

SILVERSTONE PARK ENTERPRISE ZONE INFRASTRUCTURE FUNDING

Councillor N Blake
Leader of the Council

1 Purpose

- 1.1 In May 2016 Cabinet formally agreed to the creation of 3 Enterprise Zones (EZs) within the Vale as part of a group, comprising the County Council, Bucks LEP and the Landowners. Collectively these sites are referred to as the Aylesbury Vale Enterprise Zone (AVEZ).
- 1.2 As part of this arrangement, and because the Council is the Collection Authority for Business Rates, it was agreed that Aylesbury Vale District Council would be the Accountable Body for the AVEZ.
- 1.3 A founding principle of Enterprise Zones is that the Government allows Business Rates retention from new development so that the income generated is invested in infrastructure to facilitate future EZ development in accordance with agreed investment strategies. Each of the AVEZ Sites has a Memorandum of Understanding (MOU) agreed with landowner that sets out each site's investment strategy, including priorities for investment of retained business rates.
- 1.4 As the Accountable Body, any borrowing requirement necessary to forward fund infrastructure needs fall to this Council to fund.
- 1.5 This report considers the first request for infrastructure funding from Silverstone Park Enterprise Zone as approved by the Board of the Aylesbury Vale Enterprise Zone at its meeting on 14 September 2017.

2 Recommendations

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| <ol style="list-style-type: none">2.1 Cabinet is advised to consider the request made by Aylesbury Vale Enterprise Zone towards capital funding to meet the advanced infrastructure requirements at Silverstone Park Enterprise Zone and;2.2 Recommend to Council the inclusions of £4,993,269 in the Capital Programme and the Treasury Management Strategy accordingly. |
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3 Detailed Report

- 3.1 At Silverstone Park the MOU with MEPC (the land owner) specifies that infrastructure funds of £10m will be applied (funded jointly by MEPC and business rates retention) to support infrastructure in advance, such as power supply, utilities, groundworks, site roads and broadband.
- 3.2 To date MEPC have delivered a first phase of speculative development (12,164m²) in the Enterprise Zone and 'Tier 1' Infrastructure works (including a 21MVA upgrade to the High Voltage electricity distribution network, and gas and drainage infrastructure). MEPC's infrastructure investment priority is to deliver 'Tier 2' Infrastructure as listed in the table set out in 4.2 below to directly serve the EZ site.
- 3.3 Provision of the 'Tier 2' Infrastructure will accelerate the future provision of site specific services on future development phases ('Tier 3 Infrastructure'). It will enable MEPC to respond rapidly to future occupier requirements for premises across the whole of the remaining EZ site.

- 3.4 MEPC are committed to future development under the terms of the agreed MOU. The ability to move forward rapidly with the early delivery of development to meet potential occupiers' timescale requirements would be greatly assisted by the Tier 2 infrastructure. This would ultimately result in earlier delivery of additional rates income being secured for the EZ.
- 3.5 At the March 2017 meeting the EZ Board approved in principle MEPC's proposal (Annex 1) for EZ funding support for utilities infrastructure. The EZ Implementation Plan (as submitted to DCLG in March 2017) was also revised to take account of this proposal. This was revisited and finally agreed at the Board meeting on 14 September 2017.
- 3.6 Following the EZ Board meeting, Hewdon Consulting were appointed to appraise the Project. Hewdon's conclusions are summarised in Section 3 (Full Hewdon Report – Appendix 1 in confidential papers).

4 Investment Requirement

- 4.1 The 'Tier 2' Infrastructure Works will enable connection of future EZ development plots (accommodating up to 80,000m² employment floor space) to the main incoming utilities supplies. Details of the Tier 2 Infrastructure are shown on pages 6 – 9 of MEPC's application.
- 4.2 The details of investment requested are set out in the table below;

Item	Cost £
Sewer Infrastructure Works (page 6): Pumping Stations, Storage Tanks & sewers.	£1,651,878
HV Electrical Infrastructure Works (p7): Foul Drainage Sub Stations (4); EZ Industrial Unit Sub Stations (2); HV Cables	£1,412,568
Gas Infrastructure Works (p8): Gas Main from A43 to EZ site	£880,533
Telecom Infrastructure Works (p9): between POP at Innovation centre & EZ Site	£108,000
Total Infrastructure Works Costs	£4,052,979
Professional Fees / Surveys / Other Costs (12% on Works)	£486,357
Contingency (10% on Works & Fees)	£453,933
Total Cost	£4,993,269

The above costs are estimates based on supplier quotations, agreed Schedules of Rates and MEPC's QS estimates, allowances and contingencies.

- 4.3 It is anticipated that the funding will be required to be drawn down as:-
- 2017/18: £1.524m
 - 2018/19: £3.469m

5 Resources Implications

- 5.1 The funding required will need to be in the form of borrowing taken by Aylesbury Vale District Council as the Accountable Body.
- 5.2 The funding is not in the form of a loan to MEPC, but is instead a capital grant.

- 5.3 Interest and loan repayments will be funded from the existing Business Rates and the additional Business Rates to be generated by Silverstone Park Enterprise Zone, as a result of the infrastructure development works.
- 5.4 The loan is not secured on the investment and so the Council will need to accept the risk of non repayment.
- 5.5 In practice the net income generated by all three Enterprise Zones will be made available to service loan repayments and the resources will not be ring-fenced to individual Enterprise Zone sites. This will spread any risk associated with non repayment across all 3 Zones.
- 5.6 Further, an agreement is being sought amongst those Enterprise Zone members who benefit from any Enterprise Zone gains to underwrite any unfunded obligations which cannot be met from the net income available to the Enterprise Zones, should this unlikely situation arise.
- 5.7 In terms of hierarchy, Enterprise Zone income is directed in the first instance to the agreed running and staffing costs and then to fund loan obligations. Only once these obligations are met is any excess directed toward other investment projects.
- 5.8 The 3 Enterprise Zones are already delivering some retained Business Rates from units previously constructed and let by MEPC at Silverstone together with some existing units at Westcott. The income from these is almost sufficient to cover the budgeted running costs and the loan repayment, should this funding be approved.
- 5.9 It is therefore considered that the financial risk associated with this decision is very low.
- 5.10 The rate applicable will be pegged to a standard annuity PWLB loan over a term equivalent to the remaining length of the Enterprise Zone agreement. There is no lending return to the Council from this decision, but the Council will recover any administrative costs associated with the decision from the Enterprise Zone.
- 5.11 The funding is Capital expenditure for accounting purposes and a decision to approve this funding will need to be reflected in the Capital Programme and the Treasury Management Strategy.

6 Conclusion

- 6.1 Hewdon Consulting's Project Appraisal (June 2017) summarises the proposal as being for a £4.993m grant to MEPC for utilities to the Silverstone EZ Site in advance of occupier demand, funded from existing and forecast retained business rates generated from the site. The appraisal concludes that:-
 - a.) The strategic intent and the proposed financing mechanism accord with the approach set out in the EZ Implementation Plan;
 - b.) MEPC is an experienced developer with a competent professional team and should be more than capable of carrying out the project efficiently; the project budget includes a large percentage for on-costs and client contingency. It would be prudent to make it clear that the £4.993m grant is a maximum figure, with MEPC responsible for cost overruns.
 - c.) AVEZ should approve the final tender sums for each utilities contract and ensure that the client contingency retained at that stage is a reasonable percentage.

- d.) AVDC will rely on retained business rates from existing and future development to recoup the grant cost, but the projected income over the life of the EZ should easily achieve this.
- e.) The state aid position is complex and Hewdon are unable to say definitively that the project is fully compliant. Hewdon's view is that the risk of a challenge is very low. In any event it will be up to MEPC as recipient to satisfy themselves regarding the details of State Aid compliance.

7 Options considered

- 7.1 As the designated Accountable Body for the Aylesbury Vale Enterprise Zone, any borrowing requirement falls to Aylesbury Vale District Council. If the Council chooses not to approve the funding then the scheme and wider objectives of the Enterprise Zone cannot be progressed.

8 Reasons for Recommendation

- 8.1 The borrowing decision sits outside of the Council's agreed budget framework and so requires the authority of Cabinet and Council to proceed.