

CARDIFF CAPITAL REGION CABINET

CABINET MEETING 14th JULY 2017

CARDIFF CAPITAL REGION COMPOUND SEMICONDUCTOR PROJECT – UPDATE ON OUTSTANDING MATTERS

REPORT OF CARDIFF CAPITAL REGION PROGRAMME DIRECTOR

AGENDA ITEM: 6

Appendices 1, 2, 3, 4, 5 and 6 of this report are not for publication as they contain exempt information of the kind described in paragraphs 14, 16 and 21 of parts 4 and 5 of Schedule 12A to the Local Government Act 1972

Reason for this Report

1. To provide an update on the Compound Semiconductor (CSC) Project, following receipt of approval by the Region Cabinet, on 2 May 2017, subject to specific issues being successfully resolved.
2. To note a change in the overall financial commitment required for the project.
3. To confirm that sufficient progress has been made on the outstanding issues to allow the CSC Project to proceed and for the funding to be released.

Background

4. At its meeting on 2nd May 2017 the Regional Cabinet resolved that subject to:
 - (i) Compliance with the conditions contained in the external specialist advice contained in the confidential appendices to the main report,
 - (ii) Reaching agreement as to the Heads of Terms referred to in Paragraphs a) and c) below,
 - (iii) The matters referred to in Paragraph 10.3 of the confidential Appendix 6(a) (The Compound Semiconductor Project Proposal) being resolved.

To support the development of a Compound Semiconductor Industry Cluster in the region by establishing an anchor space in the region for high end production and manufacturing by:

- a) Entering initially into a Heads of Terms agreement with Welsh Government and subsequently the transfer for the purchase of a specific facility;
- b) In accordance with section 2.4 of the JWA, commit £38.4m of the HMT Contribution to the Wider Investment Fund for landlord works to the facility referred to in Paragraph a), building fit-out, ancillary works and associated management and supervision costs;

- c) Entering initially into a Heads of Terms agreement for an eleven-year lease, and subsequently granting a lease (of the facility referred to in Paragraph a) to the proposed lessee, with an in-built stair-cased rental profile and flexible Option to Purchase;
- d) To allow the head lessee, to enter into a sub-lease arrangement; and
- e) To make a direct award for the development and fit-out of the facility.

It was further resolved:

- f) In principle to establish a Special Purpose Vehicle to implement the proposal, the detailed arrangements of which will be the subject of a further report to the Regional Cabinet for approval;
- g) Prior to a Special Purpose Vehicle being established, to agree that for the purposes of continuity, Monmouthshire County Council continues to act as lead Authority to progress this matter.

5. It was also noted in the meeting:

‘as regards one of the matters referred to Paragraph 10.3 of the confidential Appendix 6(a) (The Compound Semiconductor Project Proposal), Rhondda Cynon Taf County Borough Council (RCT) has agreed, in principle, to provide bridging finance for cash flow purposes as set out in Paragraph 31 of the report, through the most viable and cost effective mechanism and in the best interest of RCT and the wider City Deal constituent Councils at that time and in line with RCT’s Treasury Management Strategy.’

6. Since the decision of the Regional Cabinet on 2nd May, in accordance with resolution g), Monmouthshire County Council officers have worked to progress the resolution of the outstanding matters.

Issues

- 7. The in-principle decision to establish a Special Purpose Vehicle to implement this project is the subject of a separated report. All other outstanding matters are covered in this report.
- 8. When considering the outstanding matters, it must be borne in mind, as detailed in the report of 2nd May, there are critical time constraints which apply to this project.
- 9. Specific matters requiring a fuller explanation are detailed in exempt **Appendix 1** while a full list of outstanding matters to be resolved are listed in exempt **Appendix 2** which also details the progress made to date.
- 10. It is considered that sufficient progress has been made on all matters referred to in 2nd May ‘subject to’ matters to allow the CSC Project to progress and for the funding to be released in the appropriate tranches determined by the Lead Authority and or SPV.

Funding Profile

11. An estimated expenditure and funding profile for the CSC Project is attached in exempt **Appendix 3**.
12. The full estimated expenditure indicates the requirement to commit a total of £38.5m which is an increase of £100,000 over that agreed by the Regional Cabinet at its meeting on 2nd May 2017.
13. The reason for the change in required funding commitment relates to the additional detailed work undertaken to comply with resolution f) of the meeting on the 2nd May, which highlighted additional costs, over and above those estimated, related to the establishment and associated running costs of an SPV.

Financial Implications

14. The attached report provides an update on progress made on the CSC project since its conditional approval by Regional Cabinet at its meeting of the 2nd May 2017. A total budget of £38.4 million was approved in respect of the CSC project, consisting of £37.9 million for project investment and £0.5 million for SPV set-up costs, preparation of project documentation and SPV running costs for the first two years of operation.
15. The project is to be funded from the £50 million HMT monies approved in respect of 'Initial Project Investments', ahead of the full JWA Business Plan being approved.
16. The investment was approved on the basis that it would be repaid in full over the term of the lease or earlier, if the tenant exercises its option to acquire the building. The repayment was based on recouping the initial due diligence costs incurred (£0.3 million), rental payments amounting to £33.1 million and the proceeds from the sale of the building. The amount realised from the latter would be dependent on whether the tenant exercised its option to acquire the building. As there is no legal obligation on the tenant to acquire the building, the funding model assumes that the building would be disposed-of on the open market, in which case a 'balancing payment' would be due from the tenant.
17. Further work has been undertaken to refine the individual cost headings making-up the £0.5 million SPV budget. This has identified additional cost pressures in respect of advisor related support and the report seeks approval to increase the budget by a £100k to £0.6 million. It should be noted that any increase approved for this project will result in a corresponding reduction in the amount available from the Wider Investment Fund (WIF) to fund other projects and priorities contained within the JWA Business Plan, once approved.
18. As matters contained within the exempt appendices are confidential and commercially sensitive, an additional set of Confidential Financial Implications have been set-out at **Appendix 4** and should be considered in conjunction with the financial advice above.

Legal Implications

19. The legal implications in respect of the Compound Semiconductor Project contain exempt information of the kind described in paragraphs 14, 16 and 21 of parts 4 and 5 of Schedule 12A to the Local Government Act 1972 and is therefore contained in exempt **Appendix 5**.

Equalities Impact Statement

20. To follow.

Reasons for Recommendations

21. To note the progress made on the outstanding matters as referred to in the report of 2nd May 2017 and detailed in this report and its appendices and confirm that sufficient progress has been made to allow the CSC Project to proceed.
22. To approve the release of funds into the CSC Project.

RECOMMENDATIONS

It is recommended that, further to its decision of 2nd May 2017, the Cardiff Capital Region Cabinet:

- a) Agree the increase in the required project cost to £38.5m as detailed in **Appendix 3**;
- b) Agree that sufficient progress has been made on those matters to which the Regional Cabinet decision on CSC Project on 2nd May 2017, was subject to, and confirm that the CSC Project should proceed.
- c) Authorise the Accountable Body to release funding to the SPV, up to £38.5m, in tranches as requested by the SPV and in accordance with the financing and loan provisions detailed in sections 7 and 8 of the SPV Shareholders Agreement attached in **Appendix 6**.

Sheila Davies
CCR Programme Director
10th July 2017

The following exempt Appendices are attached:

Appendix 1: Specific Matters (Confidential)

Appendix 2: Outstanding Matters and Progress to Date (Confidential)

Appendix 3: CSC Project Expenditure and Funding Profile (Confidential)

Appendix 4: Financial Implications provided by the Accountable Body (Confidential)

Appendix 5: Legal Implications provided by the Accountable Body (Confidential)

Appendix 6: Shareholders' Agreement relating to CSC Foundry Limited (Confidential)

Background Documentation (exempt):

(Note: All Background Documents will be issued to S151 and Monitoring Officers prior to the Regional Cabinet meeting to enable them to fully brief their respective Leaders)

Cardiff Capital Region Cabinet Report of 2nd May 2017 and associated exempt Appendices; plus the exempt reports listed below:

Ref #	Title
CSC-D-0020	Heads of terms: WG sale of land
CSC-D-0021	Heads of terms: IQE Lease
CSC-D-0023	SPV Articles of Incorporation
CSC-D-0027	HMT A Loan Note Instrument
CSC-D-0028	Council Bridge A Loan Note Instrument
CSC-D-0029	HMT Security Agreement
CSC-D-0030	Council Bridge Security Agreement
CSC-D-0031	IQE Parent Company Guarantee
CSC-D-0032	Payment Guarantee from MCC to WG
CSC-D-0034	Sale and Transfer Agreement
CSC-D-0035	IQE Development Agreement for Lease
CSC-D-0036	IQE Lease agreement
CSC-D-0042	IQE Warranties
CSC-D-0047	Council Collateral warranties
CSC-D-0048	IQE Collateral Warranties
CSC-D-0055	KPMG Corporation Tax Advice
CSC-D-0056	KPMG Due Diligence on IQE Silicon Compounds, CMB & Atkins
CSC-D-0057	P&T Site Plan