

A separate report is submitted in the private part of the agenda in respect of this item, as it contains details of financial information required to be kept private in accordance with Schedule 12A of the Local Government Act 1972. The grounds for privacy are that it refers to the identity, financial and business affairs of an organisation and the amount of expenditure proposed to be incurred by the Council under a particular contract for the supply of goods or services.

Cabinet

15th March 2011

Council

22nd March 2011

Name of Cabinet Member:

Cabinet Member (City Development), Councillor Bigham

Director approving the report:

Director of City Services and Development

Ward(s) affected:

The Science Park is located in Wainbody Ward. All wards are impacted by this report

Title:

University of Warwick Science Park Limited (UWSP) - disposal of interests

Is this a key decision?

Yes

The report relates to an issue which impacts on all 18 electoral wards, the value of the transaction is greater than £500k.

Executive summary:

The University of Warwick Science Park Ltd (UWSP) is the operating company which owns and operates the Science Park adjacent to the University of Warwick in Coventry. It is jointly owned by Coventry City Council, the University of Warwick, Warwickshire County Council (WCC), West Midlands Enterprise Ltd (WME) and the seven West Midlands Districts, on whose behalf the Council holds shares in trust. To date the company has not distributed a dividend to its shareholders. The Council holds a number of leasehold and freehold interests (Appendix 1) and stakes in a number of related property joint ventures (Appendix 2) on the Science Park with associated rental income streams and receives interest on loans made to the company.

The Science Park is a mature joint venture that has been fully developed on its current site and the Council's property interest joint ventures will soon require significant capital investment for refurbishment in order for the buildings to retain their attractiveness to technology businesses. As part of the Council's proactive management of its company investments, officers have considered options for the Council's UWSP investment. The Council could continue to hold its investment and receive no return on the shares and face capital pressures in the near future to maintain its property rental income streams. Alternatively, in order to realise value and to derive maximum regeneration benefits from the UWSP activities going forward, the Council could dispose of its investment to a partner willing to drive further the activities of the company. There are restrictions on our shares which limit the sale to one of the other public sector shareholders. Officers have been in discussions with the University of Warwick who have indicated an ability to continue to extend regeneration benefits from continuing to operate the Science Park and make the necessary capital investment in the company if they were to purchase the Council's interests, plus the interests of the other shareholders – WCC, WME and the seven West Midlands Districts. We have commissioned external valuations of the share and asset holdings to support these discussions.

Whilst these discussions have been held the University have also expressed interest in acquiring the freehold interest of 'Westwood.' A map of the Westwood site is shown at Appendix 3. The Westwood site is held from the Council on an extendable peppercorn lease with 66 years unexpired and is used for academic purposes and student residences. It also includes the athletics track that is the home of Godiva Harriers., Terms for this are included in the Heads of Offer and include ongoing protection for the continued use of the athletics track in line with its current usage.

Heads of Offer are in place with the University of Warwick for purchase of the Council's interests including shares, property and loans. This transaction is subject to final due diligence by both parties and the relevant Council, WME, WCC and University approvals.

The Heads of Offer exclude the Council's joint venture interest in Binley Innovation Centre, a satellite business incubator on the Binley Business Park, which the Science Park will continue to manage on behalf of the joint venture partners (the Council, the Chamber of Commerce, and the Science Park).

Recommendations:

That Cabinet:

Recommends to Council the approval of recommendations 1 to 9.

That Council:

Approves the transfer of the following to the University of Warwick:

The Council's company interests:

1. the Council's shareholdings in the UWSP (company number 1659656) comprising 12146 voting shares and 480 non voting shares.
2. The shareholdings in the UWSP (company number 1659656) held on Trust on behalf of the seven West Midlands Districts comprising 1084 shares.

3. Approves the relinquishment of the Council's directorships of the UWSP and University of Warwick Science Park Concepts Ltd and trustee directorships in the University of Warwick Science Park Foundation Ltd.
4. The transfer of the Council's loans expiring in 2011/12, 2014 and 2016/17 to the University of Warwick, followed by redemption of these loans as part of this transaction.

The Council's property interests in the Science Park:

5. the Council's long leasehold interests in the property joint ventures undertaken with the UWSP and comprising a 54% share in the Vanguard Centre, 50% shares in the Viscount Centres (1&2), Sovereign Court (1&2) and the Sun Building and 31% of Riley Court.
6. the freehold of that part of the UWSP in Council ownership subject to the existing long lease to the UWSP expiring in 2132 at a peppercorn.
7. The transfer of ancillary freehold land adjacent to the Science Park, known as 'Silverstone', off Kirby Corner Road and comprising 0.71 acres, with vacant possession.
8. The transfer of the freehold of the Westwood Site subject to protection for the athletics track.
9. Subject to final due diligence on behalf of the University of Warwick and the Council, delegate authority to the Director of City Services and Development and the Director of Finance and Legal Services, in consultation with the Cabinet Member (City Development) to approve the final price and approve the final transfers, leasehold agreements and all ancillary documents which are necessary to finalise contractual and commercial completion in accordance with the agreed financial parameters (as per section 2 of the private report) and ensuring that the disposal is achieved by the most effective tax structure for the Council.

List of Appendices included:

None

Other useful background papers:

No

Has it or will it be considered by scrutiny?

No

Has it, or will it be considered by any other council committee, advisory panel or other body?

No

Will this report go to Council?

Yes

22 March 2011

Report title:

University of Warwick Science Park Limited and associated interests – disposal

1. Context

- 1.1 UWSP is the operating company established in 1982 which owns and operates the science park adjacent to the University of Warwick in Coventry. It is jointly owned by Coventry City Council, the University of Warwick, Warwickshire County Council, West Midlands Enterprise Ltd and the seven West Midlands Districts. The Science Park operates on land made available to it by the Council and the University on a long leasehold basis at a peppercorn. These leases have 121 years unexpired.
- 1.2 The Council's stake of 45% is the largest of the minority shareholdings. The main business assets consist of interests in the Science Park properties comprising business accommodation geared towards science and innovation start-up companies. The Council also has a share in some of these buildings, being a 54% share in the Vanguard Centre, 50% shares in the Viscount Centres (1&2), Sovereign Court (1&2) and the Sun Building and 31% of Riley Court. In addition the Council made loans (debentures) to the company when it was established and subsequently expanded in 1988, and these are still outstanding and which attract a low rate of interest.
- 1.3 UWSP is a complex and slightly unusual business in that its objectives do not require profit maximisation. Rather, the strategy – endorsed by the board – is to support and foster start-up businesses and assist them (through the provision of business programmes and related support services) through their early years with a view to the company promoting local and regional benefits in terms of employment, better linkages with the community and University. The company has never paid dividends to its shareholders and any profits made have been reinvested into the company, either to maintain/redevelop buildings or to invest in business development activities.

The Council's other related interests/directorships include:

- University of Warwick Science Park Foundation Ltd – this is a charitable foundation and company limited by guarantee in which the Council holds trustee Directorships but no shareholding. Further work is needed to establish the arrangements for winding down this company and this will need to be done post the completion of the wider share and property disposals. It is recommended that the Council retains its directorships on this company until such time that the mechanism for wind down has been established.
- University of Warwick Science Park Concepts Ltd – this is a wholly owned Science Park limited company established to distribute start up grant monies to new companies and CCC is represented on Board of Directors.
- The Council also holds on trust shares in UWSP Ltd on behalf of the seven West Midlands Districts, of which the Council is one.
- University of Warwick Science Park Business Innovation Ltd – the Council holds shares and debentures in this company which owns a business incubator building on the Binley Business Park.
- Coventry Venture Capital Ltd – this is a company owned by West Midlands Enterprise and the Council which holds a property investment managed by UWSP Ltd.

The Council's interests in the University of Warwick Science Park Business Innovation Ltd and Coventry Venture Capital Ltd are unaffected by the recommendations in this report.

2. Options considered and recommended proposal

2.1 For several years the Council have been reviewing its interests in UWSP and related companies as part of its ongoing asset management arrangements. Equally the Board of Directors of the company have periodically reviewed its strategic direction. The context for any decision includes the following considerations:

- The Council does not receive dividends from its investments and there is an opportunity cost of continuing to hold this investment.
- Low interest rate on debentures
- The initial objectives of the Council's investment, to pump prime the company in order to deliver economic and regeneration benefits have been met. Recent Government policies on innovation and higher education has focused on much closer links between universities and business and a greater emphasis on commercialising university research. The UWSP will need to strengthen its links with the University of Warwick in order to continue to grow and meet these objectives.
- The assets held by the UWSP will not continue for an indefinite period without further investment that may dilute the Council's investment or require additional resourcing from the Council as joint venture partner in the assets, or as shareholder in the company. Two buildings in particular will require significant refurbishment investment in the near future because of age or tenant vacation.
- The Council does receive annual rental income from the joint venture buildings held within the UWSP portfolio. This income would need to be at least neutralised as part of a disposal (through receipt of a capital sum).
- The current financial situation that the Council faces - we are facing significant reductions in both capital and revenue resources. Realising the value of the Council's investment would provide resource to fund capital spending decisions at a time where funding for other Council activities is scarce.
- Due to restrictions agreed between the shareholders when the company was formed the onward transfer of shares to new third parties is extremely difficult without unanimous support
- The views of the other shareholding partners.

2.2 The options that exist are:

2.2.1 Retaining the investment, investing in the assets and continuing to receive rental income and no return on the shareholding,

2.2.2 All shareholders agreeing to sell the Science Park to a third party

2.2.3 Sale of the Council's interests in the UWSP and any related interests to a willing purchaser.

2.3 Under the first option the Council as property joint venture investor could be expected to invest further capital sums to maintain its investments over the next 10 years, with some required imminently, to maintain the existing rental income flows. In addition, the Council as shareholder and debenture holder might be asked to contribute to a further capital investment in assets on the Science Park and debenture refinancing if this could not be raised from external sources.

- 2.4 Under the second option, unanimity of all the shareholders is required to pursue the onward sale of the business and its interests to a third party owner / operator because the provisions of the existing shareholder agreement specify that only public bodies can hold a majority stake in the UWSP. The shareholders are not unanimously agreed that this approach is the right way forward for the business
- 2.5 The potential purchasers for the latter option are limited. The UWSP Articles and shareholder agreement specify that only public bodies can own a majority stake in UWSP. This clause therefore severely affects the marketability of the shares and means that any disposal is likely to be to one of the other public sector shareholders.
- 2.6 The University of Warwick have indicated for several years that they would consider purchasing the Council's interests. Discussions commenced with the University of Warwick for sale of both company and leasehold interests as a package. Their interest stems from the strategic significance of the science park site adjoining their campus and the importance of promoting the Science Park's activities as part of the University's portfolio of activities. Initially their view was to obtain the Council's shareholding only, which would have provided them with nearly 80% of the company and this would have facilitated a change in the strategic direction of the UWSP in order to achieve more significant regeneration outcomes in the future for the City through a closer association with the commercial elements of the University's research and near market research programmes.
- 2.7 The Council commissioned an independent valuation of the Council's UWSP shareholding that has informed the discussions with the University of Warwick. In addition, independent property valuations have been completed for the joint venture property assets and we have considered that the loans held by the company and repayable in 2011/12, 2014 and 2016/17 would need to be redeemed and repaid at face value to the Council.
- 2.8 During 2010, the University completed more formal due diligence and after consideration at their Finance and General Purposes Committee, indicated that they were seeking to acquire 100% of the issued share capital, this meant acquisition of the shares held by WCC, WME and those held on Trust on behalf of the seven West Midlands Districts. The rationale for this was to enable the University to achieve full control of the company in order to fully meet their objectives. Initial discussions with WCC, WME and the seven West Midlands Districts indicated that they were prepared to consider disposal and therefore detailed negotiations commenced on this basis.
- 2.9 Near the end of discussions with the University, they expressed interest in purchasing the freehold interest in the 'Westwood' site which is held from the Council on an extendable peppercorn lease with 66 years unexpired. The Westwood site is used for academic teaching and student residences. It also includes the athletic track that is the home of the Godiva Harriers. The Westwood site secured planning permission as part of the University's masterplan for development to 2018 for redevelopment 9600m² of academic and support accommodation. The University have agreed to restrictions on the transfer that retains the athletics use as part of this site in accordance with its current usage. In addition, there is an existing joint management agreement between the Council and the University, whereby the Godiva Harriers have exclusive use of the facilities for some of the time and the Council shares the cost of managing and maintaining the facility with the University, whilst the Harriers contribute to running costs. This arrangement will continue after the disposal under a fresh management agreement. In the event of onward transfer of the site for retail development, an overage agreement has been agreed.
- 2.10 Heads of Offer (subject to due diligence and Member approval) have been negotiated with the University. Further details are provided in the corresponding private report.

- 2.11 Relevant approvals are in place for the disposal by WME, the West Midlands Districts and Warwickshire County Council.
- 2.12 The University of Warwick will still run the Science Park as a company making accommodation available to technology based businesses in Coventry and the sub region for the foreseeable future. A number of the businesses at the Park are owner occupiers of their accommodation, and tenants of business accommodation will not be affected by this proposal. In addition some of the buildings let to small technology businesses are subject to grant restrictions requiring them to be made available for this purpose. Under the Coventry Development Plan, the Science Park is considered a principal employment site (policy E6) and retained in employment use. It would have remained so under the Core Strategy if this had been adopted. Officers are preparing an issues and options paper to establish the land use policies to replace the Coventry Development Plan and the Science Park is expected to retain its strategic employment status in recommendations to members.
- 2.13 The Heads of Offer does not include the Business Innovation Centre at Binley which is held in a separate joint venture company and managed by the Science Park. It is a satellite incubator building at Binley Business Park which is approximately 10 years old and which was funded by ERDF. The Council will continue to review its holdings in this company with the other shareholders (the Chamber of Commerce and the Science Park) and bring forward any proposals at the appropriate time.

3. Results of consultation undertaken

- 3.1 There has been no consultation undertaken outside the shareholders of the company.

4. Timetable for implementing this decision

- 4.1 Following Member approval and other shareholder approvals the Council will look to conclude the transaction with the University by 31 May 2011.

5. Comments from Director of Finance and Legal Services

- 5.1 Financial implications

Detailed financial implications are provided within the main body of the report elsewhere on the private part of this agenda.

The transaction will result in a net capital receipt to the Council which will be utilised within the capital programme to deliver new capital priorities.

- 5.2 Legal implications

The Council is obliged to secure best consideration for the disposal of both the shares and the freehold property interests under section 123 of the Local Government Act 1972. Independent advice has been obtained on both the share value and the property interests to ensure the disposal is statutorily compliant.

6. Other implications

6.1 How will this contribute to achievement of the council's key objectives / corporate priorities (corporate plan/scorecard) / organisational blueprint / LAA (or Coventry SCS)?

The Science Park is a mature joint venture with little physical capability of further physical development on its current site. The proposal under consideration would not affect the companies currently based at the Science Park as the University intend to continue to run the company as a venture that supports the formation and development of technology based companies. The control of the company by the University will change its strategic direction as it more closely aligns the activities of the company with the University's research programmes.

6.2 How is risk being managed?

The risks associated with this proposal will be managed through due diligence by both parties.

6.3 What is the impact on the organisation?

There is no direct impact on the organisation if the proposal proceeds to conclusion, if they do not, the impact will be that the Council will be required to identify capital resources to support the Science Park going forward

6.4 Equalities / EIA

There are no direct equalities impacts on the organisation if the proposal proceeds to conclusion or not.

6.5 Implications for (or impact on) the environment

There are no implications for the environment if this proposal proceeds to conclusion or not.

6.6 Implications for partner organisations?

The proposal will involve the Council ceasing to have legal connection with the University of Warwick Science Park except through its retained interests in the Binley Innovation Centre joint venture company.

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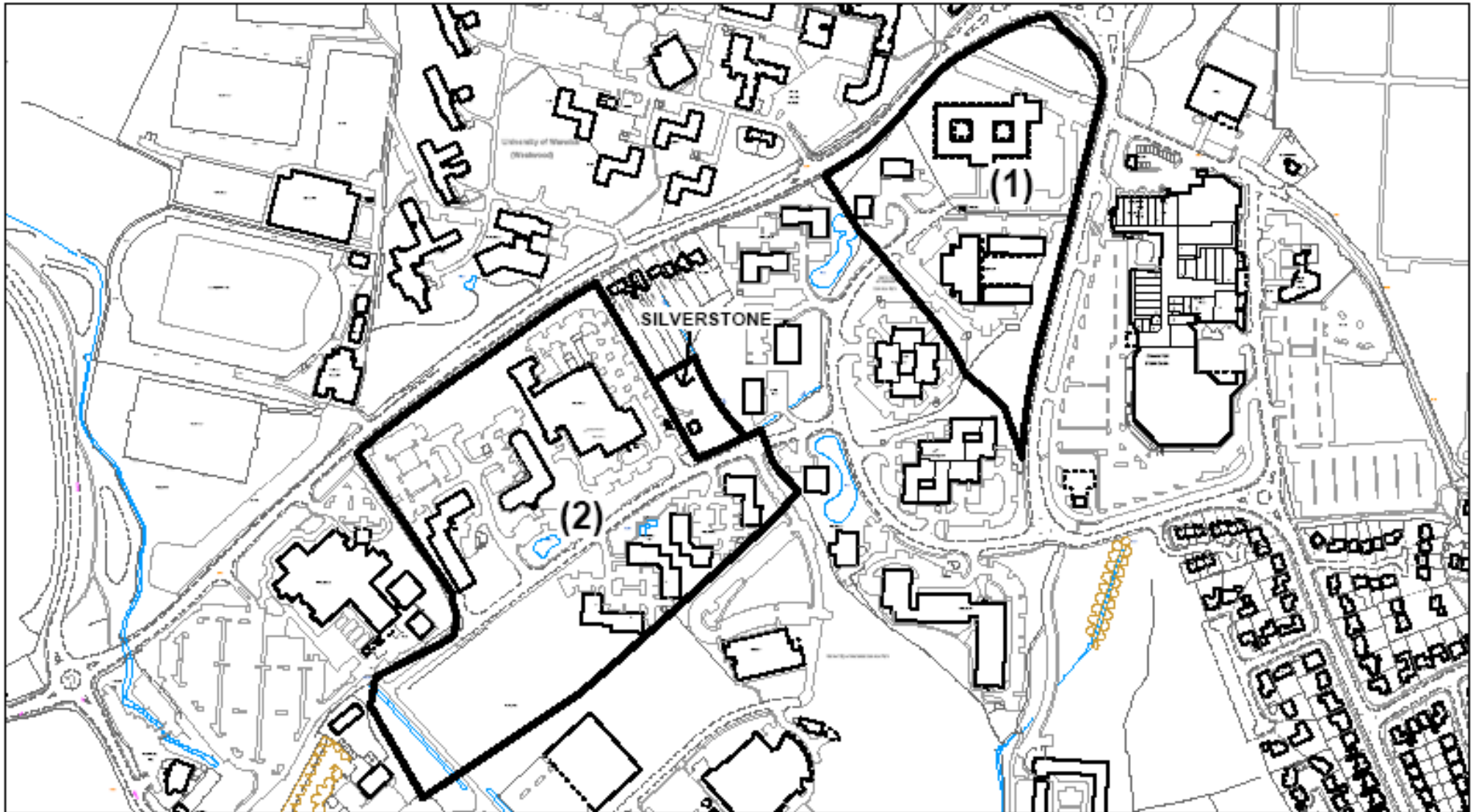
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Legal: Clarissa Evans	Commercial Team Manager	Finance & legal	18/1/2011	20/1/11
Director: Martin Yardley	Director CSD	City Services and Development	31/1/2011	31/01/11
Members: Cllr Bigham	Cabinet Member (CDD)		31/01/11	14/02/11

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UNIVERSITY OF WARWICK SCIENCE PARK - CITY COUNCIL OWNERSHIP
HEAD LEASE 1, HEAD LEASE 2 & 'SILVERSTONE'

PLAN 1

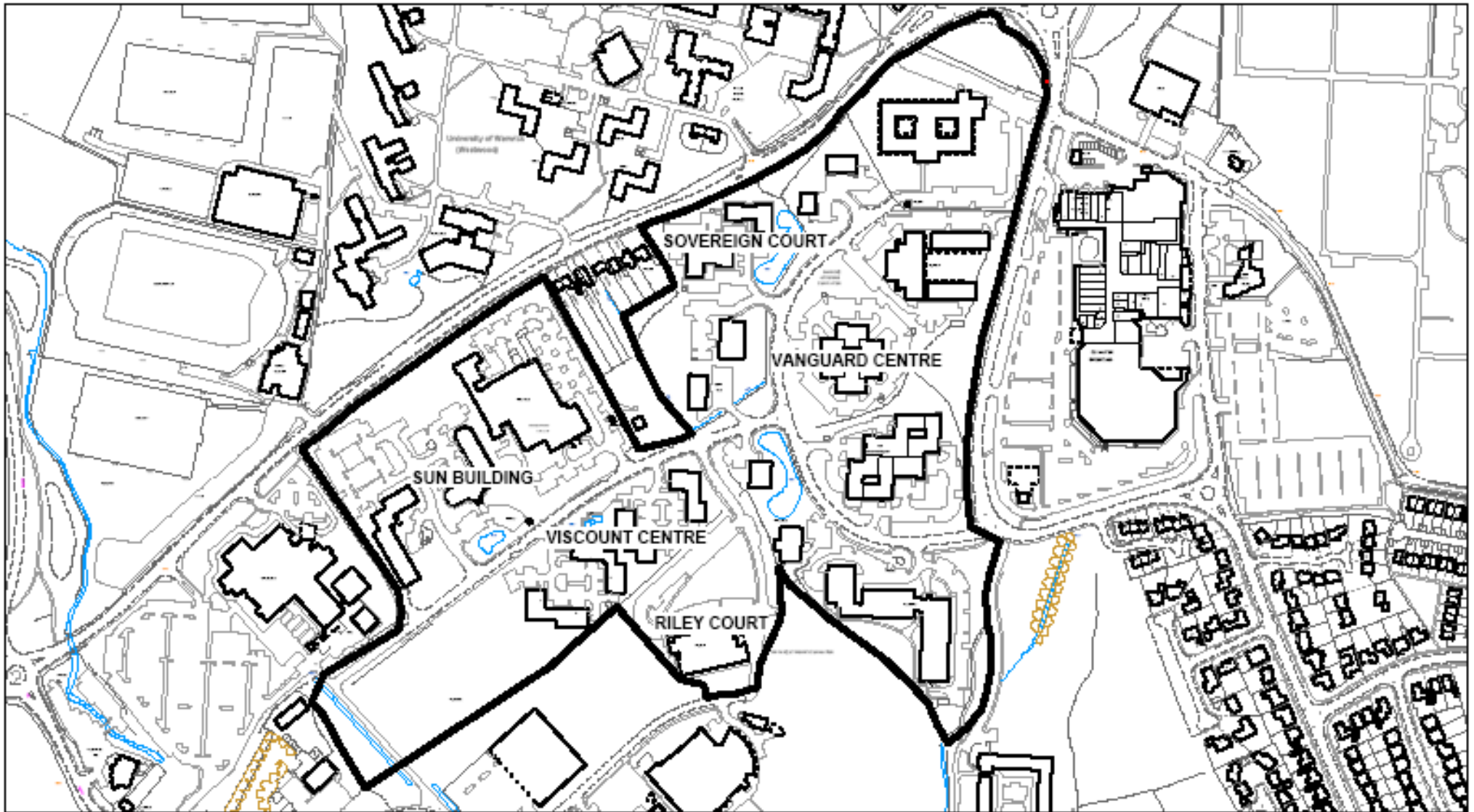
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UNIVERSITY OF WARWICK SCIENCE PARK - PROPERTY JOINT VENTURES

PLAN 2

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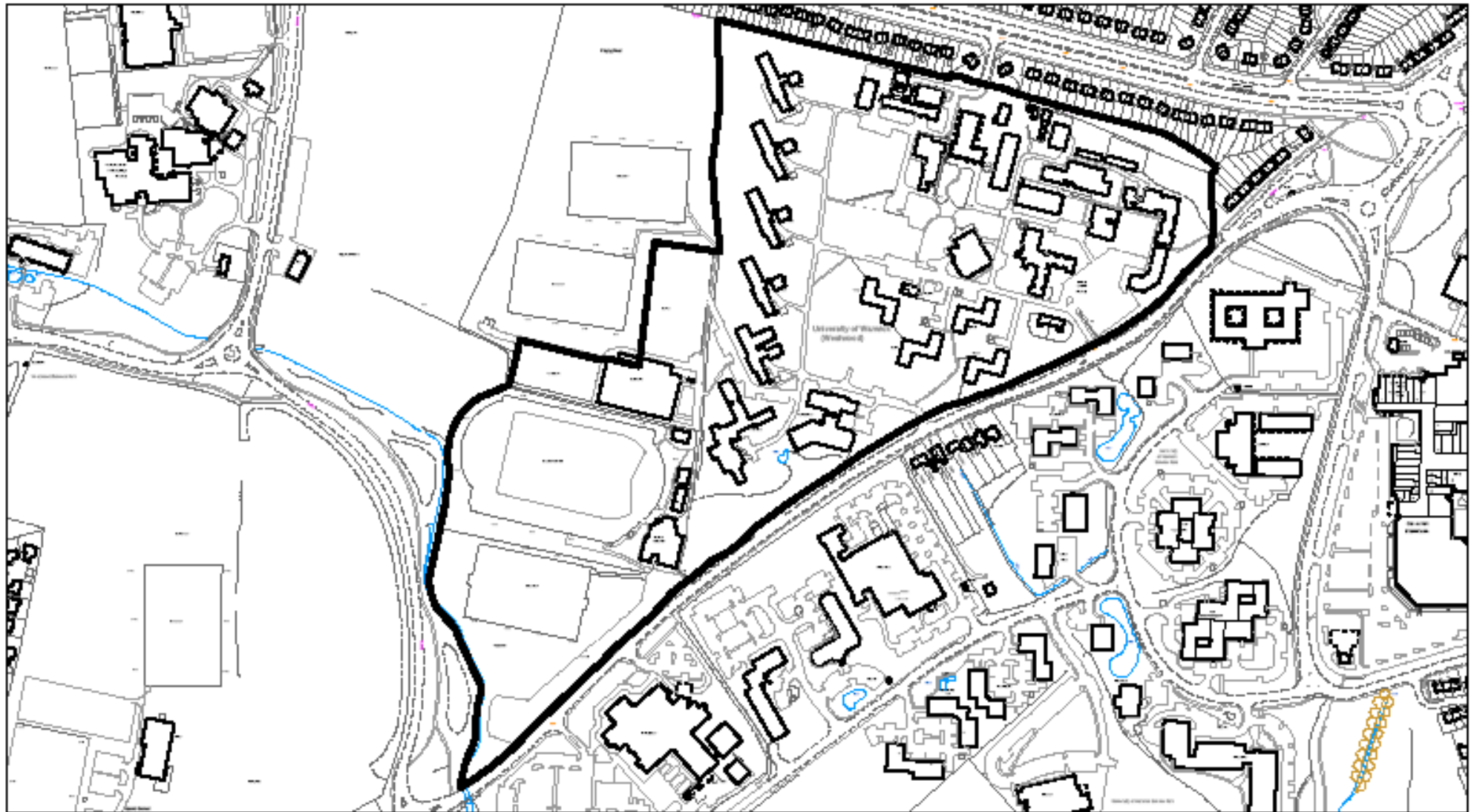
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19/01/11

Appendix 3: Science Park property joint venture interests



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WESTWOOD SITE

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PLAN 3

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Date
19/01/11