

Subject:	Acquisition and Leaseback of Land and Buildings at Moulsecoomb Way		
Date of Meeting:	9 September 2020		
Report of:	Executive Director Economy, Environment & Culture		
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Ward(s) affected:	Moulsecoomb & Bevendean		

FOR GENERAL RELEASE

1. PURPOSE OF REPORT AND POLICY CONTEXT

- 1.1 The report presents a proposal for the acquisition of a vacant building currently owned by Custom Pharma Services, a pharmaceutical manufacturer based in the city. The proposed acquisition is subject to Custom Pharma taking a 25 year lease from the council.
- 1.2 The proposed acquisition and leaseback transaction will support Custom Pharma's refurbishment of the vacant building to expand their manufacturing service and support employment in the City and regeneration of two major sites in the East and West of the City.
- 1.3 This report is complemented by a separate report in Part Two of the Agenda.

2. RECOMMENDATIONS:

- 2.1 That the council acquires the building at Moulsecoomb Way (shown in Part One Appendix 1) and simultaneously grants a 25 year lease to Custom Pharma at a market rent.

3. CONTEXT/ BACKGROUND INFORMATION

- 3.1 Custom Pharma are a full service contract, development and manufacturing organisation of investigational medicinal products based in Brighton and Hove that covers a spectrum of activities from process development to manufacturing.
- 3.2 They are currently based at 2 sites in Conway Street Hove and Moulsecoomb Brighton. In 2016 they acquired the subject property at Moulsecoomb Way (plan attached at Appendix 1) and began conversion to a state of the art pharmaceutical facility. Whilst works have partially been carried out, further funding is required to complete the next stage of the conversion of the building. This would be funded by the capital receipt achieved from the sale.

- 3.3 Once the refurbishment is complete they will vacate their existing operations entirely from the premises in Conway Street Hove, freeing up that site for redevelopment. The site forms part of the Hove Station regeneration major infrastructure site that is currently being explored with the relevant partners through the One Public Estate (OPE) programme.
- 3.4 Custom Pharma currently employs 200 full time employees. The conversion of the subject property would create an additional 100% of high specification “state of the art” facilities to provide growth in employment and business revenues. Custom Pharma currently employs a number of graduates and apprentices each year from the local schools and universities to work within their skilled and highly trained workforce.
- 3.5 Custom Pharma have presented a proposal to sell and leaseback their Moulsecoomb premises. The council would acquire the freehold of the premises and simultaneously lease it back to them for a term of 25 years at a market rent.
- 3.6 The proposed transaction will fulfil a number of strategic economic regeneration objectives, these include:
- The retention of a large local employer within the city, thus preventing relocation outside of the City.
 - Supporting employment in the City of high end professional, skilled jobs and R & D linking in with the Universities.
 - Supporting the regeneration of Moulsecoomb and the modernisation of a substantial unused building with a footprint of 34,000 sq ft and a total gross internal area of 74,000 sq ft over basement, ground and first floors.
 - Facilitating Custom Pharma’s move out of premises at Conway Street Hove allowing the site to be redeveloped as part of the Hove Station Neighbourhood Plan and OPE project.
 - Provide a substantial and secure income for the Council to support service provision across the city.
- 3.7 Rental income from the Council’s commercial property portfolio supports the provision of city-wide services. However, a large proportion of the portfolio comprises secondary and tertiary retail properties which are increasing in risk as investments due to the emergence of on-line and shifts in consumer behaviour, which has also been heavily impacted by Covid-19. The Council’s proposed asset investment strategy is centred around the need to rebalance the portfolio to reduce its reliance on the retail sector. A core requirement is to invest in commercial property within the City boundary. The industrial market is currently strong, and the Council has a very low exposure to the sector. This opportunity to acquire on a sale and leaseback basis would immeasurably improve the portfolio and its resilience, and importantly, its security of income.
- 3.8 The acquisition price represents market value. Custom Pharma represents a good covenant but there are nevertheless low risks attached to the transaction. Custom Pharma are creating a bespoke building. Should the company fail, the Council would be left with a bespoke building which could prove difficult to let without further modification. However, the proposed planning regulation changes will help to enable more flexibility in terms of possible future site uses and/or potential redevelopment.

- 3.9 Custom Pharma is a long-standing family business (over 40 years) that has had incremental growth over many years. Future growth of the business and employment is dependent upon the successful development of the site at Moulsecomb Way. The development of the site is critical to their business, which is limited by the size of their current manufacturing premises at Conway Street. At present demand is more than existing capacity and business opportunities are being declined, which would otherwise support growth and new jobs.
- 3.10 Their business plan is based on increasing turnover although the existing turnover would support the rental payments proposed. Custom Pharma have demonstrated their changing business model including fixed cost reductions as a result of the potential move that would help fund a new rent liability.
- 3.11 The company strongly believe that the investment in the Moulsecomb site would allow the business to grow, widen their offer and increase their medium term supply contract base. Paragraph 6 outlines their future growth plans.
- 3.12 As a family business there is no further guarantor for any lease obligations and the council's security would be based on the company's financial performance, however these risks should be taken in the context of the significant wider benefits to the City with economic regeneration being the key driver for this transaction.
- 3.13 Custom Pharma is a Key Business supplying medicines to the NHS.

4. ANALYSIS & CONSIDERATION OF ANY ALTERNATIVE OPTIONS

- 4.1 In the absence of the proposed acquisition and leaseback transaction Custom Pharma would seek additional finance from alternative sources secured against the premises but would be limited to achieving a maximum loan of 75% of the property's value. The conversion of the subject property and expansion of the business would be stalled, impacting on their plans for expansion. Whilst the sale of the building to the council would result in a loss of ownership for Custom Pharma it would provide them with a cash injection equal to 100% of the property's value.
- 4.2 This would impact on the delivery of strategic objectives identified in paragraph 3.6 and benefits identified in paragraph 6.1.
- 4.3 The opportunity to diversity the council's commercial property portfolio, reduce risk and improve income would also be forgone.
- 4.4 Custom Pharma would not sell the site to the council without the leaseback transaction, for the council to use for an alternative use.

5. COMMUNITY ENGAGEMENT & CONSULTATION

- 5.1 Custom Pharma have been consulted. Consultation with neighbours is not considered applicable.

5.2 Relevant internal teams and members have been consulted.

6. CONCLUSION

6.1 The proposed acquisition and leaseback transaction meets a number of economic regeneration and corporate strategic objectives and benefits, which would be stalled and at risk or forgone should it not proceed. These include:

- Job retention – safeguarding 200 FTE existing jobs.
- Job creation - Potential to add a further 100 FT roles at Custom in the coming 5-10 years. Many new roles from PhD level to school leavers/apprentices. Currently recruiting 10 new roles in anticipation of demand and business growth.
- Capacity increase manufacturing - New facility will create a 100% increase in capacity to manufacture existing critical medicines.
- Capacity increase clinical trials and product development - 500% increase in capacity in next 5 years.
- University collaboration - Working with both universities to support graduate employment from Life Science courses.
- Local economy - Help drive economic growth in the region.
- Exports - New markets (USA, Israel, Nordic) being targeted for sale of the new capacity.
- Medicines supply chain - Improving supply from within UK of vital medicines rather than from abroad.
- Regeneration in Conway Street, Hove - Moving out releases land for redevelopment and regeneration in accordance with City Plan and Hove Station Neighbourhood Plan for homes and employment.
- Regeneration in Moulescoomb - the modernisation of a substantial unused building with a footprint of 34,000 sq ft and a total gross internal area of 74,000 sq ft over basement, ground and first floors.
- Stalled Investment - The premium payable by the council will clear the existing loan arising from the original acquisition, leaving the balance for investment into the conversion project. Custom Pharma intend to raise additional capital through bank funding or government grant support for the balance of the cash required to buy equipment.
- Covid 19 - Custom is currently involved in clinical trials to support discovery of treatment for Covid 19. and have been appointed by Oxford University to progress these trails.
- Diversify Council's commercial property portfolio - Support income security and growth.

6.2 More recently Custom Pharma have confirmed that they are developing and will licence a range of Dexamethasone tablets which were recently trialled successfully with Covid 19 patients. They are receiving government support to establish export markets in USA and the wider EU currently.

6.3 Their forecasts for export growth require the business to increase sales employing 195 people. New high quality jobs are expected to reach a total of 300 by 2025.

6.4 In conclusion to support regeneration in a deprived area, protect a major local company providing growth and jobs in the City it is recommended that the council

proceed with the proposed sale and lease back proposal to Custom Pharma. The proposal will also help to free up part of the Hove Station major regeneration site.

7. FINANCIAL & OTHER IMPLICATIONS:

Financial Implications:

- 7.1 The lease is for 25 and the annual rental income is in excess of the annual cost of borrowing from the Public Works Loan Board (PWLB). The rent is index linked to RPI and so will increase over time; the repayments to PWLB would be fixed.
- 7.2 The councils Minimum Revenue Provision allows for the repayments to be spread over the life of the asset to a maximum of 50 years, however given the length of the lease and bespoke nature of the asset it is prudent to repay over a shorter period.
- 7.3 The Treasury are currently consulting on potential restrictions to local authority access to PWLB borrowing. This is in response to the significant increase in Local Authorities using relatively cheap PWLB borrowing rates to finance commercial activities in pursuit of yield. The likely outcome will mean councils will no longer be able to access PWLB debt if the capital plans include investment purely for commercial gain. However PWLB loans will continue to be available to support service delivery, housing and regeneration.
- 7.4 The council's role in the proposal with Custom Pharma is to facilitate regeneration in a deprived area, protect and grow jobs within the city and is not the pursuit of yield. Therefore, should new regulations be implemented the council will be able to demonstrate to Treasury that it is complying with the restrictions in this instance. It is likely the Treasury will rely on the Chief Finance Officers view on the substance of the transaction.
- 7.5 The sale and lease back arrangement does include a level of risk given the bespoke nature of the building and its location. Custom Pharma's financial position has been reviewed using external credit agencies, a review of their accounts, financial business plans and meetings with their Chief Executive and Chief Finance Officer. The company have been operating for over 40 years and have seen steady growth year on year but have been restricted with their current operation. The transfer to the Moulsecomb site will deliver revenue savings to offset the cost of the new lease and they are financially sustainable without relying on the growth expected from the new facility. A proportion of the purchase price will only be released once the initial works to the building are completed to provide assurance the investment in the facility takes place.

Finance Officer Consulted: James Hengeveld

Date: 20/08/20

Legal Implications:

- 7.6 S120 of the Local Government Act 1972 allows local authorities to acquire land either for "the benefit, improvement or development of their area". For the reasons set out in the report this acquisition will benefit the area. The council has the power to borrow pursuant to s111 of the Local Government Act 1972, s1 of

the Local Government Act 2003 and s1 Localism Act 2011. The Council is paying the market value so there is no risk that it might be regarded as state aid.

Lawyer Consulted:

Alice Rowland

Date:20/8/20

Equalities Implications:

- 7.7 The proposal offers local valued employment opportunities in terms of high-end specialist jobs, apprenticeships and graduate jobs linking with the Universities.

Sustainability Implications:

- 7.8 The future growth implications of the proposal in terms of specialist jobs and commissions indicate the sustainability of this company within a growing market. The Covid19 trials and other commissions potential will contribute to the health and wellbeing of the City, region, nationally and internationally.

Brexit Implications:

- 7.9 Custom Pharma could be affected by supply chain of materials however given the nature of the work these risks are likely to be minimised nationally/internationally.

SUPPORTING DOCUMENTATION

Appendices:

1. Site Plan

Background Documents:

None