

FAREHAM

BOROUGH COUNCIL

Report to the Executive for Decision 07 October 2013

Portfolio:	Policy and Resources
Subject:	Daedalus Investment Opportunity - Update
Report of:	Director of Finance and Resources
Strategy/Policy:	
Corporate Objective:	To promote the economic success of the borough

Purpose:

To update members on progress made in securing the funding for the Daedalus Investment Opportunity project.

Executive summary:

In July 2013, the Executive supported a proposal to provide improvements to the airfield, provision of new hangar space and an Innovation Centre for small businesses, at the Solent Enterprise Zone, Daedalus.

Good progress has been made in the preliminary stages of preparing the project, but the main focus over the preceding months has been to establish the funding mechanisms for the project. Funding for the proposal has now been secured but with certain preconditions which must be satisfied. The conditions are such that there will be a need to refinance part of the project cost during the business plan 25-year life and as such, reduce the availability of resources available for future reinvestment.

The implications have been incorporated into the 25-year business plan and still demonstrate that a positive return can be achieved, either by accepting the loan offer from the Growing Places Fund, or alternatively using prudential borrowing from the outset to meet the balance of funding.

Recommendations:

That:

- (a) the Executive agrees the revised funding arrangements for the project as set out in the report;
- (b) in the event that the Growing Places loan conditions cannot be satisfied within the project timescales, the Executive supports an alternative approach backed by prudential borrowing; and
- (c) the Executive includes the project in the Council's capital programme at its next review.

Reason:

To enable the project to proceed in line with the proposed timescales.

Cost of proposals:

The proposed budget for the project is £8.35m, funded from a capital grant payable to the Council, and a Growing Places Fund loan, fully serviced from net rents derived from the project.

Background papers: Deloitte's Due Diligence report, August 2013.

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Executive Briefing Paper

Date: 07 October 2013

Subject: Daedalus Investment Opportunity - Update

Briefing by: Director of Finance and Resources Job Title

Portfolio: Policy and Resources

INTRODUCTION

1. In July 2013, the Executive considered an opportunity to provide investment in infrastructure and facilities at the Solent Enterprise Zone, Daedalus. The proposal to provide improvements to the airfield, provision of new hangar space and an Innovation Centre for small businesses, together totalling £8.3m, was supported by the Executive, who gave authority to the Director of Finance and Resources to submit a funding application to the Solent Growing Places Fund and conclude negotiations with the other parties to facilitate the construction works.
2. Good progress has been made in the preliminary stages of preparing the project, but the main focus over the preceding months has been to establish the funding mechanisms for the project. This report provides an update of the progress made on the project, and invites the Executive to consider the most appropriate way forward.

FUNDING ARRANGEMENTS

3. The arrangements for funding the package of works comprised of two elements; a capital grant which would be supported by a loan obtained from the Solent Growing Places Fund.
4. Over the summer period, due diligence work was carried out to satisfy officers that the proposal was viable and that there was sufficient market demand to support the assumptions made in the 25-years business plan. This work was principally taken by Deloitte, and was used as the basis for the funding applications that were subsequently made.
5. The Council has now received written confirmation of the capital grant offer. The grant amounts to £5.3m, and is conditional upon:-
 - a) Due diligence checks which confirm the commercial viability of the Innovation Centre, and being delivered by March 2015;
 - b) Delivery of the remaining elements of the proposed package;

- c) Confirmation that the balance of funding for the package has been secured;
6. Grant agreements will need to be concluded by 30th November 2013 for all aspects of the package in order to secure the grant.
 7. Beyond the grant referred to above, the proposal was based on a principle of “self-sufficiency” over the 25 year business plan period. In this context, the £3m balance of funding was to be sought from the Solent Growing Places Fund and would be repaid at the earliest opportunity from the net rents derived from the new assets. Thereafter, any surplus rents achieved within the business plan period would be available for further reinvestment into the site.
 8. A Growing Places Fund bid was prepared on this basis and submitted to the Solent Local Enterprise Partnership. The bid was considered by the LEP Board on 20th September and a subsequent loan offer has since been made to the Council.
 9. The loan offer also contains two pre-conditions. The LEP require assurances to be provided that the arrangements to fund the proposal do not breach the requirements surrounding state aid. Secondly, the LEP require a long stop date for repayment to be set in March 2020.
 10. Assuming that the Council accepts the LEP loan offer, and then it is highly unlikely that the net rents from the new facilities will be sufficient to repay the loan in its entirety by the longstop date. As a result, the Council would be required to re-finance any remaining loan balance in March 2020, until such time as sufficient net rent has been accumulated to clear the balance.

PROJECT IMPLICATIONS

11. The packaged proposal was intended to deliver a significant infrastructure investment into Daedalus and to kick-start further investment in assets and jobs on the site as a result.
12. The conditional loan offer would enable the Council to secure an interest-free loan of £3m for a period of approximately 6 years, through to 2020. It is estimated that, at the point of repayment, a balance in the region of £2.4m will remain outstanding and will require refinancing. The refinanced loan, and associated interest, would continue to be repaid from the net rents derived from the assets. This loan is likely to be repaid by 2029 and the associated interest charge is estimated to be £595,000, (this includes the GPF administrative fee of £75,000, payable at the outset).
13. By accepting the Growing Places loan, there will still be the need to satisfy the pre-conditions of the Solent LEP offer concerning State Aid compliance. While not deemed to be insurmountable, legal advice and Counsel’s opinion will need to be sought to provide the assurances required. The LEP will also require the other partners involved in the project to accept the legal position before the loan will be made.
14. Assuming that these pre-conditions can be met, the approach above represents the most financially advantageous. The business plan projections still give rise to a positive net financial outcome after 25 years, estimated to be £2.3m and therefore would still provide the opportunity to reinvest further in the site if the Council deemed it appropriate.

RISK ASSESSMENT

15. The main risks associated with the project were set out in the July report to the Executive.
16. It is, however, important to recognise that the timescales for delivering the project provide little scope for delays. Every effort will therefore need to be made to provide the assurances surrounding state aid without jeopardising the delivery timescales.
17. In the event that this condition cannot be satisfied, it would still be possible to proceed with the project using an alternative finance structure whereby the Council uses prudential borrowing to meet the balance of funding from the outset.
18. This alternative approach has been modelled and it is clear from the 25-year business plan that the impact on the overall financial outcome after 25 years is limited; (£2.1m compared to £2.3m having made use of the GPF loan).
19. This approach is also likely to reduce the project risks associated with time delays and state aid as the loan finance would be interest bearing and would be unencumbered by conditions. For this reason, it is proposed that the project can be supported without having to rely on the GPF loan becoming unconditional.

CONCLUSION

20. Good progress has been made in the preliminary stages of work and in securing the finance for the proposed investment package at Daedalus, to a point where the Executive are asked to include the project within the Council's capital programme at its next review. The conditions attached to the funding and the Growing Places Fund loan are such that delivery on time will be challenging and provides limited scope for slippage. However, officers will closely monitor progress and will continue to work in partnership with its funding partners and with Hampshire County Council to minimise the risks. In the event that the funding preconditions cannot be satisfied

Reference Papers: