To the Lord Mayor and
Members of Dublin City Council

Report No 19/2019
Report of the Assistant Chief Executive

Comhairle Cathrach
Bhaile Átha Cliath
Dublin City Council

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**Proposed Guarantee for a Loan to expand the Guinness Enterprise Centre**

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The following report was considered by the South Central Area Committee at its meeting held on the 21st November 2018.

**Introduction**

The Guinness Enterprise Centre (GEC) wants to build on its success with early stage micro enterprises by (1) refurbishing its existing premises and (2) expanding its gross floor space by 69% in a project known as GEC2. It is intended that the resulting "Entrepreneurial Super Hub" will give additional support to economic growth in Dublin 8.

Following a successful submission to the Regional Enterprise Development Fund (REDF), through Enterprise Ireland, and receipt from the Ireland Strategic Investment Fund (ISIF) of a Term Sheet for a loan of €7,000,000 to fund GEC2, Dublin City Council (DCC) is proposing the provision of a guarantee on a €7,000,000 ISIF loan to reduce the interest cost. The ISIF Term Sheet remains subject to further due diligence, ISIF Investment Committee approval and satisfactory loan documentation.

**Background**

The Dublin Enterprise & Technology Centre Ltd (DETCL), trading as GEC, was established in 1999 to stimulate micro enterprise development and innovation within Dublin's inner city. The founding partners, who continue to support the GEC today, are Dublin City Council, Local Enterprise Office (LEO) Dublin City (Dublin City Enterprise Board), Enterprise Ireland, the Guinness Works Enterprise Fund (Diageo) and Dublin Business Innovation Centre (Dublin BIC). Owing to its DCC and LEO related membership, GEC is regarded as a subsidiary company of DCC. It is a not-for-profit enterprise centre providing a range of services for innovative start-up and scaling micro enterprises with an export focus. The GEC has a long history of supporting all types of micro enterprises, many of whom would otherwise have difficulty starting or scaling, by offering affordable working spaces and a range of soft supports. It facilitates connections with start-up business advisors, seed capital investors and university access programmes which offer supports and knowledge geared towards business development. To date they have supported in excess of 700 companies with an estimated 25% of the employees coming from the local area.

**Current status**

The current GEC was developed in a warehouse in Guinness, St James Street, with gross floor space which extends to 5,169 sq m over 3 stories. It provides a variety of hot-desking, co-working, serviced offices, meeting and conference rooms and events' spaces. There are private and shared offices facilitating between 1 and 30 people and supported by shared services including reception, café and meeting and conference facilities. It currently houses about 85 companies and 130 co-workers with in excess of 400 people in the building at any one time. Current occupancy rates are 90% with a long term average rate of 80%.

The GEC encourages churn back into the enterprise ecosystem through a scaled cost structure[1]. This unique model sees rental costs rise from below market in years 1-3 to above market after 5 years thus encouraging scaling entities into the surrounding area. It is envisaged that the churn into the local area will gain momentum and act as a catalyst for further local regeneration. The current churn rate is 25-30% pa. Even with this structure the average rent charge is at a 12% discount to the market supportive of early stage micro enterprises who would otherwise struggle to get space.

## Ownership, lease and management

The building is owned by Diageo and leased to DETCL which trades as GEC. As part of this development Diageo have agreed to extend the lease to 25 years. DCC is a founding partner of the DETCL who along with Enterprise Ireland make up 3 of the founders of DETCL. DETCL is governed by an independent Board made up of the founders. There is also a community representative on the Board.

Following a tender process in 2017 Dublin BIC was awarded the management contract for the GEC. It is a public-private business support organisation with expertise in the entrepreneurial support arena which has supported the creation of in excess of 500 start-ups.

## Rationale for project

To meet increased demand and foster further innovation GEC needs to significantly increase its physical space & facilities. In this way it can leverage its existing enterprise community to further support indigenous start-ups and encourage more scaling companies into the local economy through its pricing structures and targeted turnover rate of 20% which it is currently exceeding.

**It is expected that the State and local community would benefit from the development through:**

Job creation (estimated 3,300 direct & indirect)

Taxation (direct in terms of PAYE and indirect in terms of consumer spending)

**Social Returns:**

Economic growth in the Dublin 8 area

Additional Infrastructure to support start-ups and foster innovation in the inner city

Collaboration between industry, academia, public sector and citizens to drive synergies and innovation (Quadruple Helix)

**This is aligned with State policy as outlined in;**

Dublin Action Plan for Jobs (2016-2018)

Dublin City Local Economic & Community Plan (2016-2021)

## The Proposal

[1] Management have some discretion

The project consists of two distinct parts.

First, is an upgrade to the existing building to enhance the perception of activity and the sense of collaboration and further encourage networking.

Second, is to extend the space by adding two additional floors to the existing three floors which would increase the gross floor space from 5,169 sq m to c.8,757 sq m and add 3,588 sq m of gross space. This would facilitate the expansion of GEC services to include:

Enterprise Centres Partnership which would provide space and connectivity for regional start-ups (MoUs agreed)

Accelerator Programmes

Corporate Innovation

Innovation Education

International Business Schools and Universities Programme (MoUs in progress)

It is envisaged that, subject to planning permission, construction will start between mid-2019 and the start of 2020, with the 2 new floors completed between June 2020 and December 2020 and generating revenue by early 2021.

**The Cost**

The total cost of the project is €10.111m which includes a contingency of 10%. Of this the GEC has already secured up to €3.23m from REDF, of which €2.581m is for capital expenditure*.* It has available seed capital of €750K with €530K of this being applied as capital expenditure. For the remaining costs, the terms of a loan of c.€7m for up to 20 years, with the intention of paying it down earlier, are being explored with ISIF. However, the indicative standalone interest rate of 6% would be prohibitive for the development. Following a report from Deloitte outlining funding options, it is proposed that DCC guarantees the ISIF loan which could bring the interest cost down to c.2.1% making the project feasible. The development will not proceed without the support of DCC providing the loan guarantee. As DCC has representation of up to two nominees on the board of this subsidiary company, the risk of exposure to DCC is reduced.

The new GEC facility would service the debt based on a target occupancy rate of 80% after 3 years (in line with historical trends).

DCC commissioned Ernst & Young (E&Y) to do an in-depth analysis of the financial models prepared by the GEC and, except for external linkages, E&Y validated its integrity, logic and arithmetic. The accuracy, reliability or competence of the commercial projections were not validated although they did find the underlying financial assumptions reasonable.

**Differentiation**

There are a number of other enterprise hubs/accelerators in the Dublin City Area but what differentiates GEC is that it:

Supports export oriented start-up and scale-up micro enterprises

Maintains partnerships with international business schools and universities[2]

Has support from Enterprise Ireland, DCC, Dublin City LEO, Dublin BIC and Diageo

[2] No 1 ranked University Associated Business Incubator in the World 2015/16 by UBI global awards

Implements a churn model to encourage and grow start-ups in the area

Its operating model supports its description as an “Innovation Cluster”

**Outstanding issues and risks with project planning**

Aside from the ongoing commercial risks associated with running an enlarged enterprise centre the following outstanding issues with the project plan have been identified:

The preliminary capital costs have been estimated and will be validated following detailed design.

Construction timing and planning are not validated but the planning application is ready for submission.

Work is ongoing to estimate capital costs and inflation and there is a 10% contingency allowed. In addition, there are additional funds of €890K, currently set aside for upgrading the existing building, which can also be used as contingency if required.

Currently is appears that the project satisfies the European Commission’s criteria in relation to the General Block Exemption Regulation (GBER) on State Aid. However, if this should change there is a possibility that Ireland, on behalf of DCC, will have to apply to, rather than simply notify, the European Commission regarding a State Aid Exemption.

**Legal Opinion on Competition Issues and State Aid**

Legal opinion obtained by DCC indicates that

1) Competition issues are not considered to be a concern, and,

2) Subject to certain concerns regarding financial thresholds, the project as an *“innovation cluster”* qualifies for the European Commission General Block Exemption Regulation (GBER) (EU No. 651/2014). This means that if the project is green lighted Ireland, on behalf of Dublin City Council, will have to notify the European Commission.

**Implications of the DCC Guarantee**

In the event of the GEC being unable to meet the loan repayments to ISIF, having worked together with the GEC board and all stakeholders to try and overcome any such difficulties, then the proposed DCC guarantee would be called upon. However as part of the agreement with the GEC and the leaseholder Diageo, it will be written into the contract that, in the event of the guarantee being called in to repay the ISIF loan, that Diageo grants “right of usage” over the GEC facility to DCC for the duration of the lease. The lease, from Diageo to the GEC, of the building is being extended to 25 years. This in effect means that DCC would be able to take over the GEC and use it for broadly similar purposes to recover any exposure suffered over time – (This structure has to be negotiated and agreed with ISIF, and built into the relevant documentation)

**The right of usage clause approved by the DCC law agent**

“DCC is underwriting the ISIF GEC loan and has requested a “right of usage” to the building over the period of the lease in the unlikely event that the GEC is unable to meet its repayments. DCC requires security where it has the option to take an assignment of the lease, an option that is triggered by a default in the repayment of their loan obligation. DCC understands that the purpose of the “right of usage” would be restricted to a similar use to the existing usage as start-up/scale-up enterprise space.”

**Recommendation**
The South Central Area Committee voted to recommend to the City Council the proposed guarantee.

Therefore, I recommend, subject to European Commission notification, that the proposed guarantee be approved by this City Council. The giving of guarantee is a reserved function under the Local Government Reform Act, 2014.

**Resolution**
"Dublin City Council notes the contents of Report No 19/2019 and hereby resolves to guarantee the proposed €7,000,000 loan (subject to agreeing terms with ISIF) to the GEC to refurbish and expand its premises, subject to the sanction of the Minister for the Department of Housing, Planning and Local Government and the Minister for Finance."

**Richard Shakespeare**
**Assistant Chief Executive**
**17th December 2018**