

Agenda Item

Cabinet

5 September 2012

SD



Science Park - Shareholder Underwriting

Exempt Information

Para 3 Schedule 12A Information relating to the finance or business affairs of any particular person.

Summary

This report sets out details on the progress of the Exeter Science Park and as a shareholder in the Exeter Science Park Company seeks member approval to commit to;

- Underwrite a proportion of the £4.5m loan application to the Growing Places Fund from the Exeter Science Park Company.
- Underwrite a share of any cost overrun (contingency sum of 10% on project) on the £7.4m constructing of the Science Park Centre to a predetermined sum.
- Enter into a further agreement with the Exeter Science Park Company and other stakeholders to oversee the future long term development and operation of the site.

This commitment by the Council is seen as essential in order to facilitate the building and operation of Science Park Centre which is a key priority in delivery of the Council's Plan.

Recommendation

The Council commits to:

- **Provide a guarantee to the Exeter Science Park Company to underwrite the loan sought from the Growing Places Fund up to £319,500 in proportion with its shareholding, on the understanding that all other partners commit funds on the same basis, and that should the monies be called upon then reimbursement is expected to eventually be made through the development fund.**
- **Underwriting a share of a contingency sum on constructing of the Science Park Centre up to £52,500 to be met, if required, from the Council's Capital Programme.**
- **Entering into a further agreement substantially in the form attached in Appendix B with the Exeter Science Park Company and other stakeholders to oversee the future long term development and operation of the site.**

a) Reasons for Recommendation

The recommendations in this report are in accordance with the stated priorities of the Council. This is a critical stage of development of the Science Park in that it will not yet go forward on the basis of private sector investment alone. Construction of the first phase of the Science Park Centre is seen as a vital catalyst to private sector investment and end use. To facilitate this development an application has been submitted to the government's Growing Places Fund (GPF) and a Stage 2 detailed bid has been invited. GPF is being made available on an interest paying loan basis to the Science Park Company over a 14 year period. Guarantees are required from the partner organisations to underwrite this arrangement. The building of a Science Park Centre is seen as a critical catalyst to the success of the Park.

b) Alternative Options

Members could decide not to support the recommendations which would leave the future of a science park in question, it would leave the Council in a confrontational position with other stakeholders who are agreeing these recommendations on their own behalf and would give the Council a reputational issue in not supporting such a key project with economic benefits that would derive.

c) Risk Considerations

The key risks associated with this project are:

- Unable to sell plots and meet the Growing Places Fund loan and thereby this Council having to meet its share of the loan (£319,500) which would not be recovered from future receipts. By comparison DCC's liability in the project is over £2m.

The mitigation to this risk is that the construction of the Science Park Centre should act as a catalyst for the development and sale of other plots and shows some confidence to the private sector. Site infrastructure completed is to a high standard and plots are ready for sale.

- Need to meet Council's sum on cost overrun of £52,500.

This is mitigated as the County Council are acting as the agent for construction and have experience of this type of development which should ensure that costs are contained. There is scope to reduce costs through a competitive construction market at the present time and other savings maybe possible. The County element of the possible contingency is ££2.25m which is a strong incentive for them to manage this project effectively.

- HMRC advice which is currently being sought does not support the preferred model of the Science Park Centre to be developed.

The preferred model has been based on advice from professional experts and is based on advice for a similar project put forward by Exeter University. This project will not proceed until HMRC have given their view.

d) Policy and Budgetary Considerations

These sums are not being asked for now and it is hoped will never be required, we are being asked to commit to the possibility. There are significant land assets projected to eventually pay back to the Council any sums we may have to

meet. However there is a risk and the total liability being asked for Members to commit to is £372,000 for which there is currently no budget provision.

Currently the LABGI reserve has £235,000 which members may feel it appropriate to ring fence an element to help cover this sum if necessary. This is the reserve the Council originally made its commitment of £250,000 (now held separately outside LABGI) towards the Exeter Science Park Company in order to become a shareholder.

e) Date for Review of Decision

Not applicable

1 Background

- 1.1 Members will recall the Council is a shareholder in the Exeter Science Park Company with a 7.1% shareholding investment of £250,000. The other shareholders being Devon County Council with a 49.9% shareholding, the University of Exeter and Exeter City Council both with a 21.5% shareholding.
- 1.2 Current proposals on the Exeter Science Park are best obtained from the Exeter Science Park Company Business Plan submission to the Heart of the South West Local Enterprise Partnership in support of its £4.5m loan application to aid the construction of the Science Park Centre. This is attached in Appendix A for information.
- 1.3 The development of a Science Park in East Devon has been a strategic priority for the Council for a significant period of time, ambitions around job creations and economic growth. Many of the details of the benefits related to the science park are tangible and documented in the Business Plan.
- 1.4 As way of background for Members not so closely involved in the project below is a brief history of events to date.
 - In April 2008 South West Regional Development Agency (RDA) provided a grant to Devon County Council of £18 million to purchase the Redhayes site from Eagle One. This purchase provided land for the Science Park and for Junction 29 highway improvements to unlock the East of Exeter Growth Point developments. The purchase agreement allows Eagle One the option to elect to be the developer for phase one of the Science Park. Outline planning permission for the Science Park was approved in November 2009.
 - An Exeter Science Park Partnership was created between the County Council, University of Exeter, East Devon District Council, Exeter City Council and the Met Office and this was formalised through the creation of the Exeter Science Park Company in 2010. The Council is represented as a company director on the Board (Councillor Graham Godbeer) and as a shareholder (Councillor David Cox). It should be noted that the Met Office is no longer a share holder of the company but is a non voting representative on the Board.
 - The infrastructure works have largely been completed at the Site, the development of phase one of the site has however stalled in the current economic conditions and there are no indications of securing an anchor tenant or a

hotel operator. The Business Plan for the Science Park is focused on the sale of plots of land on a long lease to generate receipts to continue to develop the remainder of the site. A key part of this strategy is to generate receipts to develop a Science Park Centre.

- The Centre is viewed as providing a high quality suite of incubation space for scientific based businesses with a strong focus on Small Medium Enterprises (SMEs) which either require start up space or grow on space, and can benefit from access to the knowledge base at Exeter University and the Met Office. By creating the right collaborative environment, such businesses would benefit from a range of support from like-minded enterprises as well as from the University and other knowledge service providers. The location at Junction 29 also offers excellent access to road and air communications networks. The Centre would operate along the lines of the Exeter Innovation Centre at the University which is seeing increasing demand for such space.
- The Government at the end of 2011 announced the creation of a Growing Places Fund (GPF) with the aims of unlocking stalled infrastructure projects to stimulate growth and to create new private sector led jobs. This Fund has been allocated to Local Enterprise Partnerships and the Heart of the South West LEP received a total capital fund of £21 million. The Fund is a revolving loan fund to enable the LEP to invest in capital programmes and recirculate the funds into other projects in the future. This opportunity was launched by the LEP in March 2012 and a bid was submitted into this fund by the Exeter Science Park Company to deliver a Science Park Centre totalling 31,000 sq feet. The bid is for a loan of £4.5 million, with the total cost for the Science Park Centre estimated to be £7.25m. The balance of the funds is from partner contributions already committed to the Exeter Science Park Company, with East Devon's share being £0.250 million. The initial bid has been short listed by the LEP and will now move forward into a full application which was submitted by the Company on 16 August. It is anticipated that, subject to due diligence, a loan contract would be approved by the LEP Board in September 2012. The Company had asked for the LEP to purchase an equity stake in the Science Park Centre, however as this was not possible a request has been made for a 12-14 year loan at zero or low fixed low interest to be guaranteed by the shareholders, subject to Council approval.
- In support of the application to the LEP, the Science Park Company progressed the design and costing of the Centre and a planning application was submitted to this Council on 18 June. It is anticipated that a decision will be made by the District Council's Planning committee in August. The design and costs have been kept within the stated budget of £7.25 million.

1.10 The grant agreement between the County Council and the South West RDA has now transferred to the Homes and Communities Agency (HCA) and includes the requirement to develop a further agreement with the Science Park partners by March 2013. The Further Agreement outlines respective roles, the creation of a development account and funding commitments. This is attached in Appendix B and needs to be agreed by this Council as a stakeholder.

2. Proposal

2.1 The Science Park partners have developed a proposition for the funding and delivery of the Science Park Centre, which has been used as the basis of the application to the Growing Places Fund. Advice has been taken by the Company on behalf of all partners to determine the most tax efficient and state aid compliant model. This has been provided by Burges Salmon. The preferred model is outlined below and is being tested with HMRC.

- The County Council transfers the freehold of the Science Park Centre plot at open market rate to the Exeter Science Park Company who makes a service charge contribution into the development account.
- The Exeter Science Park Company appoints Devon County Council to act as its agent to procure and construct the Science Park Centre, with the construction contract being awarded and entered into by the company to a supplier.
- All partners commit their agreed contributions for the Science Park and pay these to the Exeter Science Park Company. East Devon Commitment being the £250,000 already funded.
- The Exeter Science Park Company applies to the LEP for a loan under the Growing Places Fund.
- The loan is repaid through land receipts and income from the disposal of other plots on the Exeter Science Park which are paid into a development account.
- The Exeter Science Park Company leases the Science Park Centre to the University of Exeter. It is anticipated that the lease is for 15 years and at a nominal level for the first five years because the University will contribute to fitting out costs and cover all running costs deficits.
- The University will appoint their operator which has been openly procured, Peninsula Innovations Ltd, to operate the Science Park Centre and will fund the operating costs. The University will enter into a series of short term leases and licenses with tenants.

2.2 In going forward the Head of Terms Agreement in Appendix B covers the future development and management of the Science Park determining the roles and responsibilities and the creation and management of a development account. This model is seen to best reflect the commercial imperatives of partners in terms of allocation of risk and reduces the tax liability provided that assurance is secured from the HMRC that VAT on construction can be recovered and corporation tax can be minimised.

3. Business Rate Relief on the Science Park Centre.

3.1 The Science Park Company have requested that East Devon consider granting business rate relief on the new centre once it has been built. The request is that any space in the Science Park Centre not occupied by tenants be exempt. This would remove a disproportionate burden from the operator but also ensures that as soon as space is rented out then each tenant starts paying business rates as normal. It is

not intended in this case to use business rate relief as any kind of an incentive for occupation but to help the operator of the Centre.

- 3.2 Further consideration will be required as to how the property will be finally rated but it is likely that the full cost of this relief will fall to this Council. Until the property is rated the amount we might be considering to meet is unknown, but a total amount of £140,000 can be given as an estimate. Members will need to consider this when more details are known.

Legal Implications

The Council has power to offer the financial assistance set out in the recommendations should it consider it reasonable to do so having considered the potential benefits and risks set out in the report.

As can be seen the draft agreement [Heads of Terms] still has a few gaps and therefore is likely to change a little before it is finalised [but not in respect of critical terms].

This is a complex project with innovative legal structures so specialist advice from Burges Salmon and others has been sought by Exeter Science Park Limited to address issues such as State Aid.

Financial Implications

The financial implications are contained in the report.

Consultation on Reports to the Executive

EDDC Exeter Science Park Director and Shareholder representatives have been closely involved in the preparation of this report.

Background Papers

- Details have been extracted from a Devon County Council Cabinet report 11 July 2012

Richard Cohen – Deputy Chief Executive

Simon Davey – Head of Finance

Cabinet
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