Appendix 3 – Financial Risks (confidential)

CBRE has reviewed the financing options for Seaways, including the options for the Council to vary the existing agreement and provide a subsidiary lease to enable the funding of the scheme.

Traditional Debt and Equity Funding
As a result of current market conditions (see Appendix 2), the traditional funding markets are constrained and challenged. Based on the projected costs and value the scheme is not viable on a traditional funding basis and therefore traditional funding is not possible.

It is CBRE's opinion that if the Council were to wait for market conditions to return to a level that is favourable enough for traditional funding it may be a considerable time before the market supports this, and it is more than likely that the scheme would not come forward with TEL and therefore would not be delivered, or deliverable within a reasonable timeframe.

Funding Grants
There are currently a number of grants available for real estate development across the UK. Central Government has been promoting a "levelling up" and "Covid recovery" agenda. These grants are particularly seeking opportunities that are able to be progressed quickly, will bring forward new jobs and opportunities and enhance the local economy. We would suggest that the Seaways project could meet this criteria well and that such grants should be explored if they reduce the funding gap of the scheme and enhance the impact on any intervention by SBC. However, it should be noted that any such grants would not cover the entire development cost, but a minority proportion of it.

Council Intervention
As a result of the lack of available funding, the most achievable way to fund the scheme is through Council intervention. This could be effected through a number of routes, but all would be on the basis of the Council expecting to receive surplus income over the period of the funding (above and beyond the cost of the funding) and retaining the asset into perpetuity.

- Direct Lending – either through public works loan board (PWLB) or Council reserves
- Annuity Lease – through the signing of an index-linked lease of not more than 40 years with the reversion remaining with the Council and no up-front Capital requirement on the Council.

In both examples the Council is forecast to receive a significantly higher income than expenditure in servicing the finance.

In order to mitigate the Council's risk in such a transaction it would be recommended that:

- a sinking fund is maintained to cover ongoing or unforeseen costs; and
- a hurdle of contractual pre-lets is met before funding is released; and
- TEL is required to provide financial assurances as to the performance of the scheme's income in the early years post completion (by way of profit erosion / rental top ups)

With these mitigants in place it appears reasonable to forecast that the development would bring forward the economic and social benefits forecast as well as a sustainable long-term financial return to the Council over the period of the transaction, followed by full ownership of the asset at the point of reversion.

Based on the analysis undertaken into the funding options for the Seaways scheme, CBRE is of the opinion that the only viable funding option is by Council intervention, with grant funding a desirable additional source of funds.