

Growing Places Fund Update Report

Forward Plan reference numbers: FP/AB/656 and FP/AB/657

Report title: Growing Places Fund Update	
Report to: Accountability Board	
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Meeting date: 16 June 2023	For: Decision
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SELEP Partner Authority affected: All	

1. Purpose of report

- 1.1 The purpose of this report is to update the SELEP Accountability Board (the Board) on the latest position of the Growing Places Fund (GPF) Capital Programme.

2. Recommendations

- 2.1 The Board is asked to:
- 2.1.1 **Note** the updated position on the GPF programme.
 - 2.1.2 **Note** the revised drawdown schedule for the No Use Empty South Essex project (as set out in Section 6 of this report).
 - 2.1.3 **Agree** the proposed revised repayment schedule for the No Use Empty South Essex project (as set out in Section 6 of this report).

3. Background

- 3.1 In total, £45.477m GPF was made available to SELEP for investment as a recyclable loan scheme. To date, GPF has either been invested or has been allocated for investment in a total of 28 capital infrastructure projects. In addition, a proportion of GPF revenue funding was allocated to Harlow Enterprise Zone (£1.244m) and a further £1.5m was ring-fenced to support the activities of SELEP's Sector Working Groups (known as the Sector Support Fund); as agreed by the Strategic Board.
- 3.2 In June 2020, the Strategic Board took the decision to repurpose £6.4m of the GPF funding to enable delivery of interventions which will support economic recovery post COVID-19. In addition, in November 2021 the Board agreed that £18,767 of the GPF loan awarded to the Workspace Kent project could be written off as a bad debt due to the dissolution of the recipient company. These decisions have reduced the balance of the GPF fund to £39.058m.

- 3.3 Quarterly updates are provided to the Board on the latest position of the GPF projects in terms of delivery progress, realisation of project benefits and any risks to the repayment of the GPF loans.
- 3.4 A new prioritised project pipeline was agreed in June 2020. Two projects have subsequently been removed from the pipeline, but funding has been awarded to support delivery of all other pipeline projects. As a consequence, there are currently no projects remaining on the GPF project pipeline.
- 3.5 It is intended that a new round of GPF funding will be launched in 2023/24 and an initial discussion as to the approach for allocating the funding took place at the Strategic Board meeting on 10 February 2023. The following underlying principles for the new round of GPF funding were presented to the Strategic Board for their consideration:
- 3.5.1 The GPF should be retained as a recyclable loan scheme – in light of the decision by Government to no longer direct capital grant funding through LEPs, the GPF funding represents the only real opportunity for SELEP to support delivery of the vision set out in the Economic Recovery and Renewal Strategy and to provide the infrastructure needed to support local economic growth. It is therefore important that the recyclable nature of the fund is retained, allowing ongoing investment in key projects in the region which will play a central role in supporting economic growth and recovery.
- 3.5.2 The fund should operate at no cost to SELEP – the GPF allocation process used historically is both resource intensive and incurs significant costs, including sizeable Independent Technical Evaluator charges, secretariat and accountable body support, which have previously been met by SELEP. Given the change in SELEP's financial position, and the ongoing uncertainty as to whether any funding will be provided by Government to support SELEP's activities beyond 2023/24, it is no longer viable for SELEP to cover costs incurred during the GPF allocation process. Therefore, changes will need to be made to the way the fund operates to ensure that these costs are covered by alternative means. Further work is required to establish how these costs will be met, but options under consideration include the application of a management fee and/or the charging of interest on all loans.
- 3.5.3 Projects should commit to short repayment schedules – projects supported through the most recent round of GPF funding have, for the most part, committed to repaying the loans over a 5 year period. It is proposed that, under the new round of GPF funding, loans are provided for a maximum period of 3 years. This would allow for 1 year for delivery and 2 years for repayment. Shorter repayment schedules have been proposed due to the ongoing uncertainty around the long-term status of SELEP due to ongoing devolution conversations and the potential resource implications for the

Accountable Body should SELEP cease to exist before repayment of the loans becomes due. This approach would require the GPF funding to be awarded to projects which are genuinely shovel ready and in a position to commence delivery immediately following award of funding.

- 3.5.4 The fund should focus on specific sectors within the SELEP economy – the overall objectives of the GPF are to support development at stalled investment sites, improve skills and learner numbers, to accelerate the delivery of new houses and to support the creation of new jobs. These objectives could be applied to virtually any sector within the SELEP region. The last round of GPF funding required that the projects aligned with SELEP's Strategic Objectives as set out in the SELEP Economic Strategy Statement but no further specific guidance was issued. Given the limited resources available to SELEP, it is considered important that the funding is directed towards the sectors where there is a greater need and where the most benefit can be realised. It was intended that these sectors would be identified through an evidence-based approach and would be presented to the Strategic Board at their July 2023 meeting.
- 3.5.5 The fund should be positioned to be supplementary to third party and Government funding sources, including the remaining unallocated GBF funding – the current funding landscape is complicated with an ever-increasing number of different funds being offered – all with a slightly differing focus and with different funding requirements. It is proposed that the GPF funding could be positioned to be supplementary to these central funding sources, allowing externally funded projects to be enhanced by capital funding, resulting in greater benefit realisation.
- 3.6 Following a discussion which predominantly focused on the proposed sector-based approach and the duration of the loans, the above underlying principles were broadly agreed subject to consideration being given to the points raised during the February 2023 Strategic Board meeting (as outlined in the draft Strategic Board minutes).
- 3.7 Subsequent to this Strategic Board decision, Central Government made the announcement in the annual Budget that they were minded to not provide any further core funding for LEP's after 2023/24 and that LEP functions should be integrated into Local Authorities. Government have been conducting an information gathering exercise to inform the next steps towards integration with a view to setting out their position prior to Parliament's Summer recess.
- 3.8 Whilst awaiting further information from Government, there has been a need to undertake a significant amount of work to establish how SELEP operations can be effectively integrated into Local Authorities, whilst safeguarding key activities which need to be conducted at a regional level. This work has

included a further review of options for use of the available GPF funding and it is intended that proposals will be presented to the Strategic Board at their meeting in July 2023. Prior to the Strategic Board meeting, discussions will be held with both officers and Board members with regard to both the proposed integration arrangements and the optimal use of the available GPF funding.

4. Current Position

COVID-19 Impacts

- 4.1 The impact of the COVID-19 pandemic and the associated social distancing measures and lockdowns that were introduced by Government have resulted in a severe shock to our economy. The GPF projects are feeling the effects and longer-term risks have been identified which may affect the delivery of the projects, the realisation of expected project benefits and the ability to repay the current GPF loans.
- 4.2 Further information regarding the effects and risks identified as a result of the COVID-19 pandemic is provided in Appendix D.

Cash Flow Position

- 4.3 Scheme promoters have been working to understand the impacts of COVID-19 on their projects and their intended repayment mechanism since the onset of the COVID-19 pandemic. To date, COVID-19 related revised repayment schedules have been approved by the Board in relation to ten GPF projects.
- 4.4 Table 1 below sets out the current cash flow position based on the planned GPF investment and the GPF available for re-investment through loan repayments. Drawdown forecast for 2023/24 incorporates the revised drawdown schedule for the No Use Empty South Essex project as set out in Section 6 of this report. Repayments forecast for 2023/24 reflect the latest repayment schedules approved by the Board.
- 4.5 The GPF repayment schedules are set out in Appendix B.
- 4.6 All projects, with the exception of the Sovereign Harbour and Eastbourne Fisherman's Quayside and Infrastructure Development projects which were considered by the Board in April 2023, made their scheduled repayments prior to the end of March 2023.

Table 1: GPF Cash Flow Position

£	2022/23	2023/24
GPF available at the outset of year	13,039,744	12,359,744
GPF funding repurposed	-	-
GPF available for investment	13,039,744	12,359,744
GPF Round 1 planned investments	0	0
GPF Round 2 planned investments	0	0
GPF Round 3 planned investments	1,900,000	2,750,000
Position before GPF repayments are made	11,139,744	9,609,744
GPF repayments expected	1,220,000	5,315,000
Carry forward	12,359,744	14,924,744

- 4.7 As shown in Table 1 total GPF Round 3 drawdown of £2.75m is forecast for 2023/24. This £2.75m reflects the last drawdown associated with GPF round 3 projects and sufficient GPF funding is held to meet this drawdown requirement.
- 4.8 All Round 1 and 2 GPF projects have drawn down their full allocation of funding. The drawdown schedule for the GPF programme is set out in Appendix C.

5. Growing Places Fund Project Delivery to Date

- 5.1 A deliverability and risk update is provided for each GPF project in Appendix A.
- 5.2 Four projects have a High (red) overall project risk, including the Green Hydrogen Generation Facility, Centre for Advanced Engineering, No Use Empty South Essex and North Queensway projects.
- 5.3 The Green Hydrogen Generation Facility project is an innovative project seeking to construct a zero carbon hydrogen production facility which will be powered via connection to an existing offshore wind farm. Due to the innovative nature of the project, there is a need for a lot of work to be undertaken prior to construction commencing onsite. Whilst progress has been made, a need to upgrade the turbines at the wind farm has been established. Safety issues have been identified in relation to the older wind turbines which need to be addressed before the project can progress using the planned approach. Work is continuing to address the safety issues but, in the meantime, the delivery partner is investigating alternative zero carbon power sources to ensure that the project can progress as planned. Despite

the delay in progressing the project, no repayment risks have been identified at the current time.

- 5.4 The Centre for Advanced Engineering project has delivered approximately 8,300sqm (Gross Internal Area) of space at South Essex College, with cutting edge facilities and workshops to support courses in engineering, motor vehicle maintenance and construction. The project received £2m of GPF funding and, as it stands, the full balance of the loan remains outstanding.
- 5.5 A revised repayment schedule for the project was agreed by the Board in November 2021 and it was agreed that South Essex College should provide annual updates to the Board to provide assurance regarding the ongoing viability of the agreed repayment schedule. The first update was provided to the Board in November 2022 and identified a number of risks associated with the repayment of the loan. Since this update was provided to the Board, Essex County Council (as responsible Upper Tier Local Authority) have sought further updates from the College on both the identified repayment risks and the realisation of forecast project benefits but have been unable to secure any further information. As a consequence, the project has been flagged as High risk in relation to repayment and delivery of project outcomes.
- 5.6 The No Use Empty South Essex project has been awarded a GPF allocation of £1m and this funding continues to be held by Essex County Council (as Accountable Body for SELEP). Southend-on-Sea City Council were also awarded Getting Building Fund (GBF) funding to support the No Use Empty project and due to the time constraints associated with the GBF funding, spend of this funding was prioritised over the GPF. The GBF funded element of the project has taken longer than anticipated to deliver, which has resulted in a delay in progressing the GPF funded elements. Consequently, the project is no longer able to meet the repayment schedule which was set out in the Business Case and a revised repayment schedule has been brought forward for Board consideration at this meeting. Further details are provided in Section 6 of this report.
- 5.7 The final High risk project is the North Queensway project, which has delivered preliminary site infrastructure and an access road for a new business park as set out in the Business Case. Whilst the GPF loan has been repaid in full, no commercial development has come forward on the site to date and therefore none of the forecast project benefits have been realised. A further update on the North Queensway project will be provided at a future meeting when East Sussex County Council and Sea Change Sussex have confirmed an agreed position with regard to next steps for securing the forecast project benefits.
- 5.8 There are a number of medium risks (amber) identified, primarily in relation to repayment and realisation of project outcomes. The repayment risks stem from the ongoing global economic uncertainty and impacts on the property market. There remain concerns regarding benefit realisation due to the impact

on the property market and local economy of the COVID-19 pandemic. These risks will continue to be monitored.

- 5.9 The usual update on the benefits realised as a result of the GPF investment has not been included within this report. A full review of the forecast benefits and outcomes stated within the original funding applications, including measuring delivery of benefits post project completion, is currently being undertaken. It was anticipated that this review would be completed in advance of this meeting, however, further time is required to complete this piece of work to ensure that the information provided at future Board meetings is fully accurate and robust.

6. No Use Empty South Essex – revised drawdown schedule and proposed revised repayment schedule

- 6.1 The No Use Empty South Essex project aims to return long-term empty commercial properties to use, for residential, alternative commercial or mixed-use purposes, with a particular focus on secondary retail and other commercial premises which have been significantly impacted by changing consumer demand and which may have been impacted by larger regeneration schemes. The properties are returned to use through the provision of short-term secured loans to property owners.
- 6.2 The No Use Empty South Essex project mirrors the successful No Use Empty project which has run across Kent for a number of years, with back-office services provided by Kent County Council.
- 6.3 In November 2020, the Board approved the award of £1.2m Getting Building Fund to support delivery of the No Use Empty South Essex project. The GPF funding was sought to enable the expansion of the project, to provide the opportunity for a greater number of properties to be returned to effective use. The award of £1m GPF to the project was agreed in March 2021.
- 6.4 At the time of the GPF funding decision it was expected that the funding would be drawn down in 2021/22 (£0.4m) and 2022/23 (£0.6m), with repayment expected in 2024/25 (£0.4m) and 2025/26 (£0.6m). To date, no GPF funding has been drawn down against the project.
- 6.5 The process to secure the GPF funding commenced ahead of submission of the application for Getting Building Fund funding and therefore it was initially intended that the GPF funding would be spent first. However, the launch of the project was delayed as a result of the impact of COVID-19 restrictions and the economic uncertainty caused by the pandemic and Brexit meant that early take up was slow. As a direct consequence of these delays and the time constraints attached to spend of the Getting Building Fund funding, the decision was made to prioritise spend of the Getting Building Fund funding.
- 6.6 During 2022/23 there was significant demand for No Use Empty loans and the Getting Building Fund funding is now fully allocated. As set out in Agenda Item

8, it is expected (subject to completion of the required legal and due diligence processes) that the GBF funding will be fully spent by 30 June 2023.

- 6.7 Southend-on-Sea City Council has reported high levels of interest in the No Use Empty South Essex project, with repeat enquiries being received from local developers. Momentum appears to have been generated by word of mouth as developers already involved in the project recommend it as a way to help kick start new builds and conversion of empty commercial premises. This mirrors the experience of Kent County Council who, after running the No Use Empty initiative for a number of years, have a very strong developer pipeline.
- 6.8 As spend of the Getting Building Fund funding draws to a conclusion, Southend-on-Sea City Council are seeking drawdown of the £1m GPF funding allocation. Strong interest in the initiative is continuing, with an initial 4 applications coming forward seeking a total of £450,000 of the GPF funding. These 4 applications are in the early stages of the application process, and will be subject to required due diligence and legal processes before Southend-on-Sea City Council are in a position to release the funding.
- 6.9 The 4 applications which are currently being considered are larger in scope than the schemes supported through the Getting Building Fund funding and are seeking higher value loans than originally anticipated by Southend-on-Sea City Council. It has been reported that smaller owner/developers are more likely to drop out of the application process due to the high levels of due diligence required, with larger developers more likely to complete the application process. Whilst larger schemes have the potential to deliver greater economic benefits, they are more complex in nature and take additional time to process.
- 6.10 Due to the decision to use the Getting Building Fund funding in advance of the GPF funding, the project is no longer able to meet the repayment schedule as set out in the project Business Case. It is now expected that all GPF funded No Use Empty South Essex loans will be issued in 2023/24, with a 3 year repayment period, allowing full repayment of the GPF loan in 2026/27 (as set out in Table 2).
- 6.11 In addition, as set out in Section 6.4 of this report, it was originally expected that the GPF funding would be drawn down in 2021/22 and 2022/23. Due to prioritising the spend of the Getting Building Fund funding, the GPF funding allocation continues to be held by Essex County Council (as Accountable Body for SELEP). The Board are therefore also asked to note the change in the drawdown schedule, as set out in Table 2 below.

Table 2: Revised drawdown and proposed revised repayment schedule for the No Use Empty South Essex project

	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	Total
Drawdown schedule							
Original	£0.4m	£0.6m	-	-	-	-	£1.0m
Revised	-	-	£1.0m	-	-	-	£1.0m
Repayment schedule							
Original	-	-	-	£0.4m	£0.6m	-	£1.0m
Revised	-	-	-	-	-	£1.0m	£1.0m

- 6.12 As the project is no longer able to comply with the repayment schedule previously agreed by the Board, it is necessary for the proposed revised repayment schedule to be agreed before the GPF funding can be released by Essex County Council (as Accountable Body for SELEP). If the Board choose not to agree the revised repayment schedule, it will not be possible for the project to continue and the Strategic Board will be asked to agree the removal of the project from the GPF programme.

7. Financial Implications (Accountable Body Comments)

- 7.1 Essex County Council, as the Accountable Body, is responsible for ensuring that the funding awarded by Government is utilised in accordance with the conditions set for use of the Grant. GPF is a capital grant awarded by Government to be operated as a recyclable loan scheme.
- 7.2 A total of £12.360m GPF was held by the Accountable Body at the end of 2022/23. Of this balance, £9.61m is uncommitted increasing to £14.925m uncommitted balance for 2023/24, should all loan repayments be received in line with current Board decisions and credit agreements in place.
- 7.3 The existing GPF project pipeline has now been expended, however, the Board has agreed the principles for a new round of GPF funding, in February 2023; however, as set out in section 3.8, the future arrangements are planned to be discussed by the Strategic Board in July 2023. From a sustainability perspective, it is essential that any new scheme should look to be self-financing moving forward and can operate as cost effectively as possible; therefore, learning the lessons from existing investments is key to ensure that the risk to the fund is reduced as far as possible. Any new scheme must meet the requirements of the SELEP Assurance Framework, particularly with respect to agreeing an approach to prioritisation and assuring value for money.
- 7.4 The current economic climate means that there is a continued risk that scheduled repayments by existing projects will not be made as planned due to difficulties experienced as a result of Brexit, COVID-19, and economic uncertainty due to the high levels of inflation. It is a requirement that the respective Local Authority that is the recipient of the loan, monitors the repayment position and advises SELEP and the Accountable Body of any

potential risks in this respect to enable mitigations to be agreed by the Accountability Board in advance of any default in repayment.

- 7.5 One project is seeking agreement of a revised repayment profile; this is considered below:

No Use Empty South Essex

- 7.5.1 The credit agreement between Southend-on-Sea City Council and Essex County Council as the Accountable Body for the SELEP, requires for repayment of £400,000 of the loan value in 2024/25 and £600,000 in 2025/26. The repayment profile is requested to be amended to allow for a delay in repayment to 31st March 2027 for the full value of the loan.
- 7.5.2 The credit agreement sets out that if the Borrower, in this case, Southend-on-Sea City Council, fails to pay any amount payable by it to the Accountable Body on its due date, interest shall accrue on the overdue amount from the due date up to the date of actual payment at a rate which is up to 2 per cent higher than the rate which would have been payable if the overdue amount had been paid in accordance with the agreed repayment schedule.
- 7.6 It will be for Southend-on-Sea City Council to ensure that they can continue to meet the requirements of the credit agreements, including meeting any requirements of the Subsidy Control Act, in accepting the extension for the repayment of the loan as set out in this report.
- 7.7 The impact of agreeing the delay in repayments on the overall GPF scheme is that it reduces the amount that can be made available to be reinvested through the next round of the recyclable loan scheme. The requested repayment delay aligns within the timescales of other GPF extensions agreed by the Board, however, as there is uncertainty with respect to the future of the LEP (see agenda item 5), it places into question the overall position of the GPF programme. At this point, as no decisions have yet been made to give certainty with respect to any future arrangements for the GPF programme, it is considered that where extensions are consistent with other decisions made by the Board, this uncertainty should not be a barrier to the decision.
- 7.8 The Board are advised to continue to monitor the status of all existing GPF projects in terms of delivery status, outcomes and loan repayment assurances. Reprofitting requests from GPF projects and repayment risks that are highlighted in reporting, may result in a delay in the amount of GPF repaid by projects and may reduce the amount of GPF available for reinvestment in future years.
- 7.9 It is continued to be noted that actual delivery of jobs and homes reported to date remain out of line with the expected levels identified in the business cases for most completed projects and there has been some evaluation of

why delivery of outcomes is lower than expected. This should continue to form part of the on-going monitoring with reasons for under delivery explained fully to the Board. This is critical post pandemic and with current economic pressures from increasing inflation and Brexit related issues, to help monitor the economic impact of the crisis on the SELEP region and project outcomes. Where appropriate, these evaluations should be used to inform future business case estimations of growth to ensure there is not a pattern of over-ambition.

8. Legal Implications (Accountable Body Comments)

- 8.1 The Growing Places Fund is provided by the Accountable Body to the partner authorities for each project under a loan agreement. Where a loan has not been repaid in accordance with the repayment schedule set out in the loan agreement, the 2% discount rate of interest will cease to apply and the full Public Works Loan Board Fixed Standard New Loan Interest Rate stated will be applied to the outstanding loan amount with effect from the relevant repayment date.
- 8.2 Under the agreement, the Borrower is responsible for project monitoring and reporting to the Accountability Board and SELEP Strategic Board. The Borrower is required to provide an update on Project risk including those affecting repayment, as set out within this report, and this obligation continues in respect of an update regarding the position to be provided at the next Accountability Board.

9. Equality and Diversity implications (Accountable Body Comments)

- 9.1 Section 149 of the Equality Act 2010 creates the public sector equality duty which requires that when a public sector body makes decisions it must have regard to the need to:
- a) eliminate unlawful discrimination, harassment and victimisation and other behaviour prohibited by the Act;
 - b) advance equality of opportunity between people who share a protected characteristic and those who do not; and
 - c) foster good relations between people who share a protected characteristic and those who do not including tackling prejudice and promoting understanding.
- 9.2 The protected characteristics are age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, gender and sexual orientation.
- 9.3 In the course of the development of the project business cases, the delivery of the Project and their ongoing commitment to equality and diversity, the promoting local authority will ensure that any equality implications are considered as part of their decision-making process and were possible identify

mitigating factors where an impact against any of the protected characteristics has been identified.

10. List of Appendices

- 10.1 Appendix A – GPF Project Update
- 10.2 Appendix B – GPF Repayment Schedule
- 10.3 Appendix C – GPF Drawdown Schedule
- 10.4 Appendix D – COVID-19 impacts

(Any request for any background papers listed here should be made to the person named at the front of the report who will be able to help with any enquiries)

Role	Date
Accountable Body sign off	
Michael Neumann	07/06/2023
(On behalf of Nicole Wood, S151 Officer, Essex County Council)	