

CAPITAL PROGRAMME UPDATE 2019/20 TO 2022/23

1 Purpose

- 1.1 Cabinet received a report (attached as an appendix) on 18 December 2018, giving an update on the capital programme for the current year and setting out a revised programme for 2019/20 onwards.
- 1.2 The Cabinet report made reference to an additional request for funding from the Aylesbury Vale Enterprise Zone Board for an investment proposal at Westcott. Additional information has now been received in respect of this scheme and the business case presented to the Enterprise Zone Board is summarised below seeking AVDC funding for the scheme.
- 1.3 The Scrutiny Committee is asked to review the report presented to Cabinet and the Enterprise Zone funding request for the Westcott and indicate any comments / feedback that it wishes Cabinet to taken into account in recommending to full Council to approve the updated Capital Programme for 2019/20 onwards.
- 1.4 Scrutiny's comments will be reported to the Cabinet meeting on 16 January, 2019, with Cabinet's recommendations for the updated Capital Programme then submitted to the full Council meeting on 6 February 2019.

2 Recommendations/for decision

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| 2.1 The Scrutiny Committee is requested to indicate any comments it has on the updated Capital Programme that it wishes Cabinet to take into account in updating the Capital Programme for 2019/20 onwards. |
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3 Executive summary

- 3.1 The Capital Programme report to Cabinet on 18 December 2018 provided an update on the capital programme for the current year and detailed the revised programme for 2019/20 onwards. Cabinet approved the updated Capital Programme for review by the Finance and Services Scrutiny Committee, as required under policy framework requirements.
- 3.2 In this report reference was made to an expected application from the Aylesbury Vale Enterprise Zone Board for funding for a scheme at Westcott. As the Accountable Body for the Enterprise Zone, any request for funding has to be made to Aylesbury Vale and, if approved, provision will need to be in the Capital Programme. The information has now been received and is summarised below seeking funding of £1.2 million to be repaid through a combination of loan repayment and recoupment from Business Rates collected and retained from the Enterprise Zone.
- 3.3 The Scrutiny Committee is requested to indicate any comments it has on the updated Capital Programme that it wishes Cabinet to take into account in recommending to full Council to approve an updated Capital Programme for 2019/20 onwards. A report on the Capital Programme for 2019/20 onwards will be reported to the Council meeting on 6 February 2019.
- 3.4 Westcott Enterprise Zone – Space Catapult Innovation Centre
- 3.5 The Enterprise Zone status awarded to Aylesbury Vale allows all business rates collected within the Zones to be retained by the local authority and used for investment in infrastructure and other economic development initiatives for a period of 20 years.

- 3.6 The bid to Government for Enterprise Zone status in Aylesbury Vale included the proposed delivery business plan, which set out proposed funding priorities. The investment at Westcott was one of these.
- 3.7 Two key facilities have recently opened within the emerging 'Space Cluster' at Westcott EZ (5G Step Out Centre and Business Incubation Centre). These are both operated by the Satellite Applications Catapult (SAC).
- 3.8 The SAC is one of 9 'Catapults' set up nationally by BEIS and funded by Innovate UK. The SAC is a not-for-profit company whose primary objective is to promote, develop and facilitate the commercialisation and advancement of the satellite applications industry.
- 3.9 The SAC's Space Cluster facilities at Westcott offer start-up businesses in the rocket propulsion, 5G, satellite and other space related sectors opportunities to utilise specialised equipment that would otherwise not be affordable / available, take advantage of free supported workspace, and obtain expert business and technical support.
- 3.10 The third element of the SAC's strategy for the Westcott Space Cluster is the provision within the next 12 – 18 months of an Innovation Centre to provide accommodation for start-up businesses emerging through the 5G / BIC facilities, from elsewhere at Westcott, or from other outside companies where location within the Westcott Space Cluster would be beneficial.
- 3.11 The original proposal for the Innovation Centre is supported by Bucks Thames Valley LEP (BTVLEP) with the award of £2m Local Growth Fund (LGF) funding (50% loan/50% grant). SAC and BTVLEP entered into an Agreement for the LGF funding in December 2017. Under the agreement the facility is due to be completed by December 2019. There is therefore pressure to progress the project as soon as possible to meet this timescale, but also to maximise the potential for the facility to rapidly provide accommodation to support emerging space industry related initiatives at Westcott and from elsewhere.
- 3.12 It has become apparent in recent months that significant changes are occurring in the space industry nationally, including the focus on producing smaller / lower cost satellites. This, coupled with the space industry interest shown in the emerging Westcott Space Cluster (evidenced by the significant attendance at the October 2018 launch event) and the announcement by Rockspring (the site owner) that it is looking to deliver c.1,900m² speculative 'move on' employment space in the EZ alongside the Innovation Centre, provides the opportunity to refocus the Innovation Centre and its proposed facilities to ensure it meets the latest and future industry requirements.
- 3.13 Further discussions have been held with the SAC, Rockspring and other prospective partners (e.g. Leicester University and the Manufacturing Technology Centre in the context of Apprenticeships / skills support) regarding the Innovation Centre project. The SAC have provided a Business Case seeking EZ funding of £1.2m to add to the £2m LGF funding to support the expanded and enhanced Innovation Centre. Independent Consultants, Hewdon Consulting, have appraised the project for AVEZ, and have provided an Appraisal Report. The positive conclusions of Hewdon's project appraisal are outlined further below.
- 3.14 In summary the Innovation Centre will fulfil the following functions:

- a) Provide growth space for incubatees from Westcott BIC and 5 G Centre – ensuring companies can remain at Westcott, and expand;
 - b) Be a hub for University researchers, promoting collaboration with industry and more effective knowledge and people exchange;
 - c) Act as a landing ground for companies wishing to set-up at Westcott or establish collaborations on 'neutral territory';
 - d) Provide space for production engineering development and be a platform for rapid expansion and creation of production capabilities and jobs at Westcott;
 - e) Act as an initial focus for training activities at Westcott.
 - f) Provide a footprint for educational activities relating to Space and careers within, with an emphasis on manufacturing, which is accessible to all;
- 3.15 The production engineering capability (d) is the major addition to the original concept, and is driven by recent developments in the space sector, and the planned introduction of indigenous small to medium launch capability aimed at the growth market of small satellites and satellite constellations.
- 3.16 In addition to the provision of production space, the revised proposal also increases the size of the Innovation Centre (from 1,000m² to 1,200m²) and enhances the building's specification (from a basic industrial unit) to create a 'gateway' building at the entrance of the Space Cluster site.

Scheme Funding

- 3.17 The Business case put forward by the Satellite Catapult and supported by the Enterprise Zone Board proposes that the £1.2 million of funding for the project is split £600,000 Loan and £600,000 grant. As its Accountable Body, the Enterprise Zone Board is seeking for AVDC to borrow the £1.2m funding and to recover this (plus any interest costs) from the EZ retained business rates.
- 3.18 The Borrowing will be reduced by repayment of the 50% loan element (£0.6m plus interest) by SAC which will occur in 2 staged payments (as provided for in the BTVLEP / SAC Agreement). This would serve to reduce the net EZ cost of the project to £0.6m. In addition the building will generate business rates for retention by AVEZ of approximately £30,000 per annum.
- 3.19 The balance of £600,000 (the Grant element) will be repaid by the Enterprise Zone from the retained Business Rates. There are currently sufficient unallocated business rates receipts to fund the estimated repayment, even without the development of new business rates paying premises. This scheme is therefore considered affordable by the Enterprise Zone Board.
- 3.20 It is proposed that the EZ funding is provided to BTVLEP and that BTVLEP amends its existing Grant and Loan Agreements with SAC to reflect the increased funding from the EZ. This (subject to further detailed discussion with AVDC / BTVLEP) seems to provide the simplest mechanism for provision of funding.
- 3.21 A separate funding agreement will need to be put in place between AVDC / BTVLEP relating to the provision of the EZ funding and return of the 50% loan funding. As BTVLEP has no legal company status of its own its accountable body is Bucks County Council, or its successor.

- 3.22 The Council, will require BTVLEP to secure a charge over the property (if achievable) but will ultimately seek underwriting from BTLEP (via Bucks CC, or its successor) for the Loan element of the transaction.
- 3.23 If the Council is supportive, the detail of the funding agreement (together with a legal review and state aid review) will need to be refined to protect the Council's interests.

Business Case Independent Appraisal

- 3.24 Hewdon Consulting's Project Appraisal (November 2018) concludes that the project is robust and that the Innovation Centre as now proposed would be a positive addition to the Westcott Space Cluster.

Hewdon's detailed conclusions are summarised below:-

- a) The increase in project scope and costs are brought about by changes in external factors that increase the importance of the project to the local and national economy;
- b) The revised project results in a larger and better specified building that justifies the additional cost;
- c) SAC is a well-financed government-sponsored body with experience of operating a similar Hub at Harwell and has also just completed the Business Incubation Centre and 5G Centre at Westcott;
- d) SAC has experience of operating similar buildings but not of building them. It has hired an experienced project manager to oversee the project but BTVLEP/AVEZ may need to monitor progress more closely than normal for such projects;
- e) The operating budget for the centre is sensible and occupancy targets are ambitious but achievable;
- f) The investment case is robust and can be justified by the contribution to UK productivity from each job created and by the lack of deadweight or displacement;
- g) The existing LGF loan agreement provides a five year facility at a rate of 1.37% unsecured. As this is below market rate, it implies that the aid to the project is in excess of 50% and may create a state aid problem. This may need further advice;
- h) the loan is secured by a mortgage against SAC's leasehold interest in the building which may not provide adequate security and this should be tested by an independent valuation although in Hewdon's view this is probably an acceptable risk;
- i) If the additional funding is financed by AVDC, half will be secured as a loan on the building (assuming that provides adequate security) but AVDC will need to recoup at least some of its grant from retained rates on other EZ buildings;
- j) it seems sensible to pass EZ funding to BTVLEP who can put in place variations to existing contract documentation with SAC – which will need some variation anyway to cope with the change to scope.

3.25 The Hewdon conclusions support the investment in the scheme as a central part of the development of this Enterprise Zone. The Funding provided by Aylesbury Vale can be covered by existing retained Business Rates being delivered from the existing 3 Enterprise Zones. The roll of the LEP and the County Council (as its Accountable Body) provides sufficient security and confidence of repayment to justify provision of funding in accordance with this request.

Contact Officer
Background Documents

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