

<b>Report to Accountability Board</b>	<b>Forward Plan reference number:</b> FP/AB/139
<b>Date of Accountability Board Meeting:</b>	23 <sup>rd</sup> February 2018
<b>Date of report:</b>	13 <sup>th</sup> February 2018
<b>Title of report:</b>	Growing Places Fund update
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## 1. Purpose of report

- 1.1. 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:

- 1) **Approve** the principle of applying Local Growth Fund (LGF) on a temporary basis to GPF projects, if required, to mitigate any cash flow issues which may occur within financial years as a result of delayed GPF repayment, subject to the conditions set out in paragraph 6.8;
- 2) **Approve** the delayed GPF loan repayment for the North Queensway Project, as per revised schedule set out in Table 1;
- 3) **Approve** the revised GPF loan repayment for the Live Margate project, as per the revised schedule set out in Table 2; and
- 4) **Note** the updated position on the GPF programme

## 3. SELEP Growing Places Fund investments

- 3.1. In total, £49.210m GPF was made available to SELEP, of which £48.705m GPF has been allocated to date. These allocations include loan investments in 13 capital infrastructure projects, as detailed in Appendix 1. In addition, a small proportion of GPF revenue funding was allocated to Harlow Enterprise Zone (£1.244m) and the remaining proportion has been ring-fenced to support the activities of SELEP's Sector Groups; as agreed by the Strategic Board.
- 3.2. The loan repayment schedule for each GPF projects is agreed within the credit agreement in place between Essex County Council, as Accountable

Body, and the lead County/ Unitary Authority for each project. A copy of the expected repayment schedule is set out in Appendix 2.

- 3.3. Repayments are now being made on these initial GPF investments, with £6.155m, having been repaid to date, and a further £2.752m is forecast to be repaid by the end of 2017/18 (excluding the delayed repayments set out below).
- 3.4. Based on repayment schedule agreed for each GPF Project within the credit agreement, a further eight projects have been prioritised by the Strategic Board for investment using the recycled GPF through GPF Round 2.
- 3.5. The allocation of GPF to these new projects was on the condition that funding would only be award to these projects by the Board if sufficient GPF was available through the repayments of GPF loans from Round 1 projects
- 3.6. The SELEP Secretariat has been made aware of risks to the following projects repayment schedule for the North Queensway and Live Margate GPF Round 1 Projects.

#### **4. North Queensway, East Sussex**

- 4.1. A £1.5m GPF loan was award to the North Queensway project through the first round of GPF investments. GPF was awarded to forward fund junction improvements and preliminary site infrastructure works at the North Queensway site.
- 4.2. These works have been completed in full and GPF repayments are due to be made through commercial activity at the North Queensway site which has been unlocked by the project.
- 4.3. To date, £1m GPF has been repaid. However in March 2017 the Board agreed a delay to the repayment of the remaining £0.5m GPF loan to delays in commercial activity coming forward at the site.
- 4.4. In March 2017 the Board were made aware of the opportunity for two tenants to locate at the site. The income generated for the take up of the commercial sites would enable the repayment of the GFP loan. However, the first tenant has identified an alternative larger site to locate its businesses activity. The second tenant will be locating at the site but this has been agreed as part of the funding package to relocation the business to enable the completion of the North Queensway Gateway LGF project. As such, these potential funding sources to repay the loan have not come to fruition.
- 4.5. Further marketing work is now being undertaken for the North Queensway site, with interest having been received through these latest marketing efforts. However, as a result of the slow market take up the site then a further slippage to the repayment of GPF repayment is sought by East Sussex County Council, in advance of the let of commercial space or land sales providing a funding source to repay the GPF loan.

To allow sufficient time for an appropriate funding stream to be established to repay the GPF, approval is sought from the Board to delay the repayment of GPF from 2017/18 to 2019/20, as set out in Table 2 below.

**Table 1 North Queensway GPF Repayment Schedule (£000)**

	Paid to date	2017/18	2018/19	2019/20	Total
Previous	1,000	500	0	0	1,500
Revised	1,000	0	0	500	1,500
<b>Movement</b>	<b>0</b>	<b>-500</b>	<b>0</b>	<b>500</b>	<b>0</b>

## 5. Live Margate

- 5.1. The Live Margate project was awarded £5m GPF through the first round of GPF awards. The Live Margate project targets derelict or problem buildings in Margate for refurbishment into family homes. The first phase of the project has been managed by Kent County Council through investment of £3.5m of its own capital funds to date.
- 5.2. Specific sites have been identified for investment through the second phase of the project which will invest the £5m GPF loan, with £1.6m GPF having been transferred to Kent County Council to date.
- 5.3. Following the refurbishment of these properties, the GPF loan will be repaid to SELEP through the sale of the properties.
- 5.4. Whilst the original credit agreement set out the repayment of the loan from 2018/19, a revised repayment schedule has been proposed to align with the updated schedule for the investment and sale of the identified residential properties.
- 5.5. The Board is asked to agree the amended repayment schedule for GPF repayments to commence in 2020/21, as set out in Table 3 below.
- 5.6. Subject to the revised repayment schedule being agreed by the Board, a Deed of Variation or Addendum to the credit agreement will be prepared and agreed between Kent County Council and Essex County Council, as SELEP Accountable Body.

**Table 2 Live Margate GPF Repayment Schedule (£000)**

	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	Total
Previous	1,000	1,000	1,000	1,000	1,000			5,000
Revised			1,000	1,000	1,000	1,000	1,000	5,000
<b>Movement</b>	<b>-1,000</b>	<b>-1,000</b>				<b>1,000</b>	<b>1,000</b>	

## **6. Impact on GPF Cash Flow**

- 6.1. The delays to the repayments set out in sections 4 and 5 above will reduce the amount of GPF available for re-investment. However, a proportion of contingency was applied when considering the amount of GPF available for reinvestment.
- 6.2. The GPF cash flow position has been updated based on the forecast GPF drawdown for Round 1 and 2 projects and to take account of the amended repayment schedules for the North Queensway and Live Margate Projects.
- 6.3. Based on the updated cash flow position, there is sufficient GPF available to fund all Round 1 and 2 projects, subject to repayments being made on GPF projects as set out in Appendix 2. However, the amendments to the GPF repayment schedules set out in Section 4 and 5 above exacerbates the risk of within year GPF cash flow issues. GPF project promoters seek to drawn down their allocation in Q1 of each financial year, but repayments are not made until Q4 this creates a potential in year GPF cash flow issue.
- 6.4. If further delays are experienced to GPF repayments, this cash flow risk may result in project delays, as GPF projects will be unable to drawn down their GPF allocation until sufficient GPF is repaid.
- 6.5. To mitigate the cash flow risk for within financial years, the Board are asked to agree the principal of 'borrowing' LGF from the LGF slippage held centrally by SELEP to fund GPF projects, if a GPF cash flow issue materialises through further delay to GPF repayments.
- 6.6. At this stage, the Board are only being asked to consider and agree to the principle of managing the GPF cash flow risk through funding swaps between the GPF and LGF programmes, should further slippages to GPF repayments materialise. No funding swaps between the LGF and GPF programmes would be made without Board approval.
- 6.7. If the Board agree to the principle, the Board would be asked to consider the swap of funding between SELEP two capital programmes (LGF and GPF) on a case by cases basis, as the risk materialises.
- 6.8. The Board are asked to consider and agree to the principle of using LGF spend on GPF projects, should any GPF cash flow issues arise, based on the following conditions:
  - 1) The LGF would be returned to the LGF Programme during the duration of the LGF programme for spend on LGF project included in the Growth Deal Programme, through GPF loan repayments. The repayment of LGF would be prioritised over the reinvestment of GPF in new projects; and
  - 2) Spend of LGF on GPF projects would be approved by the Board on a case by case basis. To inform the Board's decision making, the Board will be made aware of the LGF cash flow position at the point of decision

making and to ensure that the spend of LGF on GPF projects does not adversely affect the LGF cash flow position; and

- 3) The swap of funding between the LGF and GPF programmes would only be applied where there is sufficient evidence, made available to the Board, that there will be no impact on LGF programme delivery.

## 7. Growing Places Fund Project Delivery to Date – GPF Round 1 Projects

- 7.1. Eight GPF Round 1 projects have now been completed, with the benefits of this infrastructure investment starting to be realised. It is reported that 1,081 jobs have been delivered through investment in commercial space and new business premises, as set out in Table 3 below.

**Table 3 Monitoring of GPF Round 1 project outputs**

Name of Project	Outputs defined in Business Case		Outputs delivered to date	
	Jobs	Homes	Jobs	Homes
Priory Quarter Phase 3	440	0	74	0
North Queensway	865	0	74	0
Rochester Riverside	402	450	0	0
Chatham Waterfront	211	115	0	0
Bexhill Business Mall	125	0	150	0
Parkside Office Village	169	0	120	0
Chelmsford Urban Expansion	2,105	0	365	0
Grays Magistrates Court	200	0	89	0
Sovereign Harbour	299	0	180	0
Workspace Kent	198	0	29	0
Harlow West Essex	4,000	1,200	0	0
Discovery Park	130	250	0	0
Live Margate	0	66	0	9
<b>Totals</b>	<b>9,144</b>	<b>2,081</b>	<b>1,081</b>	<b>9</b>

- 7.2. To date, the expected benefits of GPF investment in enabling the delivery of new homes have not materialised or have not been reported through the update reporting to SELEP on Round 1 projects. However, for specific projects, such as the Rochester Riverside Project, progress has been made during the last quarter towards the delivery of homes as a result of GPF investment.
- 7.3. Following planning consent having been granted for the Rochester Riverside development by Medway Council in October 2017, construction works are due to start of site in Q4 2017/18. This development is expected to deliver up to 1,400 dwellings, with the £4.41m GPF loan investment in the Project

through GPF Round 1 having been used to fund site infrastructure such as the access road and public space works.

- 7.4. A GPF project delivery update and risk assessment is shown in Appendix 1 for each Round 1 project. As GPF Round 2 projects come forward for approval by the Board and credit agreements are established for these projects, update reports will also be sought for GPF Round 2 projects.

## **8. Financial Implications (Accountable Body Comments)**

- 8.1 The application of LGF on a temporary basis to cover cash flow gaps in GPF funding is allowable under the terms and conditions of the LGF grant determination. It should be noted that this approach would extend the impacts of the risks of GPF non-repayment to the LGF Programme. However, it is currently considered unlikely that cash flow issues for the GPF programme should arise as the advice of the Accountable Body to take a prudent approach to likelihood of repayments has been applied.
- 8.2 It should be noted that this is the second revision to the scheduling of the North Queensway project repayments. It is advised that the partners and delivery organisations explore other methods of repayment, such re-financing, to ensure that repayment is not delayed further.
- 8.3 It is advised that partners review their reporting processes as it is our view that the numbers of homes delivered is currently understated.

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

- 9.1 Changes to repayments schedules will require amendments to be made to credit agreements between the sponsoring authority and Essex County Council as Accountable Body. Deeds of variation will be issued if the Board approves those changes requested.

## **10. Staffing and other resource implications (Accountable Body Comments)**

- 10.1 None

## **11. Equality and Diversity implications (Accountable Body Comments)**

## **12. List of Appendices**

- 12.1 Appendix 1 – Growing Places Fund Project Summary
- 12.2 Appendix 2 – Growing Places Fund Repayment Schedule

## **13. List of Background Papers**

- 13.1 None

(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>  Suzanne Bennett  <b>On behalf of Margaret Lee</b>	    14/02/18