

FAREHAM

BOROUGH COUNCIL

Report to Daedalus Scrutiny Panel

Date **20 October 2021**

Report of: **Director of Planning and Regeneration**

Subject: **Daedalus Revenue Budget and Capital Programme**

SUMMARY

The Daedalus Scrutiny Panel has asked for a comprehensive guide to how the Council's investments and services at Daedalus are funded. The following report sets out the background to the original investment and the current financial position.

RECOMMENDATION

That the Panel notes the financial history and position for Daedalus to date.

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Daedalus Scrutiny Panel Briefing Paper

Date:	20 October 2021
Subject:	Daedalus Revenue Budget and Capital Programme
Briefing by:	Director of Planning and Regeneration
Portfolio:	Policy and Resources

INTRODUCTION

1. The Council owns the Daedalus site and runs it as part of its portfolio of public services from the General Fund revenue budget. Investments are funded largely from the Council's Capital Programme. Grant funding and s106 contributions also form part of the financial package for Daedalus.

BACKGROUND

2. The Council approved the Daedalus Investment Project in 2013, which comprised three distinct but inter-related projects: the development of an Innovation Centre for new start-up businesses at the Solent Enterprise Zone, improvements to the airfield and the development of new hangar space. The site was acquired by the Council in 2015 from the Homes and Communities Agency (now Homes England) for £1. The site forms part of the Solent Enterprise Zone, which was the catalyst for the development of a new £12m college, a multi-million-pound road and servicing infrastructure scheme at Stubbington and development of mixed use Waterfront regeneration area.
3. The Innovation Centre was funded by a grant of £5.3m from the Homes and Communities Agency. Oxford Innovation was appointed to operate the centre and continue in that role today.
4. Regional and City Airports (RCA) was appointed to operate the airfield by the Homes and Community Agency in 2013 and continue in that role today. Runway improvement works - comprising resurfacing of and drainage improvements to the existing runway, repairs to existing taxiways and aprons, the provision of a Runway End Safety Area and the installation of ducting to allow for the future provision of lighting - commenced in October 2014 at a cost of £1.5m, funded via prudential borrowing. These improvements enabled the airfield operator to obtain a Civil Aviation Authority (CAA) licence.
5. The final capital project was the provision of new hangar space, also costing an estimated £1.5m and also funded via borrowing by the Borough Council.
6. Members were advised at the point of site acquisition that the outline business model,

which was originally predicated on the site being effectively self-financing over the life of the Enterprise Zone (2037), had deteriorated and that an overall deficit of c£2m was anticipated. However, it was considered that the ability to develop the site for commercial use would mitigate the deficit and that the site was predicted to become self-sustaining over a longer period of time.

7. In 2015, Executive approved a Vision for Daedalus, which set out the Council's aspirations for the airport, two commercial sites to the East and West of the site and community open space to the North of the site.

2015/16 CAPITAL AND REVENUE BUDGET

8. The Council first approved a capital and revenue budget for Daedalus 2015/16.
9. The original capital budget included the Council's obligations to complete planning (S106) related works and the construction of new modular hangars. These elements were financed by a further Homes and Communities Agency grant of £2.75m. It also included estimated costs for the services to Swordfish (funded by retained business rates), the repayment of the loan to support investment at Faraday (funded from land receipts) and an indicative cost of further investment in the airfield (subject to a future business case).

Draft Capital Budget	2015/16	Future Years	Total scheme budget
Site-wide investment			
Completion of S.106 works, (to include landscaping, open space, allotment provision, SANGS)	£300,000	£800,000	£1,100,000
Refurbishment of assets	£200,000	£200,000	£400,000
Daedalus East			
Repayment of Growing Places Loan		£3,200,000	£3,200,000
Daedalus West			
Highways and Services Infrastructure	£155,000	£3,800,000	£3,955,000
Other costs (incl. demolitions, fencing, ecology, etc)	£200,000	£200,000	£400,000
Airfield			
6 x Modular Hangars	£1,250,000		£1,250,000
Phase 2 Airfield Upgrades (subject to further business case)		£1,500,000	£1,500,000
Total Cost			£11,805,000
Financed By:-			
HCA cash investment			£2,750,000
Prudential borrowing (repaid with retained business rates)			£4,355,000
Land receipts			£3,200,000
Airfield (surplus revenues)			£1,500,000
Total Financing			£11,805,000

10. The revenue budget was a broad indicative estimate, based on information made available to the Council by the HCA. It included £0.6m for legal and technical work to achieve the transfer. £1.67m of grant funding from the HCA was made available to cover this cost and similar costs incurred in the following two years.

11. Thereafter, the business case assumed that the budget would be self-sustaining over the long term but recognised that there were likely to be fluctuations year on year. It was proposed that the financial arrangements for Daedalus would be managed such that early year net costs were held on the Council's balance sheet, to be offset against future surpluses as they arose and an earmarked revenue reserve was established to offset the accrued deficits, should future years' surpluses not materialise.

DRAFT REVENUE BUDGET (15/16)		£	£
Expenditure:			
Acquisition-related costs		£200,000	
FBC operational costs		£50,000	
Estates service costs		£304,000	
Aviation Service costs		£489,000	
			£1,043,000
Income:			
Estates service charges		-£106,000	
Aviation service charges		-£98,000	
Aeronautical income		-£97,000	
Rental income		-£77,000	
Other income		-£61,000	
			-£439,000
Net Cost of Service			£604,000
Financed by HCA grant income (up to £1.5m available)			-£604,000

CURRENT CAPITAL PROGRAMME FOR DAEDALUS

12. Nearly £28M has been spent on the Daedalus site since 2015. Around £9.5M in grant funding has been received, with the remainder funded from the Council's reserves, prudential borrowing and a £3.2M Growing Places Loan from Hampshire County Council.

Completed Schemes	Actual Cost £	Financed By			
		HCA Grant £	Solent LEP £	Reserves £	Borrowing £
Airside					
Project Administration	166,447	84,384	0	82,063	0
Control Tower Refurbishment	523,855	523,855	0	0	0
Other Site Wide Investment	85,214	85,214	0	0	0
Daedalus East Highways and Service Infrastructure	870,011	15,768	0	0	854,243
Large Hangar and Office	225,979	0	0	0	225,979
Runway	1,475,109	0	0	0	1,475,109
Modular Hangars Advice	19,830	19,830	0	0	0
6 Business Hangars	4,113,695	0	0	0	4,113,695
5 General Aviation Hangars	2,699,575	1,146,370	0	0	1,553,205

Fuel Farm	246,852	0	0	246,852	0
Secure Access to Western Side	237,047	0	0	237,047	0
	10,663,614	1,875,421	0	565,962	8,222,231
Non-Airside					
Innovation Centre Phase 1	5,448,853	5,338,339	0	110,514	0
Innovation Centre Phase 2	7,356,319	0	2,000,000	0	5,356,319
Purchase of Plot 15/16 (UTP)	4,177,000	0	0	0	4,177,000
Faraday Power Supply Upgrade	263,388	263,388	0	0	0
	17,245,560	5,601,727	2,000,000	110,514	9,533,319
Total	27,909,174	7,477,148	2,000,000	676,476	17,755,550

13. A further £10M of funding for schemes at Daedalus has been approved and is in the Capital Programme, to be funded from the Council's reserves, capital receipts and prudential borrowing. The remaining HCA capital grant of £656,000 is available for investment in the site without any further borrowing.

Current Schemes	Actual to 31.08.2021 £	Budget £	Financed By		
			HCA Grant £	Reserves/ S106 £	Borrowing £
Airside					
Site Wide Investment	66,481	686,000	686,000	0	0
Daedalus Swordfish Infrastructure	8,987	3,500,000	0	0	3,500,000
Economic Hangars	56,022	600,000	0	0	600,000
	131,491	4,786,000	686,000	0	4,100,000
Non-Airside					
Faraday Business Park Speculative Units Scheme	4,092,695	5,600,000	0	0	5,600,000
	4,092,695	5,600,000	0	0	5,600,000
Total	4,224,186	10,386,000	686,000	0	9,700,000

DAEDALUS RESERVES

14. Around £1.2M is held in the Council's reserves for Daedalus. £1M of this has been contributed by the National Grid to offset service charges for the IFA2 development. The reserves also include the remaining HCA capital grant of £656,000, which is available for investment in the site without any further borrowing. The other reserves are used to manage the surpluses (+) and deficits (-) made in the year.

Description	Balance	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
	£	£	£	£	£	£	£	£
IFA2 Service Charges	1,000,000	0	0	0	0	1,000,000	0	0
HCA Capital Grant	655,740	2,750,000	-33,214	-42,334	-1,261,728	-427,053	-108,857	-221,074
Innovation Centre Reserve	-1,760	0	-117,598	40,490	52,627	90,800	-119,246	51,167
Daedalus Reserve	-435,704	0	0	0	-338,631	-128,266	-234,449	265,642
Total	1,218,276							

CAPITAL RECIEPTS

15. Three parcels of land have been sold on Faraday Business Park to date, generating capital receipts of £1.5M. This has been used to repay part of the £3.2M Growing Places Fund loan.
16. A further £2.75M is anticipated on completion of the IFA2 development.
17. However, the position on the use capital receipts at Daedalus is not straightforward. Firstly, a value-sharing arrangement is in place with the HCA after receipts reach around £10M.
18. Secondly, capital receipts derived from disposals at Daedalus are recognised as a corporate capital resource to finance the Council's Capital Programme and are not ringfenced for Daedalus.
19. Thus, all new capital investment in Daedalus requires a full business case and will be evaluated alongside other corporate projects in the General Fund in the annual Capital Programme.

DAEDALUS REVENUE BUDGET

20. The 2021/22 revenue budget for Daedalus predicts a net cost to the Council of £78,700. As recognised above, while the Council's objective is to make the site self-sustaining over the long term, there are fluctuations year on year and the net costs are off set by an earmarked revenue reserve.
21. The operation of the airport and the Innovation Centre are funded within this budget, with income from rents and airport services off-setting the revenue costs:
22. In addition, there is a high level of outstanding debt, much arising from the impact of COVID-19 restrictions over the past 18 months. The current debt position is £847,000 arising from seven tenants.

Account Description	2021/22 Budget Expenditure*	2021/22 Budget Income	2021/22 Net Income (-) or Expenditure (+)	2021/22 Net Budget after borrowing costs
	£	£	£	£
Fareham Innovation Centre	873,800	-1,042,300	-168,500	9,800
Solent Airport	1,281,430	-1,087,800	193,630	419,030
Business Parks	89,370	-597,400	-508,030	-350,130
Total	2,244,600	-2,727,500	-482,900	78,700

*excludes depreciation

23. As predicted, over time the site is becoming more self-sustaining, and the current net cost to Council Taxpayers is relatively small.

	Outturn						Budget
	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Revenue Expenditure							
RCA - Airport		487,000	644,215	907,475	967,030	835,800	1,033,000
FBC - Airport	789,356	352,713	351,022	329,562	534,475	383,737	473,830
Business Parks	36,208	91,406	190,561	257,814	249,180	306,872	247,270
Daedalus Common / Play Area						2,714	
Innovation Centre		428,673	428,104	759,665	953,027	829,248	1,052,100
Total	825,564	1,359,792	1,613,902	2,254,516	2,703,712	2,358,371	2,806,200
Revenue Income							
RCA - Airport	-	82,200	90,215	400,475	527,030	382,268	674,100
FBC - Airport (1)	- 207,241	- 215,258	- 103,048	- 289,854	- 510,005	- 432,407	- 413,700
Business Parks	- 3,000	- 3,000	- 138,438	- 546,427	- 677,747	- 880,896	- 597,400
Daedalus Common / Play Area							
Innovation Centre	-	469,163	480,731	732,490	951,755	826,571	1,042,300
Total	- 210,241	- 769,621	- 812,432	- 1,969,246	- 2,666,537	- 2,522,142	- 2,727,500
Net Surplus (-) / Deficit (+)	615,323	590,171	801,470	285,270	37,175	- 163,771	78,700

(1) 2015/16, 2016/17 & 2017/18 includes HCA Revenue Grant

ANNUAL DAEDALUS BUDGET STATEMENT AND FINANCIAL STRATEGY

24. Going forward, an annual budget statement and outturn position will be prepared for Daedalus and reported to Members of this Scrutiny Panel.
25. A specific strategy to guide the funding of services and investments at Daedalus going forward will be developed as part of the forthcoming work on the Medium-Term Financial Strategy.