

**The Highland Council**  
**Planning, Development and Infrastructure Committee**  
**4 November 2015**

Agenda Item	23
Report No	PDI 78/15

**Inverness Airport Business Park Ltd - Unsecured Loan Stock**

**Joint Report by Director of Finance and Director of Development and Infrastructure**

**Summary**

This report advises Committee that Inverness Airport Business Park Ltd.'s audited Annual Accounts for the year to 31 March 2015 have been received and assessed by the Council. The outcome of the assessment is that the company's financial position has weakened as at March 2015, partly due to development and marketing activity undertaken, and that there is no benefit to the Council commissioning an independent assessment of the company's financial ability to pay at this time. The report also highlights that an updated Business Plan will be received from Inverness Airport Business Park Ltd before Christmas 2015 and the outcome of the Council's assessment of this document will be reported to a future Committee meeting. Depending on the outcome of the assessment there may be a need to review its position on accounting and reporting the value of the debt in the Council's 2015/16 Accounts.

**1. Background**

- 1.1 As has been previously reported the Council entered into a Loan Stock Instrument for £1,175,000 Unsecured Loan Stock 2010/2015 with Inverness Airport Business Park Ltd ('IABP') on 16 May 2005. Under the Loan Stock Instrument IABP can exercise a right to defer the repayments due to be made to the Council in May 2010 and in May 2015. IABP have exercised this right on both repayment dates so that the full amount of Loan Stock due to the Council remains outstanding.
- 1.2 Under the Loan Stock Instrument, the Council as holders of the Loan Stock can require the financial ability of IABP to be independently assessed by a firm of Chartered Accountants. If the opinion of that assessment is that IABP can afford to repay the Loan Stock then IABP have to make payment to the Council within 4 weeks of the written opinion being issued. The cost of carrying out this independent assessment would fall to be met by the Council.

- 1.3 To date the Finance Service has reviewed IABP's Annual Accounts to ascertain if there would be any benefit of commissioning this independent assessment. The outcome of these assessments has been that there would be no benefit to the Council from commissioning this independent assessment of IABP's financial ability to make repayment of the Loan Stock.

## **2. Current Position**

- 2.1 The Council has now received IABP's audited Annual Accounts for the year ended 31 March 2015. The Accounts are unqualified by IABP's auditors.
- 2.2 The Accounts reflect that the Company made a loss of £199,179 in the year to 31 March 2015. This is a sizeable loss and represents a significant adverse movement when compared to the loss of £23,757 from the previous financial year. A comparison between the two financial years reflects that:
- turnover is identical in both financial years (£42,880);
  - Administrative Expenses in 2014/15 amounted to £189,130 an increase of £81,914 on the equivalent 2013/14 cost of £107,216. Approximately £79,000 of this increased cost can be attributed to increased costs on Marketing & Development costs (increase of £35k), Consultancy Fees (increase of £35k) and Publicity and Advertising (increase of £9k). Given that IABP are marketing the business park these increased costs would support that course of action;
  - there is a Corporation Tax liability in 2014/15 of £99,274 whereas in 2013/14 there was a tax refund of £12,191. IABP has advised that the tax liability in 2014/15 on income from a long lease of a site which appears to have been paid partly in advance;
  - interest and other charges has increased by £9,207 in 2014/15 to £13,094; and
  - Other Operating Income has increased by £27,164 in 2014/15 to £59,439 although it appears that £21,215 of the increased income is due a reimbursement to the company of a Director's remuneration.

2.3 The Balance Sheet as at 31 March 2015 outlines a weaker position than in March 2014. The table below highlights some key comparisons:

	2015 Figures £	2014 Figures £	Variation
Land & Buildings	4,886,699	4,353,663	£533,036 being acquisitions during 2014/15.
Current assets	416,694	360,473	£56,221 being total increase in Debtors and cash at bank.
Creditors falling due within one year	1,028,327	838,346	£189,981 including the Corporation Tax liability mentioned earlier in the report.
Net Current Liabilities	611,633	477,873	£133,760 This is the net effect movement in current assets and creditors falling due within one year.
Creditors falling due after more than one year	4,333,203	3,734,748	£598,455. This is tied in with the lease arrangements for Bristows and represents the Deferred Income of the lease premium received in the year. This amount is being released over 150 years.
Net worth	91,863	291,042	£199,179 reduction on Net worth of company and is the net effect of all the changes outlined above

2.4 The overall impact of the above table represents a significant reduction in the financial standing of IABP compared to the previous financial year. Following

a Finance Service review of the Accounts it is recommended that at this time there would be no financial benefit from commissioning the independent assessment of IABP's financial ability.

2.5 This diminution of the financial standing of IABP per these most recent Accounts clearly has a direct impact on the Company's ability to make payment to the Council and clearly the risk of the Council having to reduce the value of the debt in its 2015/16 Accounts is significantly increased.

2.6 It should be noted that IABP completed a new access road, in December 2014, to open up Phase 1 of the business park and this should support future development and therefore cash flow. The Bristow Search and Rescue facility also opened in Spring 2015.

### **3. Way Forward**

3.1 IABP has undertaken to provide the Council with an updated Business Plan by Christmas 2015 showing the updated arrangements for developing the business park. This updated Business Plan will outline IABP's forecasts for developing the business park and outline when the company is likely to be in a position to make full repayment of the Loan Stock due to the Council. This updated Business Plan, and its implications, will be assessed with the outcome being reported to Council in time for the Council's financial year end on 31 March 2016. The company has undoubtedly been affected by the property sector downturn, however there are grounds for optimism about the future development activity. A new rail halt is proposed for the airport and the start of the Tornagrain housing development all points to IABP's long term potential.

### **4. Implications**

#### **4.1 Finance Risks**

4.1.1 The financial risk is that if the outcome of the Council's review of IABP's updated Business Plan suggests that the company will be unable to repay the debt for some considerable time yet, the Council may have to review its position on accounting and reporting the value of the debt in the Council's 2015/16 Accounts.

4.1.2 After the review of the updated Business Plan has been completed and reported to Committee a view can be taken on how the debt should be accounted for and reported in the Council's 2015/16 Annual Accounts.

## 4.2 Legal Risks

Again depending on the outcome of the Council's review of IABP's updated Business Plan, there may be a need to compile an amendment to the current legal agreement – the Loan Stock Instrument – between the Council and IABP. Any amendments to the current Loan stock Instrument such as updated repayment dates agreed between the Council and IABP will need to be legally documented and this will require either an addendum to the current Loan Stock instrument or an entirely new Instrument if the agreed changes should be extensive and significant. The current Loan Stock Instrument was compiled by an external Legal Adviser and if the new documentation was also to be compiled by an external legal firm there will be legal fees associated with this course of action.

## 4.3 Climate Change/Carbon Clever, Gaelic, Equality, and Rural

No implications to these risks are envisaged from this report.

## 4.4 Risk

The main risks are as outlined in the text of this report.

### Recommendations

The Committee is asked to:

- note that IABP's Audited Annual Accounts for the year to 31 March 2015 have been received by the Council;
- note the weaker position of the company in 2014/15;
- agree there would be no financial benefit from commissioning an independent assessment of IABP financial ability at this time;
- note that a revised Business Plan is due to be received by the Council before Christmas 2015;
- note that a report will be made to Committee showing the outcome of the Council's assessment of the Revised Business Plan; and
- note that, depending on the outcome of the Revised Business Plan, there may be a need to review the Council's position on accounting and reporting the value of the debt in the Council's 2015/16 Accounts.

Designation: Director of Development and Infrastructure

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Date: 22 October 2015

Background Papers: Loan Stock Instrument