therapies.
8. At this point in time there is no guarantee that Phases 2 or 3 will come forward. However, if Phase 1 is not delivered the Tees Valley will be unable to compete against Fujifilm’s other two divisional sites (College Station in Texas and Research Triangle Park in North Carolina) for further Fujifilm Group investment. Both of their US sites have substantial existing purpose-built biologics infrastructure and a strong delivery track record, as well as continuing access to attractive local and national agency support.
  9. The FDBUK team based in Tees Valley has advised that there is also a risk in the medium to long term of the current Tees Valley site closing if its facilities cannot compete for investment with the US sites in the division going forward.
  10. Phase 1 delivers 50 additional jobs (supported for two years through the Tees Valley Business Compass - capital grant support scheme referred to at paragraph 20 below) for a new product range. However, this investment is at present linked to a two year contract. The investment proposed in this report will ensure the permanence of these positions, sustain circa 250 existing jobs and demonstrate to Fujifilm the continuing competitiveness of the Billingham site.
  11. The cost per job in Phase 1 is higher than TVCA would normally accept. However, this level of investment is required if the Tees Valley site is to have a chance of securing the existing 250 jobs and the growth of the campus, with a further 150 to 200 potential jobs in the later phases of the development.
  12. FDBUK have been advised that any further Combined Authority support to bring Phases 2 and 3 forward would be limited to normal inward investment grant support.

### **Evidence of Need**

13. FDBUK have advised that the commitment of investment from Fujifilm Group will not be achieved without public sector support, so that Phase 1 could not be brought forward without the level of Combined Authority funding sought. FDBUK has limited financial reserves locally to be able to develop the Tees Valley site and without public sector support it will not happen. FDBUK has recently sought approval from its group Executive Committee for development of the North site, and that Committee has now given conditional approval for Phase 1 of the proposed development, on several conditions including that the grants and loan described in this report are secured.

## **Strategic Fit and Benefits**

14. The proposed project addresses three of the six priority themes of the Strategic Economic Plan (SEP): Business Growth: a high potential business; Research, Development, Innovation and Energy: provision of product testing facilities; and Education, Employment and Skills: the creation of 50 net additional jobs, most of which are at NVQ Level 4 and above. The project also delivers growth in one of the SEP's seven priority sectors: Biologics.
15. The project is in alignment with both the emerging UK Industrial Strategy and Northern Powerhouse agendas as it is both testing and putting into commercial usage a target sector – biologics – which falls under the Clean Growth Grand Challenge.
16. The project affords the opportunity to create critical mass within an emerging sector both for the region and wider United Kingdom. The expanded facility will make Tees Valley third in size across the United Kingdom (behind Cambridge and Glasgow) and through links with local Universities (Teesside and Durham) could provide knowledge spillover effects for the benefit of the wider sector locally, including the attraction and retention of a wider skills base.
17. As noted above the direct economic benefits are 50 high quality jobs and an increase in GVA of circa £4m per annum (all subject to due diligence). This project is seen as an enabler and could potentially create an additional 150-200 jobs with potential for £100-150m further capital investment, subject to future phases. The project will create a net benefit to the local economy.

## **Funding**

18. The total cost of the project is £14.5m, of which £7.062m is requested from the Combined Authority - £5.437m loan and £1.625m grant.
19. Of the £7.437m match funding:
  - a. £1m is from the Tees Valley Business Compass capital grant support scheme and this was approved on 4<sup>th</sup> October 2018 (subject to due diligence). This is funded through the financial support made available through the SSI Taskforce;
  - b. Within our original Local Growth Fund allocation, £1m was specifically identified for investment into the road infrastructure for this campus project (to fund work to be done to the road by Stockton Borough Council) and this £1m is already ring-fenced in the Combined Authority's investment plan; and
  - c. £5.437 is from FDBUK and is subject to main board approval – please see paragraph 13 above on Fuji Group's Executive Committee approval.
20. TVCA loan terms will be determined as part of the due diligence process including the applicable state aid compliant interest rate.

## **Assurance and Appraisal Outcome**

21. Once the technical details of the site development are clear, TVCA will need to undertake a full appraisal and carry out the necessary due diligence in line with TVCA's normal assurance framework.

22. TVCA recommends that authority is delegated to the Interim Managing Director and Investment Director to approve the outcome of due diligence and approve any conditions to mitigate risk which arise from the due diligence appraisal.
23. The TVCA Funding will be subject to TVCA's standard capital funding terms and conditions which will include appropriate restrictions on the disposal of funded assets.

### FINANCIAL IMPLICATIONS

24. Assuming the recommendations set out above are agreed, the financial implications are that the Combined Authority would make a £5.437m loan and £1.625m grant. The loan will be at a state aid compliant rate to be agreed depending on the financial standing of FDBUK, taking into account the availability of appropriate security, and will therefore provide a return on investment to the Combined Authority.
25. This funding will be subject to appropriate due diligence through the Tees Valley Assurance Framework.

### LEGAL IMPLICATIONS

26. Approval is subject to completion of due diligence and includes a condition that satisfactory state aid legal advice is received.
27. Any funding will be subject to standard Combined Authority terms and conditions which will allow for clawback of the funds if FDBUK fails to meet the project outputs or acts in breach of those terms and conditions. Special conditions will be included to ensure that any issues raised by the appraisal or due diligence are appropriately addressed.

### RISK ASSESSMENT

28. The key risks in relation to this request for Combined Authority funding are as follows:

Risk	Proposed Mitigation
<ul style="list-style-type: none"> <li>• Fujifilm Group support and investment is not secured</li> </ul>	<ul style="list-style-type: none"> <li>• TVCA support is being provided to secure this</li> </ul>
<ul style="list-style-type: none"> <li>• Loan is not repaid</li> </ul>	<ul style="list-style-type: none"> <li>• To seek an appropriate parent company guarantee or other security for the loan.</li> </ul>
<ul style="list-style-type: none"> <li>• Phases 2 and 3 do not happen and therefore the Combined Authority has not secured sufficient value for the level of its investment. The cost per job is higher than the Combined Authority would usually agree to fund.</li> </ul>	<ul style="list-style-type: none"> <li>• The 50 jobs to be created in Phase 1 are high quality jobs in a key sector.</li> <li>• Phase 1 secures the existing 200 jobs.</li> </ul>

<ul style="list-style-type: none"> <li>Phase 1 Outputs (including 50 new jobs) are not delivered</li> </ul>	<ul style="list-style-type: none"> <li>Grant to be subject to clawback if Outputs not met.</li> </ul>
<ul style="list-style-type: none"> <li>FDBUK seeks high levels of Combined Authority support to bring forward Phases 2 and/or 3.</li> </ul>	<p>FDBUK has been advised that this level of support is exceptional and that any further Combined Authority support to bring Phases 2 and 3 forward would be limited to normal inward investment grant support.</p>

**CONSULTATION AND COMMUNICATION**

29. Consultation has been undertaken with Tees Valley Management Group and Tees Valley Chief Executives.

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