

**Forward Plan reference number:** FP/AB/216

<b>Report title:</b> Sidney Little Road Business Incubator Hub, Hastings LGF funding decision	
<b>Report to Accountability Board on 7<sup>th</sup> June 2019</b>	
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<b>Date:</b> 14 <sup>th</sup> May 2019	<b>For:</b> Decision
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<b>SELEP Partner Authority affected:</b> East Sussex	

## 1. Purpose of Report

- 1.1 The purpose of this report is for the Accountability Board (the Board) to consider the award of £500,000 LGF to the delivery of the Sidney Little Road Business Incubator Hub, Hastings, East Sussex (the Project). This project has been identified by the Investment Panel as a priority through the LGF3b pipeline development process.
- 1.2 The Business Case for the Project has been considered through the Independent Technical Evaluation (ITE) process and the Project has been assessed as presenting high value for money (estimated) with low to medium certainty of achieving this.
- 1.3 The Economic Case for the project has been assessed based on a qualitative approach, rather than through a quantified benefit cost ratio and is therefore recommended for approval under a value for money exemption, as detailed in section 6 of the report.

## 2. Recommendations

- 2.1. The Board is asked to:
  - 2.1.1. **Agree** the award of £500,000 LGF to support the delivery of the Project identified in the Business Case and which has been assessed as presenting high value for money (estimated) with low to medium certainty of achieving this.

## 3. Sidney Little Road Business Incubator Hub

- 3.1. The Project involves the development of 28 new incubator units on a Hastings Borough Council owned currently redundant site in Sidney Little Road, which has been identified for industrial development in the Hastings Local Plan. The incubator units will range in size from 322sqft to 344sqft, with a total lettable space of 9,558sqft.

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- 3.2. The proposed site is ideally located on a well-established industrial estate within an area of three estates known as the '3C's'. The industrial estate style location is within easy reach of two major trunk roads providing ideal access for business employees and visitors, has on-site parking and is close to potential supply chain contacts.
- 3.3. The LGF funding will be used towards the development and building costs of the incubator units. In addition, the LGF will be used to reduce the long-term loan cost to Hastings Borough Council. This investment will enable the Project to financially break-even within five years of development and will close the funding gap to ensure long-term viability.
- 3.4. It is noted in the Business Case that without the LGF funding the project is unlikely to proceed given Hastings Borough Council's current financial situation. Hastings Borough Council are seeking to borrow £2.27m from the Public Works Loan Board but have indicated that no further borrowing is possible as this would be considered too high risk by the Council.
- 3.5. Hastings Borough Council have undertaken an initial State Aid self-assessment and based on this have concluded that they may be considered to be in receipt of State Aid in principle. The intention is that this will be managed by using a suitable General Block Exemption Regulation, such as Article 56.
- 3.6. If the Board approve the LGF funding allocation to the Project Hastings Borough Council will seek to confirm their State Aid assessment and will register the General Block Exemption Regulation on the SANI system.
- 3.7. The key objectives of the Project are:
  - 3.7.1. To build 28 units of 322sqft to 344sqft to attract start-up businesses given the latent demand. Hastings Borough Council will retain ownership and will act as landlord for these units;
  - 3.7.2. To establish a proposed lease model of 'easy in, easy out', with affordable and favourable long-term tenancy terms, allowing the businesses to keep costs down to attract further investment;
  - 3.7.3. To bring developments forward for phase 2 of the Project on the adjoining plot of land.
- 3.8. In total, the Project is expected to lead to the creation of 74 FTE jobs in the first five years, with an additional 14 design and construction jobs created in the first two years of the Project. The incubator units will continue to offer opportunities to new entrepreneurs over the next 20 to 30 years.

## 4. Options Considered

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- 4.1. When considering development of the Sidney Little Road site Hastings Borough Council explored a range of options. These options include:
  - 4.1.1. **Do Nothing** – adopting this option would leave the entire Sidney Little Road site under developed, without any forward momentum. This may have a negative effect on the ability of the Hastings area to support newly created businesses and jobs, resulting in outward migration of skilled workers and innovative technologies. In addition, failure to develop this site will put at risk past investments in the area and may impact on the progress of economic regeneration in the town. As a result, this option has been ruled out;
  - 4.1.2. **Do Minimum** – this option would involve clearing and tidying up the Sidney Little Road site. However, this option would offer no economic or regeneration benefit to the local area. In addition, this option would not inform any alternative future options for the site as within the Hastings Borough Council Local Plan the site has been designated for industrial development only. As a result, it was considered that this was not a viable option;
  - 4.1.3. **Do Something** – this option would make use of the site to create additional industrial units based on current and projected demand from market analysis. However, consideration would not be given to adopting a strategic approach to developing the whole site. This could result in the Project flooding the market with industrial units whilst also limiting the available unit offer to one segment of the market, which may result in fewer local start-ups having the opportunity to develop and grow. For these reasons this option was discounted;
  - 4.1.4. **Do Optimum** – this option would make use of the site to create additional units with a phased approach, based on current and projected demand from market analysis. This development would initially provide facilities for start-ups and small-scale businesses with flexible leases, with phase 2 development to allow for larger units if demand exists.
- 4.2. The preferred option is the Do Optimum scenario in which a phased approach is used to developing the site, allowing the unit size of the later phase 2 development to be adapted as dictated by market demand.
- 4.3. The preferred option involves the development of 28 new incubator units on the currently redundant site, which has been identified for industrial development in the Hastings Local Plan. The incubator units form phase 1 of the development of the site. It is considered that this option will best meet both Hastings Borough Council and SELEP's priorities and strategies.

## 5. Project Cost and Funding

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- 5.1. The total cost of the Project is estimated at £2.774m, as set out in Table 1 below.
- 5.2. Hastings Borough Council are seeking a £500,000 LGF contribution towards the delivery of the Project. The remaining costs will be funded through borrowing from the Public Works Loan Board.
- 5.3. Hastings Borough Council's Cabinet approved the borrowing from the Public Works Loan Board in February 2019, subject to receipt of the LGF funding considered in this report. Due to fluctuating interest rates a further report to Cabinet may be required before the funds can be formally borrowed.

**Table 1 – Sidney Little Road Business Incubator Hub Spend Profile (£)**

	2019/20	2020/21	2021/22	Total
SELEP LGF	381,250	118,750	-	500,000
Public Works Loan Board borrowing	-	2,266,686	7,000	2,273,686
Total	381,250	2,385,436	7,000	2,773,686

## 6. Outcome of ITE Review

- 6.1. There is a requirement for projects to demonstrate BCR values of at least 2.0:1 unless they comply with one of the two exemptions outlined in the SELEP Assurance Framework.
- 6.2. As a part of the Business Case the benefits of the project have been considered in terms of the return on investment and a qualitative assessment on the social return on investment. This method has been applied as an alternative to calculating a benefit cost ratio, given the low value of the project.
- 6.3. The Project can be therefore be considered under exemption 1 of the Assurance Framework, as the LGF funding ask is for under £2m.
- 6.4. Exemption 1 may be applied where a project does not present High Value for Money (a Benefit Cost Ratio of over 2:1), but has a Benefit Cost Ratio value of greater than 1.5:1 or where the project benefits are notoriously difficult to appraise in monetary terms. Exemption 1 will only apply if the following conditions are satisfied:
  - 6.4.1. The funding sought from SELEP in relation to the project must be less than £2.0m and to conduct further quantified and monetised economic appraisal would be disproportionate; and
  - 6.4.2. Where there is an overwhelming Strategic Case (with minimal risk in the other cases); and

- 6.4.3. There are qualitative benefits which, if monetised, would most likely increase the Benefit Cost Ratio above 2:1.
- 6.5. The ITE review confirms that the Project Business Case provides an overwhelming strategic case for the Project and that there is minimal risk associated with other sections of the Business Case.
- 6.6. A sensible and proportionate methodology has been applied, with the economic impacts quantified at a high level. However, it was noted that the economic approach to quantifying benefits offers less certainty around the value for money offered by the Project. As such, the ITE have stated that there is low to medium certainty of the project achieving high value for money.
- 6.7. To mitigate this risk, any substantial changes to the project scope, expected project outcomes or cost of the Project will trigger a further review of the business case and decision from the Board.
- 6.8. The impact of the Project will be assessed in line with the monitoring and evaluation plan, included as part of the Business Case. This will include an assessment of the impact of the Project in terms of completion and letting of the business units and job creation and safeguarding.

**7. Project Compliance with SELEP Assurance Framework**

- 7.1. Table 2 below considers the assessment of the Business Case against the requirements of the SELEP Assurance Framework. The assessment confirms the compliance of the Project with SELEP’s Assurance Framework.

**Table 2 - Assessment of the Project against the requirements of the SELEP Assurance Framework**

Requirement of the Assurance Framework to approve the project	Compliance (RAG Rating)	Evidence in the Business Case
A clear rationale for the interventions linked with the strategic objectives identified in the Strategic Economic Plan	Green	The Business Case identifies the current problems and why the scheme is needed now. The objectives presented align with the objectives identified in the Economic Strategy Statement.
Clearly defined outputs and anticipated outcomes, with clear additionality, ensuring that factors such as displacement	Green	The expected project outputs and outcomes are set out in the Business Case and are considered in the economic case. Due to the low level of LGF funding required for this

Requirement of the Assurance Framework to approve the project	Compliance (RAG Rating)	Evidence in the Business Case
and deadweight have been taken into account		Project a full BCR assessment is not required.
Considers deliverability and risks appropriately, along with appropriate mitigating action (the costs of which must be clearly understood)	Green	The Business Case demonstrates experience of delivering similar schemes. A comprehensive risk register has been developed which provides mitigation options.
A Benefit Cost Ratio of at least 2:1 or comply with one of the two Value for Money exemptions	Amber	<p>The Project is subject to a Value for Money exemption, so a full monetised economic appraisal has not been completed. However, the Project complies with value for money exemption 1, as set out in the SELEP Assurance Framework.</p> <p>The economic impacts have been quantified at a high level, however, this approach offers less certainty around the value for money offered by the Project. The overall impact of the project will be monitored in line with the monitoring and evaluation plan, included as part of the business case.</p>

## 8. Financial Implications (Accountable Body comments)

- 8.1. All funding allocations that are agreed by the Board are dependent on the Accountable Body receiving sufficient funding from HM Government. Funding allocations for 2019/20 have been confirmed, and the funding has been received, however, funding for future years is indicative.
- 8.2. Until confirmation of receipt of grant is received, any future year funding awards made by the Board remain at risk.
- 8.3. All LGF is transferred to the sponsoring authority under the terms of a Funding Agreement or SLA which makes clear that future years' funding can only be made available when HM Government has transferred LGF to the

Accountable Body.

- 8.4. The Funding Agreements also set out the circumstances under which funding may have to be repaid should it not be utilised in line with the requirements of the grant or in accordance with the Decisions of the Board.

## **9. Legal Implications (Accountable Body comments)**

- 9.1. There are no legal implications arising out of this decision. The allocation will be released to the relevant Upper Tier Authority in accordance with the terms and conditions of the SLA already in place. It will be the responsibility of the Upper Tier Authority to ensure that there is a sufficient back to back agreement in place ensuring that the conditions of the SLA are reflected and formulate the basis of any agreement put in place.

## **10. Equality and Diversity implication**

- 10.1. 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;
  - (c) Foster good relations between people who share a protected characteristic and those who do not including tackling prejudice and promoting understanding.
- 10.2. The protected characteristics are age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, gender and sexual orientation.
- 10.3. In the course of the development of the project business case, the delivery of the Project and the 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 where it is possible to identify mitigating factors where an impact against any of the protected characteristics has been identified.

## **11. List of Appendices**

- 11.1. Appendix 1 - Report of the Independent Technical Evaluator (as attached to Agenda Item 6).

## **12. List of Background Papers**

Sidney Little Road Business Incubator Hub LGF funding decision

12.1. Business Case for the Sidney Little Road Business Incubator Hub, Hastings.

**(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
<b>Accountable Body sign off</b>  Stephanie Mitchener (On behalf of Margaret Lee, S151 Officer, Essex County Council)	24/5/19