

**REPORT TO:** Executive Board

**DATE:** 22 February 2018

**REPORTING OFFICER:** Strategic Director, Enterprise, Community and Resources

**PORTFOLIO:** Resources

**SUBJECT:** Sci-Tech Daresbury Implementation Programme – Phase 2

**WARDS:** Daresbury

## **1.0 PURPOSE OF THE REPORT**

1.1 The purpose of this report is to:

- provide an update on the next phase of developments and the proposed funding arrangements at Sci-Tech Daresbury;
- seek authority to submit a full business case to the Liverpool City Region Combined Authority for the Skillspace Project and associated enabling works.
- Outline the funding options being developed to facilitate the delivery of Project Violet in its entirety.

## **2.0 RECOMMENDATION: That**

- 1) the proposals outlined in the Sci-Tech Daresbury Implementation Programme which comprises Project Violet and Skillspace be approved;**
- 2) the Council enters into the necessary legal and funding agreements to deliver ‘Skillspace’ and associated enabling works; and**
- 3) Authority be given to the Operational Director for Finance and Operational Director, Legal and Democratic Services in consultation with the Portfolio Holder for Resources, to conclude the legal and funding arrangements.**

## **3.0 SUPPORTING INFORMATION**

### **3.1 Sci-Tech Daresbury Enterprise Zone**

Sci-Tech Daresbury Enterprise Zone (EZ) was established in 2011 and is managed by the Sci-Tech Daresbury Joint Venture (JV), a 50:50

private:public partnership between Langtree, the Science and Technology Facilities Council(STFC) and Halton Borough Council.

In November 2013, the Council's Executive Board received a report on the delivery of the first phase of the Enterprise Zone masterplan. This included approval to borrow £7.4m to bring forward 'Techspace One'. The delivery of 48,000 square foot office space at Techspace One and Two, a power upgrade, site connectivity and environmental improvement works were successfully completed in 2016/17. Techspace 1 is currently 14% occupied and Techspace 2 is 100% occupied. This demonstrates that there is a strong demand for this type of high quality laboratory and office space at Sci-Tech.

### **3.2 Masterplan and Implementation Programme**

The Implementation Programme (attached) outlines how the Joint Venture expects to deliver the masterplan vision, which is to provide a dynamic campus setting that integrates world-class science and technology, innovation and business enterprise. The document outlines the key steps to delivery and provides an overview of the financial strategy for the future development of the Campus.

The next development phases that have been agreed by the JV Board are:

- 1) Enabling Works – the creation of a level, elevated development plot at the campus entrance, road access, widening of Keckwick Lane and utilities connections (£2.2m)
- 2) Project Violet – c50,000 square foot high quality offices, 3 buildings at the entrance to the campus (£7.6m)
- 3) Skillspace –a dedicated skills delivery space housed within one of the 3 Project Violet buildings, available for a range of partners including University of Liverpool and STFC alongside other Further Education and private training providers. A Skills Capital bid has been submitted to the Combined Authority to fund this building. (£1.1m)

### **3.3 Request for Tax Increment Finance Borrowing Mechanism**

The Funding Strategy described above outlines the funding options available to the JV in order to facilitate the future development of the campus. The strategy reflects the designation of Sci-Tech Daresbury as an Enterprise Zone, and focuses on the potential for business rates growth to support investment through borrowing under a mechanism known as tax increment finance (TIF).

In summary, the TIF mechanism is predicated upon national criteria applied to Enterprise Zones whereby 100% of any uplift in business rates income is retained locally over the baseline level (set at 2011 levels) for hereditaments within the designated Enterprise Zone. Under

a TIF mechanism, the projected growth in business rates can be used to fund upfront costs associated with addressing barriers to development and enabling economic growth.

The proposed mechanism would involve Halton Borough Council committing to further prudential borrowing to provide the funding required to enable the JV to deliver the next phases of development. Repayment of the borrowing would be recovered through the increased business rates accrued as well as from future rental.

The current level of funds in the business rates retention pot is £761k and based on current occupancy this increases by £235k per annum. The forecast for future business rates if the existing built premises are fully occupied is £403k per annum.

AMION Consulting was appointed by the JV to offer independent advice, modelling the potential for business rates for the Enterprise Zone. A summary note from AMION is included as an appendix to this report.

The table below illustrates the level of TIF borrowing that could potentially be affordable, having regard to the anticipated profile of business rates revenue under each scenario. It presents the results of the assessment over the period to 2037, at which point Enterprise Zone status will end, as well as a more prudent assessment over the period to 2032. Based on this analysis, existing premises could support an initial TIF investment of between £4.9 million and £8.0 million over the life of the Enterprise Zone. This could increase to £10.3 million, allowing for the inclusion of business rates associated with new accommodation delivered through Project Violet.

**Year 1 borrowing potential (£million)**

	<b>Scenario 1: Existing assets</b>	<b>Scenario 2: Next phase development</b>
<b>Payback period up to 2032 (5 years to end of EZ period)</b>	£3.8 - £6.2	£7.8
<b>Payback period up to 2037 (to end of EZ period)</b>	£4.9 - £8.0	£10.3

**3.4 Single Investment Fund (SIF) Skills Capital**

Skills are at the centre of the roadmap to success and the JV’s ambitions of delivering an additional 10,000 high-value jobs over the next 20 years. It is recognised that creating a high-value economy is dependent on developing a well-qualified and highly skilled workforce.

In recognising this, Halton Borough Council submitted an Outline Business Case to the Liverpool City Region Single Investment Fund

(SIF) (Skills Capital) for £3m grant funding to support a £4.12m project delivering a 14,000sqft facility as part of 'Project Violet'.

At Sci-Tech Daresbury there is currently a low proportion of employees on campus (both in STFC and SMEs) who are Halton residents, however a higher proportion of new apprentices are Halton students. The Skillspace project will reinforce and build on this to ensure better opportunities for Halton residents to be inspired by science and technology at Daresbury and to gain the necessary skills to enter a career, or start a business at Sci-Tech Daresbury.

The Combined Authority has invited Halton to submit a Full Business Case and a key part of this is evidencing the match funding for the project, £1.12m which would be funded using the Enterprise Zone borrowing mechanism described in section 3.2.

The aim of the Skillspace project is to support public infrastructure and skills. It is not considered to be a commercial development but will be required to be sustainable. As a result it is proposed match funding would be provided by the Council by way of a grant of approximately £1.12m to the JV to support the LCR SIF grant. The grant will be repaid through the retained business rates generated within the Enterprise Zone and which are collected and held by the Council. The Council will recover the finance costs associated with providing the grant until it has been fully re-paid.

### **3.5 Request for development loan (Project Violet)**

There are significant economies and commercial advantages gained by tendering for and constructing, at the same time, all three buildings in Project Violet.

While the commercial lending market has improved significantly following emergence from the recession, the availability of funding remains subject to relatively strict lending criteria. Funding for speculative development has been largely limited to the logistics market and is not available for office development. The JV does not currently have the capacity to commit sufficient equity to enable the development of new premises to proceed with commercial funding, even allowing for a fully pre-let scheme.

Therefore, in conjunction with the SIF bid and match funding request, the JV will be approaching Halton Borough Council with a request for a commercial development loan (to the value of approximately £7.6m) to enable the full project to be delivered. The loan would be repaid to the Council through future retained business rates and rental income from the new buildings.

Further financial modelling work will be required to confirm the viability of this proposal and a future report will be presented to the Board in due course.

However, a loan would only be provided by the Council following full due diligence, including the affordability of the scheme, ensuring it does not exceed State Aid limits, interest on a loan being at commercial rates and any loan being fully secured against the assets of the JV. The Council will also ensure a sufficient provision is held from the retention of business rates within the Enterprise Zone.

### 3.6 Summary of borrowing

#### Existing Borrowing: £9.4m

Sci-Tech Daresbury JV Phase 1	£7.4m	Prudential borrowing secured against Techspace 1, paid by JV from rental income
Langtree refinance from former parent company – offering autonomy over investment decisions.	£2m	Paid for by Langtree from income across while business (not just Daresbury)

#### Borrowing Request: £10.3m

JV - Phase 2 Enabling Works	£1.8m	Prudential borrowing secured against future business rates (EZ mechanism)
Skillspace match funding as part of the SIF Full Business Case application (£3m SIF grant)	£1.2m	Prudential borrowing secured against future business rates (EZ mechanism)
Project Violet (2 buildings in the development)	£7.6m	Loan to JV at a commercial rate to be paid from JV rental income

3.7 If the Board are in agreement with the proposals in this report, the following actions will be taken:

- 1) The submission of the full business case for the Skillspace Project and associated enabling works would be made to the Combined Authority. If successful, this would result in attracting a £3M grant from the Liverpool City Region Combined Authority.
- 2) Further modelling work will take place to demonstrate the viability of bringing forward the Project Violet Scheme in its entirety.
- 3) The results of the financial modelling will be brought back to Executive Board as this will further inform future strategy and approach at Sci-tech.

## **4.0 POLICY IMPLICATIONS**

- 4.1 Sci-Tech Daresbury is within the allocated Daresbury strategic site which is included in the Council's Corporate Plan, the Halton Partnership and Halton Borough Council Urban Renewal Strategy and Action Plan, and supports the Council's Urban Renewal corporate priority.
- 4.2 In the Mersey Gateway Regeneration Plan Sci-Tech Daresbury sits in the wider development and investment opportunities and this outlines the continued focus on this area for growth and investment.
- 4.3 Grant funding and use of the Enterprise Zone TIF borrowing mechanism is essential to facilitate the delivery of Sci-Tech Daresbury.

## **5.0 FINANCIAL IMPLICATIONS**

- 5.1 The Joint Venture is currently committed to repaying the existing borrowing – secured against Techspace One. Based on the positive progress with occupancy rates across the campus, this is still considered affordable for the JV.
- 5.2 Reflecting its status as a designated Enterprise Zone, it is envisaged that a TIF mechanism, based on Public Works Loan Board (PWLB) borrowing against future business rates growth, will play a critical role in addressing barriers to the delivery of the masterplan.
- 5.3 In undertaking the necessary due diligence on the borrowing capabilities of the EZ that the following assumptions have been made:
  - the current business rate income levels are used to calculate the affordable level of grant and loan;
  - any future borrowing is agreed on a case by case basis (based on business rate levels and PWLB rates at that time);
  - any fund already in reserve will be used as a provision against any future drops in occupancy or problems repaying the Techspace loan.
- 5.4 This ensures that the Council is able to recover in full all funds for Capital repayment and interests costs from the EZ reserve and has the provision to cover against any future drops in income.
- 5.5 While remaining the lender of last resort, it is anticipated that the Council will continue to play an important role in enabling the delivery of the vision for Sci-Tech over the short to medium term.

- 5.6 The Joint Venture will continue to explore opportunities to utilise its assets and operating revenues to address barriers to the delivery of the masterplan.

## **6.0 IMPLICATIONS FOR THE COUNCIL'S PRIORITIES**

### **6.1 Children and Young People in Halton**

As an integral part of the next phase, Skillspace provides the opportunity to enhance the STFC public engagement programme and engagement with local schools.

### **6.2 Employment, Learning and Skills in Halton**

The Skillspace project aims to address the skills gap and provide opportunities for local residents.

### **6.3 A Healthy Halton**

There are no implications associated with this report.

### **6.4 A Safer Halton**

There are no implications associated with this report.

### **6.5 Halton's Urban Renewal**

The Enterprise Zone aims to deliver 25% of the employment land for the borough. The development will create much needed grow on space for SMES and will act as a catalyst for wider investment in the Enterprise Zone.

## **7.0 RISK ANALYSIS**

- 7.1 There is a risk that the project cannot be delivered within the timescales prescribed by SIF funding but this will be mitigated by project management by development partner Langtree. A business critical issue is the requirement to follow an OJEU procurement process.

- 7.2 There are a number of risks to the campus associated with not delivering the full phase as one package – i.e. the enabling works and all three buildings. These include not only increased procurement costs, increased building costs and the risks associated with letting 3 separate contracts potentially to different contractors. If the buildings are delivered in a piecemeal fashion there would be significant time delays and possible quality differences in build at the entrance to the campus.

7.3 In developing the Skillspace project the Joint Venture has taken account of the risks to the long term growth of the campus and the achievement of the 10,000 jobs target if some sort of skills intervention does not happen. The Skillspace concept has been developed to reduce the risks of an ongoing skills gap and skills related barriers to growth.

## **8.0 EQUALITY AND DIVERSITY ISSUES**

There are no issues associated with this report.

## **9.0 LIST OF BACKGROUND PAPERS UNDER SECTION 100D OF THE LOCAL GOVERNMENT ACT 1972**

<b>Document</b>	<b>Place of Inspection</b>	<b>Contact Officer</b>
Implementation Programme	Municipal Building	Helen Roberts
Funding Strategy	Municipal Building	Helen Roberts