

FAREHAM

BOROUGH COUNCIL

Report to the Executive for Decision 02 March 2015

Portfolio:	Policy and Resources
Subject:	Land Transfer at Daedalus
Report of:	Director of Finance and Resources
Strategy/Policy:	Corporate Strategy
Corporate Objective:	To Maintain and Extend Prosperity A Dynamic, Prudent and Progressive Council

Purpose:

To update the Executive on progress made to secure the transfer of land at Daedalus, and seek approval to complete the acquisition.

Executive summary:

On 6th October, the Executive considered one option for the future ownership of land at Daedalus. Recognising the importance of the Daedalus site to prosperity and economic vitality of the Borough, the Executive agreed in principle to pursue the acquisition of the land at Daedalus which comprised the airfield and East/West Enterprise Zone development areas. The Waterfront was not included in the transfer proposal.

Officers have continued discussions with the current landowner, and the Solent LEP, to progress the potential land transfer. At the same time, approvals to proceed with the transfer and investment proposal have been sought by the HCA and Solent LEP.

The report outlines revised Heads of Terms which have been agreed in light of the approvals obtained, which (if supported) would enable transfer to be concluded in the spring 2015. Assuming that this is concluded, a capital and revenue budget will be required, as set out in the paper.

Recommendations

That the Executive:-

- (a) supports the revised terms of the transfer, enabling the Director of Finance and Resources to conclude the arrangements for the transfer of ownership;
- (b) notes the financial arrangements and next steps, as set out in the report; and
- (c) approves the establishment of a revenue and capital budget as shown in appendix B.

Reason:

To enable the land transfer at Daedalus to be concluded.

Cost of proposals:

The costs of the proposal are shown in the appendix to this report.

Appendices:

- A: Revised Heads of Terms**
- B: Draft capital and revenue budget**
- C: Site plan**

Background papers:

1. GVA Consultancy – Market Analysis Report
2. FBC Financial business model

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Executive Briefing Paper

Date: 02 March 2015

Subject: Land Transfer at Daedalus

Briefing by: Director of Finance and Resources

Portfolio: Policy and Resources

INTRODUCTION

1. It is a Council priority to maintain and extend prosperity by working with others to continue to support and promote the economic vitality of the Borough. And in support of this priority, the Council has committed to work with partners to deliver a thriving aviation-led employment area at the Solent Enterprise Zone at Daedalus, which is supported by a viable airfield.
2. There has already been a significant investment at Daedalus, which has kick-started the regeneration of the airfield site. Within 3 years of EZ status being achieved, a new £12m college has opened, a multi-million pound road and servicing infrastructure scheme is underway to unlock Daedalus East for development, the runway and taxiways have undergone a £1.5m refurbishment and the construction of Fareham Innovation Centre by the Council, is nearing completion.
3. In October 2014, the Executive supported a proposal which would seek to unlock Daedalus West through the provision of infrastructure, and secure the long term future of the airfield through investment and continued development of the site.
4. This paper sets out the progress made since October and seeks approval to conclude the transfer of land at Daedalus.

PROGRESS UPDATE

5. Since agreeing the principle of the land transfer, extensive discussions have been on-going with the Homes and Communities Agency (HCA), which have resulted in a number of changes to the terms of the proposal. The HCA have, however, secured approval to dispose of the site to the Council and the terms of their approval are reflected in the revised Heads of Terms.
6. The Council, with the HCA, has approached the Solent LEP, seeking to secure the growth in business rates at Daedalus West to fund the investment in infrastructure on the site, thereby bringing it forward more quickly for development. The LEP Board was supportive of the principle and the terms of the arrangement are now being finalised.

7. In order to maintain a rapid pace, legal teams have been appointed and work is underway to formulate a legal framework which allows the transfer to take place. At the same time, arrangements are being made to establish an operational team that will ensure a smooth transition for tenants and users at Daedalus post-transfer.
8. Finally, the progress has been reported to the Daedalus Members Working Group on a regular basis.

REVISED TERMS OF THE TRANSFER

9. The revised Heads of Terms for the transfer are shown in Appendix A. The broad principles of the proposal remain the same, with an over-riding objective being to unlock (through investment) the development areas at Daedalus West and take steps to secure the financial viability of the airfield for the long term. The approach to doing this, however, has changed in a number of ways.
10. Firstly, the area of land for transfer has been revised to only take account of the site within the airfield boundary, while previously it also took account of 4 parcels of land to the west of Stubbington Lane (see plan at Appendix C). The Council is still working with the HCA to secure ownership of these parcels of land, but in order to minimise the risk of delays to the wider site transfer, these will be dealt with as a separate acquisition.
11. Secondly, the arrangements for retaining rates from Daedalus West have been disaggregated from the transfer proposal. Again, this is to ensure that the proposal can proceed without delay, allowing the Council to agree detailed terms with the Solent LEP separately. The consequence of this is that the Council will no longer be obliged to deliver infrastructure at Daedalus (under the transfer agreement), although the HCA will have rights to re-acquire the site from the Council after certain trigger dates, if infrastructure work at Daedalus West has not commenced.
12. Thirdly, the Council's liability for costs associated with the Growing Places Fund investment at Daedalus East has changed. This is primarily linked to meeting the cost of the LEP's administration fee (up to £200,000), and has now been taken into account in the business plan.
13. Finally, the most significant change is regarding the "value sharing", as the site is developed. The previous Heads of Terms assumed a clean transfer with no on-going risk/reward sharing with the HCA post-transfer, except in circumstances where development exceeded a certain threshold (linked to the planning consent). The proposal now allows the value derived from the site to be shared between the Council and the HCA, based on a priority returns basis.
14. Recognising that the Council will be making the on-going investment in the site and carries all of the risks associated with it, the new arrangement allows the Council priority over the first element of value extracted from the site, as follows.
 - i. The first £3.2m will be available to FBC to meet its Growing Places Fund loan repayments;
 - ii. The next c.£7.3m will be available to FBC to offset the net capital investment in the site;
 - iii. The Council will then have priority over land receipts, equivalent to the cost of holding the asset (including costs such as estate management, repair and maintenance, void service charges, debt interest, etc.)

- iv. Once the investment and holding costs are recovered, then the next priority returns will be to the HCA, up to £4.25m, reflecting their investment in the site upon transfer.
 - v. Thereafter, receipts will be shared equally, (after deducting eligible costs).
15. The value sharing arrangement supersedes the “overage” clause for Daedalus East and West that were previously proposed, and they will operate for a limited time period (ending on 31st March 2037 or sooner if the site has been fully developed before that date).
16. Monitoring arrangements will be put in place to demonstrate the value generated and costs incurred, and this will be reported to the HCA periodically.

DUE DILIGENCE

17. The report in October identified a series of risks, together with mitigating actions and due diligence activity that would be necessary to proceed to transfer. This work is still underway, however a number of notable actions have been completed.
18. Key to the success of the site will be interest from companies wishing to locate and develop their businesses at Daedalus. A Market Analysis study was undertaken by the GVA consultancy to consider the appetite in the target sectors for development space at Daedalus, and specifically to consider whether the pace of development that had been assumed in the Council’s business model was reasonable. The results of the study were positive, and supported both the assumptions made and the presumption that a market for the scale of development at Daedalus existed.
19. Validating the cost assumptions within the business plan was also a key test to undertake. Having gathered data from the HCA, and also applying the Council’s own knowledge in relation to operational expenditure, the financial model is deemed to be sound. Clearly, however, the true cost will not be known until the Council takes control, but the assumptions in the model are felt to be realistic, and are now based on actual data rather than a series of assumptions.
20. Work continues on matters related to the land title, the leases and licenses granted upon the land, the planning considerations that are associated with the land and the contracts being novated to the Council.
21. Work is also continuing to identify and mitigate the potential state aid issues arising from both the investment strategy and transfer itself, to ensure that the Council does not breach these regulations.

REVISED FINANCIAL IMPLICATIONS

22. As cost plans and budgets have been shared with the Council, the outline business model has been updated to reflect the most realistic data available to it. In October, the transfer was predicated on the site being effectively self-financing over the life of the enterprise zone. As officers have gained greater clarity around the costs and revenues, this position has deteriorated, resulting in an anticipated overall deficit of c£2m by 2037. Clearly this is undesirable, but it is felt it best reflects the arrangements as they currently stand.
23. Members will, however, note that the revised arrangements allow the Council to meet the equivalent of these costs through increased land receipts (which could be secured

by reviewing the nature of the commercial development taking place, the quantum of space developed or the value per acre of land sold), none of which have been factored into the business model at present. Officers therefore remain content that opportunities exist to mitigate the deficit, and that in any event, the site is forecast to overcome the accumulated deficit over an extended period of time.

POST TRANSFER ARRANGEMENTS

24. To date there has been a clear focus on the immediate priority of securing the land, and for expedience, the assumptions made in evaluating the proposal have been based on the strategy for the airfield and enterprise zone as developed by the HCA. However, as the new landowner, it would be appropriate for the Council to take stock and consider its aspirations for the airfield and development sites at Daedalus. By doing so, a strategy would then be developed to clearly articulate the Council's vision for the site and how it intends to work towards delivering it. It is envisaged that this will be done at an early stage, reporting back to the Executive in the summer 2015, and would take account of the views of key interested parties (such as current/prospective airfield users, business interests, the Solent LEP, local residents, etc.).
25. Operational management of the airfield will also be an immediate consideration post transfer. In order to maintain a high degree of stability for tenants and users, the proposal is to continue with the current arrangements for managing airfield activity for the immediate future. Having developed a strategy for the airfield and gained a good understanding of the issues, the procurement of new airfield management arrangements can then commence (which is anticipated later during 2015).
26. Estate management will also continue using current arrangements which will be novated to the Council from HCA, with tenancy issues handled by FBC Estates and day to day operational issues managed under contract under the guidance and direction of the Council's in-house Estates team. Resourcing appropriate technical expertise to guide the Council in its strategic decision-making will be very important going forward. Consequently, officers are reviewing the arrangements currently in place with HCA, which should be assigned to the Council upon transfer, and determine what future arrangements are required during the course of 2015.
27. Separately, officers are preparing implementation plans for the capital works with a view to expediting delivery for the benefit of the local communities.

DRAFT BUDGETS

28. Using information provided by the HCA, the Council's Finance team have prepared a draft capital and revenue budget for 2015/16 which, if approved, will be incorporated into the revised budget. These are set out in appendix B.
29. The capital budget reflects the Council's assumed obligations to complete planning (S106) related works, and the construction of new modular hangars. These elements will be financed by HCA funding (amounting to £2.75m). It also includes estimated costs for the services to Daedalus West (funded by retained business rates), the repayment of the loan to support investment at Daedalus East (funded from land receipts) and an indicative cost of further investment in the airfield (subject to a future business case).
30. The revenue budget is a broad indicative estimate, based on information made available to the Council, and will be monitored very closely throughout the year. It

reflects the cost of legal and technical work to achieve the transfer, although much of this will be incurred in 2014/15. The net cost of £0.6m in 2015/16 will be met from an HCA grant (amounting to £1.5m), leaving £900,000 available for the net costs incurred in the following 2 years.

31. Thereafter, the business case assumes that the budget will be self-sustaining over the long term, but recognises that there may be fluctuations year on year. It is therefore proposed to manage the financial arrangements for Daedalus such that early year net costs are held on the Council's balance sheet, to be offset against future surpluses as they arise. In order to protect the financial standing of the Council, an earmarked revenue reserve would also be established to offset the accrued deficits, in the event that future years' surpluses never materialise.

CONCLUSION

32. The report sets out the progress made in taking forward the opportunity to secure ownership of the site at Daedalus. Whilst the financial arrangements have appeared to worsen, there remains opportunities to offset these costs over time from the value that can be unlocked within the site, which will be explored.