

# FAREHAM

## BOROUGH COUNCIL

### Report to the Executive for Decision 06 October 2014

<b>Portfolio:</b>	Policy and Resources
<b>Subject:</b>	<b>Future Arrangements for Land Ownership at Daedalus</b>
<b>Report of:</b>	Director of Finance and Resources
<b>Strategy/Policy:</b>	Corporate Strategy
<b>Corporate Objective:</b>	To Maintain and Extend Prosperity A Dynamic, Prudent and Progressive Council

#### **Purpose:**

To set out one potential option for the future of land at Daedalus, and seek approval of the Executive to proceed with this option.

#### **Executive summary:**

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.

A significant amount of investment has been made with the aim of regenerating Daedalus East, and unlocking the Waterfront parts of the site. The development area at Daedalus West is the remaining aspect of the site which has received limited investment. While Government support has been sought, funding has not been available nor does it appear likely in the foreseeable future. Consequently, the prospects for Daedalus West are poor in the absence of a further significant tranche of investment at risk.

The paper sets out a proposal which enables the investment at Daedalus to take place, and at the same time provides the greatest prospects for securing the long term viability of the airfield.

#### **Recommendation:**

1. That the Executive agrees in principle to pursuing the option outlined in the paper for the long term ownership and development of land at Daedalus.
2. To agree the draft heads of terms, in Appendix A, as the basis of negotiation with the Homes and communities Agency;
3. To delegate authority to the Director of Finance and Resources, in consultation with the Executive Leader, to
  - a. finalise Heads of Terms and proceed to contract;

- b. agree terms for the transfer of ownership and any associated grant funding;
- c. agree terms with other parties for other funding sources associated with the proposal;
4. To extend the terms of reference for the Daedalus Investment Member Working Group, to incorporate the potential land transfer project.

**Reason:**

To unlock the potential benefits at Daedalus West and secure the long terms prospects for the airfield, in support of the Council's corporate objectives.

**Cost of proposals:**

The proposals would result in a financial commitment by the Council of approximately £13m. This would be funded by a combination of grant, capital receipts and prudential borrowing (backed by business rate growth, land sales and rental income).

The cost of completing the land transfer, and early year deficits would be offset by a fixed grant and thereafter, it is anticipated that the whole site would be self-financing.

**Appendices:**

**A: CONFIDENTIAL : Site Plan**

**B: CONFIDENTIAL : Draft Heads of Terms**

**Background papers:**

GVA Grimley – Business Rates Forecast model  
Independent Land Valuation (JLL)

# FAREHAM

## BOROUGH COUNCIL

### Executive Briefing Paper

**Date:** 06 October 2014

**Subject:** Future Arrangements for Land Ownership 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 former airfield site. Within 3 years of EZ status being achieved, a new £12m college has opened, multi-million pound road and servicing infrastructure is being constructed, thereby unlocking Daedalus East for development and already attracting private interest in plots. Grant funding has been secured for the construction of an Innovation Centre by the Council, and this is progressing very well.
3. The elements of the site which remaining to be resolved are at Daedalus West, and this paper provides an overview of a strategy the Homes and Communities Agency has developed for unlocking this part of the site, and securing the long term future of the airfield.

#### CONTEXT

4. The HCA will have invested over £30 million into the enterprise zone by March 2015, primarily on:
  - securing an outline planning consent for the project
  - discharging S.106 obligations
  - infrastructure upgrades delivered by the HCA
  - infrastructure upgrades delivered by Hampshire County Council on behalf of the HCA
  - technical and legal due diligence to inform the overall strategy for the project

- masterplanning
  - technical due diligence to prepare various areas of the site for the market and for the upgrading of the airfield
  - creating a financial and legal framework across the site that is fit for purpose
  - estate management including emergency repairs
  - critical land acquisitions to assemble the site to enable development
  - business planning
  - covering operational losses (enterprise zone and airfield) whilst the business is turned around.
5. However Government has been clear that there is no further funding available for infrastructure upgrades for the Solent Enterprise Zone.
  6. With the investment to date (or planned) across the site, all areas of the project have or will be unlocked with the exception of Daedalus West. The HCA has undertaken master-planning and technical studies to understand the cost of unlocking this area of the site. New infrastructure is required to release serviced development land and this has been costed by the HCA's engineers at £4.4 million including fees. The plan attached shows the indicative masterplan and location of the new infrastructure.
  7. The challenge for the HCA has therefore been how to raise the finance to unlock the last phase of the project.
  8. In addition, the other key strand of the strategy is to secure the long term future of the airfield. All partners involved in the Enterprise Zone have agreed that the airfield is a unique feature for the enterprise zone and this is embedded in the strategy the HCA has been pursuing across the site. Like most other general aviation airfields of this nature, financial sustainability is achieved through an element of cross-subsidy by the land owner, using rents generated from commercial development at the airfield to offset net operating costs (after taking into account airfield usage income).

## **STRATEGIC OBJECTIVES OF THE PROPOSAL**

9. The strategy set out in this paper has been developed between Officers and the Homes and Communities Agency, in consultation with other agencies (Solent Local Enterprise Partnership and DCLG) with a view to:
  - a. unlock the development potential of Daedalus West through the provision of new infrastructure and services into Daedalus West and release a minimum of 21,000 sq m of land for commercial development;
  - b. secure the long term viability of the airfield;
  - c. Facilitate the HCA's withdrawal from this part of the site.
10. The principles that have been applied in developing the proposal are that
  - up-front investment in infrastructure at Daedalus West will unlock land for development, which can be sold to repay part of the investment;

- New development will also increase business rates, which would also be used to repay the finance costs;
- Property rents from plots retained by Fareham BC would be used to offset airfield operating costs;
- Taken together, the site fully repays the up-front investment over time, and that its operating position is “self-financing” in the long term.

## **PROPOSAL**

11. The proposal involves the HCA transferring the freehold interest in the Daedalus airfield (including Hangars East and West, but excluding the majority of land in Gosport) to Fareham BC, but with a series of conditions and obligations, as set out below. A plan indicating the area for transfer is attached as (confidential) Appendix A.
12. The Council would be required to construct infrastructure to unlock the land at Daedalus West for development. The Council would also take responsibility for other commitments and obligations attached to the site, (including Growing Places Fund loan repayments and provision of S.106 obligations). Finally, the Council would commit to constructing a new commercial building to generate rental income for the purposes of supporting the airfield operating costs.
13. Over time, the Council would also endeavour to undertake a further £1.2m of investment into the airfield, to enhance the runway, taxiways and facilities and strengthen the viability of the airfield.
14. The HCA would carry out work to provide new modular hangars in advance of the transfer, and would also novate contracts as necessary to ensure a seamless transfer with no adverse effects on tenants and airfield users.
15. The Solent LEP would allow the Council to use incremental growth in business rates generated at Daedalus West to be used to repay part of the Council’s loan commitments. The balance of the borrowing requirement would be secured against the value of the land transferred to the Council.
16. Recognising that there is a transitional period before the value from the land is unlocked to service the loans, the HCA would provide a grant to meet those transitional operating costs, together with full funding for the planning S.106 obligations.
17. Taken together, the proposal would result in a financial investment by FBC of £10m, in addition to the £3m already committed in support of the airfield. Further details of the conditions applicable to the proposal are set out in the draft Heads of Terms (confidential appendix B).

## **BENEFITS**

18. Daedalus West is currently playing no part in contributing jobs growth, economic growth or rates growth to the LEP’s primary objective, and with very poor prospects in the absence of the investment package, this is set to continue for many years to come.
19. By progressing this investment package, Fareham BC will be unlocking the land for development at an accelerated pace, creating the best conditions for attracting new businesses to the Enterprise Zone. In doing so, it will maximise the jobs and economic growth potential from this part of the site.

20. The Council has already committed £3m of resources onto Daedalus, and has secured a further £5.3m in grant for the Innovation Centre. This proposal is committing to deliver £10m of new, upfront investment into the site, in order to create value which can be extracted over the subsequent years. Specifically, the proposal will provide
- £4.4m of roads and services infrastructure at Daedalus West, unlock 21,000sqm of land for commercial development in line with the outline planning consent,
  - £2.6m of speculative commercial space, to enable early creation of jobs at Daedalus West
  - Landscaping works, allotment provision and public open spaces will be delivered early, in advance of the planning triggers,
  - Potential for a further £1.5m of airfield improvements, to provide the greatest prospects for its viability.
  - Long term creation of up to 700 jobs as development progresses.

## RISKS AND DUE DILIGENCE

21. This is a very significant proposal with long term implications, and is based on a series of assumptions which are naturally subject to change. Assumptions which have the greatest impact on the proposal are:-

### Commentary

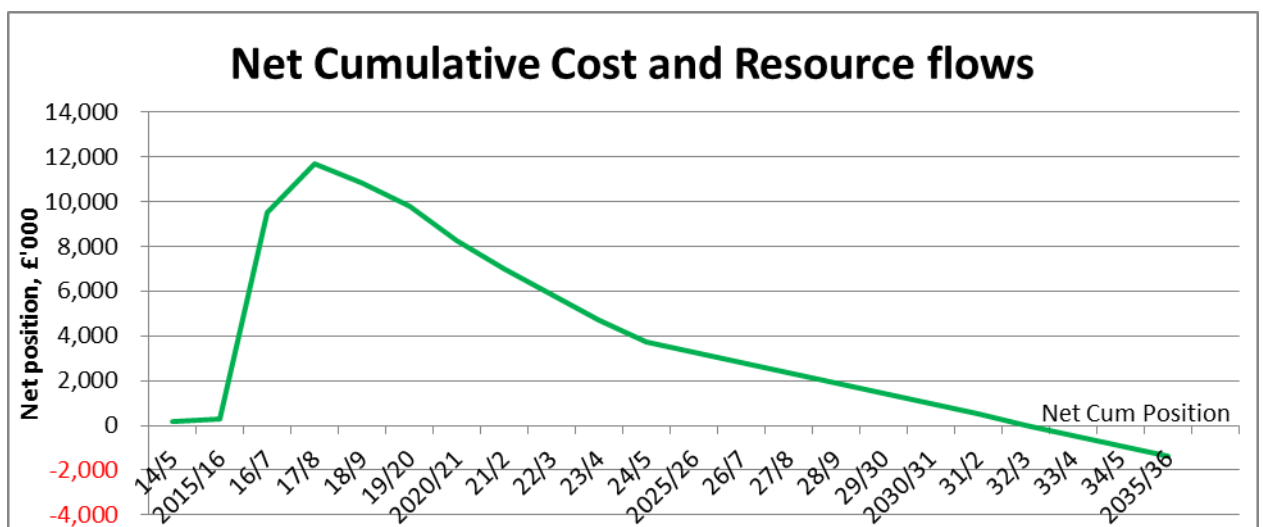
- The pace of delivering infrastructure works *An outline design has already been produced, and Fareham BC would seek to deliver these in accordance with previously approved planning consents, to minimise delays.*
- The level of demand and pace of development for serviced plots at Daedalus West *Market Analysis has been undertaken to test the assumptions for reasonableness.*
- Daedalus West's market position, in relation to competing sites, for example at the Waterfront and further afield *The Market Analysis will also provide commentary on the impact of competing sites on the business case assumptions.*
- The security of rates income in the current rating system. *This is an uncontrollable risk as the rating system is legislated. However, should this revenue stream cease, mitigating measures would be sought. (Nb. Borrowing backed by rates represents <20% of the resource in the proposal).*
- Rents derived from the master plan are insufficient to subsidise the airfield costs *The proposal is underpinned by some initial business planning and cash-flow modelling work. However, the planning consent is sufficiently flexible to vary the mix of commercial development, where demand exists, to improve the financial returns if the risk materialises.*
- The council is unable to deliver against its obligations in the transfer agreement. *In this situation, the HCA would be able to exercise its right to buy back the site if the obligations are not met. Equally, the LEP's*

*commitment would be protected as rates would not be accessible by FBC if the infrastructure works are not completed.*

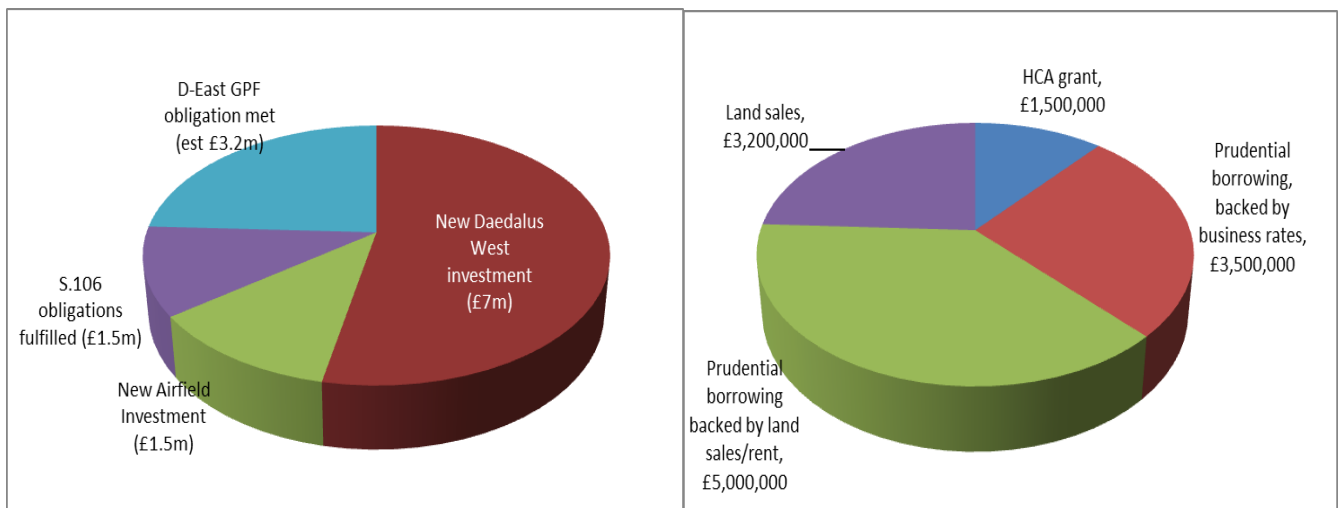
22. A series of “Due Diligence” actions have been identified, which are being progressed to provide the assurances required in order to proceed to completion of the transfer.

**FINANCIAL IMPLICATIONS**

23. If the proposal is implemented, the Council will be making a significant financial commitment in the early years of ownership, which is underpinned by the value that can then be unlocked from the site, over time. The work undertaken to date indicates that the package of resources does exceed the investment in the long term, but the margin is small and is achieved gradually over 20 years, which becomes more unpredictable over time. This is demonstrated in the chart below.



24. The nature of the Council’s “capital” commitment is split into 4 parts, as shown below. The costs associated with each aspect are relatively predictable, given that they are forecast to be incurred in the first 3 years of the Council’s ownership.



25. The chart, above, also shows how this commitment is funded. It is clear that a substantial proportion (65%) is prudential borrowing, so consequently a significant amount of effort has been concentrated on ensuring that there is a realistic prospect of

the security used to support the borrowing actually materialising.

26. Work undertaken by consultants, on behalf of DCLG, has indicated that there is a strong (85%) likelihood of rates growth derived from Daedalus West being able to support a loan of £3.5m. Land values at Daedalus West are more problematic to determine, because they are influenced by many different factors. However, independent valuers have indicated that there is £4.5m gross value that could be unlocked by Daedalus West. This position is consistent with the overall net valuation for the site, which is negative (when taking into account the obligation placed on the Council in the transfer agreement).
27. As due diligence progresses, therefore, it will be important to keep the financial implications under close review, and identify scope where additional value could be unlocked from the site (for example, reviewing the mix of development, the design and layout, and whether the consented plan makes best use of the land) in order to mitigate risks should they materialise.
28. Finally, it should be noted that the financial position is based on a range of prudent assumptions and, over the long term, we would anticipate that the position would be more positive in any event.

## **GOVERNANCE ARRANGEMENTS**

29. This is possibly the most significant delivery project that the Council has undertaken in financial terms, over recent years. It will also present operational challenges given the nature of the activities on the site.
30. Work to bring the proposal to a conclusion will be very intensive over the coming 6 months so, to maximise the scope for achieving the target transfer date, there needs to be a dynamic decision-making process. This should, however, not be to the detriment of transparency and public scrutiny of the commitments being made on behalf of the Council.
31. It is therefore proposed that authority is delegated to the Director of Finance and Resources to proceed to concluding the transfer, in line with the framework set out in this paper.
32. To oversee progress of the work, it is suggested that the remit of the Daedalus Investment Project Member Working Group, chaired by Cllr Cartwright, is extended to receive regular updates of progress and to be “critical friend” by overseeing the progress being made.
33. Once finalised, detailed Heads of Terms will be reported to the Executive for formal approval, and the transfer would only be concluded, following consultation with the Member Working Group and with the Executive Leader. Progress will also be reported to the Executive periodically.

## **NEXT STEPS**

34. This proposal has been developed to an extent where each of the partners can consider the principle, but a significant amount of work is still required before the proposal could be implemented. It relies upon the HCA, Solent LEP and FBC fully supporting the way forward, as well as Government endorsement to the transfer and funding structure.
35. Due Diligence tests will continue, and assumptions in the business plan will be kept



under review.

36. Heads of Terms between HCA and Fareham BC need to be concluded and, separately, Heads of Terms between Solent LEP and Fareham BC will be developed in relation to rates retention.
37. The Heads of Term's will be progressed by legal teams to produce contractual documents, with a view to completing the transfer by 31st March 2015.

## **CONCLUSIONS**

38. The airfield and Solent Enterprise Zone at Daedalus are priorities for the Council and significant progress has been made in regenerating parts of the site. However, the areas that remain uncertain at this time are the works to unlock the area at Daedalus West, and also the arrangements that are needed to protect the viability of the airfield in the long term.
39. The proposal set out in this report provides a solution to these remaining issues, and provides the Council with a higher degree of certainty that it can meet its corporate priority in this regard, as potential landowner.
40. The proposal is an excellent example of partner organisations pooling its collective skills and resources to generate wide economic, employment and community benefits from the site.
41. The Executive is asked to support the proposal, enabling officers to proceed towards transfer by 31<sup>st</sup> March 2015.

## **Reference Papers:**