

SILVERSTONE HERITAGE CENTRE - POTENTIAL LOAN FACILITY

Councillor Bowles

Deputy Leader and Cabinet Member for Economic Development Delivery

1 Purpose

- 1.1 As part of a package of loan support provided by the 4 county and district authorities which cover the Silverstone circuit, this report seeks authority for £2 million loan facility to be provided to the Silverstone Heritage Experience.
- 1.2 The combined facility of £8 million made up from the 4 authorities is required to secure the provisional Heritage Lottery Funding of £9.23 million and will only be required in full or in part if the requisite private sector funding cannot be attracted.
- 1.3 It is anticipated that the project will attract over 400,000 visitors to the area each year bolstering tourism and economic viability of the area.

2 For Decision / Recommendation

- 2.1 Cabinet are requested to;
- 2.2 Consider the application for a loan facility of up to £2 million, as part of a wider facility offered by the four administrative councils covering the Silverstone Circuit of up to £8 million in order to secure National Lottery Heritage funding for the Silverstone Heritage Experience, and, if supported,.
- 2.3 That Council be recommended to authorise the Director with responsibility for finance, after consultation with the Cabinet Member for Finance, Resources and Compliance to review and make an assessment of the due diligence being undertaken by South Northamptonshire District Council.
- 2.4 That, subject to the above assessment proving satisfactory and subject to suitable terms and conditions being agreed by the supporting Councils and the necessary commitment to the scheme being given by each of them, Council be recommended to:-
 - Approve the inclusion of £2 million within the Capital Programme as a provision to make a loan facility available to Silverstone Heritage Limited; and
 - Earmark £2 million of unallocated New Homes Bonus for the above purpose.

3 Background

- 3.1 The Silverstone Heritage Experience will open in October 2018 on the 70th anniversary of the first Grand Prix being held at Silverstone. The vision is to bring the extensive heritage of Silverstone and British motor racing to life through the creation of a dynamic, interactive and educational visitor experience including:
 - A permanent exhibition, at the entrance to the Circuit that will take visitors on an exciting two hour journey through motor racing at Silverstone set against the wider context of the sport and, in particular, the part that the Circuit, the British Racing Drivers' Club (BRDC), who own the Circuit and the region's motor sport industry have played in its development worldwide.

- A Collections and Research Centre, offering museum and archive-accredited storage for the unique BRDC archive and other important motor sport collections.
 - An extensive education programme focused on STEM learning which aims to address the region's shortage of engineers by inspiring the engineers of the future through its interactive teaching sessions, engineering teaching bursaries and awards programmes. This will help to ensure the region continues to be a focus of high performance engineering with a readily available qualified workforce.
- 3.2 The Silverstone Heritage Experience will serve as a catalyst, stimulating further development at Silverstone for example, a new hotel and Family Entertainment Centre. Its marketing budget will also ensure that the attraction is promoted to a very large and diverse audience helping to strengthen Silverstone's and the region's standing nationally and internationally
- 3.3 Robust feasibility studies and a five year business plan have been drawn up (with the assistance of sector experts) which have shown that the Silverstone Heritage Experience will deliver anticipated visitor numbers of 436,500 in its first full year of operation (2019). Once open it will be self-funding, generating a healthy annual surplus so can easily service a loan of £8million paid back over a ten year period. Nearly £11.5m Gross Visit Impact to the local and regional economy is projected for 2019 with an additional 87,000 bed nights generated in the region. The total number of jobs created by the Project is 78.
- 3.4 By virtue of the additional visitors the Project will attract to Silverstone it will help to secure the future of the Silverstone Circuit and its ability to continue to host the British Grand Prix and other national and international events which are crucially important the region's visitor economy (and underpin the high performance engineering sector too). Silverstone remains the only Formula One venue in the world to operate without government or third party subsidies.
- 3.5 Silverstone Heritage Limited (SHL), Registered Charity Number 1166279, is the legal entity to take the Silverstone Heritage Experience forward; its sole member is the BRDC. The project is a top priority of the BRDC and in order to provide the project with as much support as it can, the BRDC has gifted the land (and Hangar building) with a value of circa £2 million, on which the Silverstone Heritage Experience will be built.
- 3.6 The Project's Round 1 application to the Heritage Lottery Fund (HLF) was successful. This gave SHL a grant of £446,000 towards the development of a Round 2 application which was submitted on 5th August 2016. The development of the Round 2 grant application has been closely monitored by the HLF and SHL are therefore confident of success, providing they have sufficient match funding (at least 80%) pledged by the time the bid is considered by the HLF Trustees Board in early November 2016.
- 3.7 Without the support of the local councils SHL will not have sufficient funds pledged and will lose the HLF grant and the Project will fail. The total remaining cost of the project is £18.46 million of which a grant of £9.23 million is being sought from the HLF. SHL is therefore seeking support from Aylesbury Vale District Council, South Northamptonshire Council, Buckinghamshire County Council and Northamptonshire County Council in the form of a ten year loan totalling £8 million split between the parties. The

loan can be made on a contingent basis assuming the application process with the HLF completes successfully.

- 3.8 Up to two seats will be made available to the Councils on the SHL Board of Trustees which also serves as the Project's steering committee. The loan can be paid back with interest by SHL over a ten year period. It is believed that the project will generate significant positive PR for its partners, both prior to and post opening as well as generating significant benefits for the region as outlined above.

4 Financial Information

- 4.1 Silverstone Heritage Limited has provisionally secured support from the National Lottery Heritage Fund and now needs to demonstrate that 80% of the scheme funding is in place as part of the Lottery's final sign off process. The practical deadline for Silverstone Heritage Limited to achieve this is the end October 2016.
- 4.2 It is the intention of Silverstone Heritage Limited to raise the balance of funding between the scheme cost and the Lottery funding through private donations and sponsorship, but fund raising in this way takes time to achieve and cannot be guaranteed to be secured within the window of opportunity available. Without the guarantees in place it is likely that the Lottery funding, and therefore the scheme, will fail.
- 4.3 Because of the importance of Silverstone to the surrounding and wider economies of the area and the importance that the Heritage Experience represents in terms of helping to secure the long term future of Formula 1 motorsports at the site, Silverstone Heritage Limited has approached the four upper tier councils that cover the Silverstone Circuit and has requested that they underwrite, via a loan facility, the funding gap for the scheme.
- 4.4 The loan facility requested is £8 million, (the difference between the scheme costs and the Heritage Lottery Fund) and each of the 4 councils has been requested to provide a facility for £2 million.
- 4.5 It is the intention of Silverstone Heritage that the majority, or possibly all, of the facility will not be required as a result of their fund raising activities. However, depending on the extent to which fund raising has been successful at the time that construction commences, a balance may need to be drawn down. The actual value drawn down would be split equally between the four councils supporting the scheme.
- 4.6 Any subsequent successes in raising funding or sponsorship would be used to part repay the actual amount of loan facilities drawn down early.
- 4.7 Because of the requirements of the Heritage Lottery Fund, it is not possible to have a legal first charge across the assets of the scheme, so any facility provided may only be secured by a second legal charge against some of the assets. The Heritage Lottery required the legal first charge in order to prevent the facility being sold or repurposed without their consent so that the Lottery awarded can be protected.
- 4.8 Therefore, depending on the amount of the loan facility actually drawn down, there is no guarantee that there would be sufficient equity in the venture to satisfy the legal charges, should a default occur. Whilst every effort will be made to try to secure some form of legal security, effectively, any loan granted by the councils should be considered as an unsecured loan.

- 4.9 In support of the business case and wider ambitions of scheme to promote and retain Silverstone and the heart of Formula 1 motorsports (with all of the economic and employment uplift this brings), the rate of interest payable on the loan is intended to be nominal. The actual rate is still to be negotiated and will need to be satisfactory to all of the 4 councils involved. However, it is expected that, in order to ensure that the scheme succeeds, the rate applied would be above the actual costs of borrowing and provide some level of return to the councils, but would still be well below normal commercial rates.
- 4.10 The due diligence on the business case presented by Silverstone Heritage Limited is being carried out by South Northamptonshire District Council on behalf of all councils involved, so as to ensure a consistent and shared understanding and position. At the time of writing this report the due diligence work is still being undertaken and so is not available for consideration.
- 4.11 If the due diligence is completed prior to the meeting of Cabinet then it will be circulated and summarised accordingly, else the Cabinet will be asked to make an in principle decision subject to the satisfactory conclusion of the due diligence work.
- 4.12 A summary version of the business case and numbers prepared by Silverstone Heritage Limited in support of the Heritage Lottery application is attached as a confidential appendix to this report for Members' information. In addition to the scrutiny and review of the figures by the four councils involved, the business case is also being carefully scrutinised by the National Lottery to ensure that it meets their requirements for Governance and robustness.
- 4.13 This Council's commitment is predicated on the National Lottery Heritage Funding being secured together with the support of the other councils being achieved, in order to secure the total £8 million sought.

5 Options considered

- 5.1 None

6 Reasons for Recommendation

- 6.1 Silverstone represents a significant hub for leisure, tourism, employment and high tech industry. Its draw and impact in the region extends much beyond the administrative boundaries of the councils surrounding it, with an economic radius estimated to be of up to 50 miles. Further, an estimated 36,000 jobs are dependent on Silverstone as the centre for UK motorsports and the home of Formula 1.
- 6.2 Additionally, the leisure, recreation and employment businesses that depend on the venue generate significant amounts of business rates for the councils in the area, and the changes to the retention of business rates mean that councils now benefit directly from the success of Silverstone.
- 6.3 The support requested for SHL within this report is recognition of strategic importance of the venue to Buckinghamshire and Northamptonshire and need to promote the venue and enhance its attraction in order to ensure the long term future of Formula 1 motorsports.

7 Resource implications

- 7.1 If the Council's agree to offer the loan facility of up to £2 million in order to support the ambitions of the project then the amount drawn would be

considered capital expenditure under the requirements of Section 12 of the Local Government Act 2003 and would therefore require a variation to the Capital Programme.

- 7.2 In order to meet the deadline of raising the necessary project funding so that the scheme will qualify for the Heritage Lottery Funding the recommendation will need to be made direct to Council without the normal consideration of Scrutiny.
- 7.3 Funding for the scheme could be identified from the remaining balance on the New Homes Bonus Reserve, which currently stands at this figure. If supported a sum of £2,000,000 would be transferred to Capital Balances to fund the position.
- 7.4 At the point of repayment the receipt will be classified as a Capital Receipt, whilst the interest payable will be treated as Revenue and taken into the General Fund.

Contact Officer
Background Documents

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