

<b>Report to Accountability Board</b>	<b>Forward Plan reference number:</b> FP/AB/150
<b>Date of Accountability Board Meeting:</b>	<b>27<sup>th</sup> April 2018</b>
<b>Date of report:</b>	<b>4<sup>th</sup> April 2018</b>
<b>Title of report:</b>	<b>Growing Places Fund award to the Fitted Rigging House</b>
<b>Report by:</b>	<b>Rhiannon Mort, SELEP Capital Programme Manager</b>
<b>Enquiries to:</b>	Rhiannon.mort@essex.gov.uk

## **1. Purpose of report**

- 1.1 The purpose of this report is for the Accountability Board (the Board) to consider the award of a £800,000 Growing Places Fund (GPF) Loan to the Fitted Rigging House Project (the Project).

## **2. Recommendations**

- 2.1 The Board is asked to:

- 2.1.1 **Approve** the award of £800,000 GPF by way of a loan to enable the delivery of the Project and which has been assessed as presenting high value for money and high certainty of achieving this, on the basis that it will be repaid by 31<sup>st</sup> March 2022.

## **3. Fitted Rigging House Project**

- 3.1 The Project is for the conversion of a Grade 1 former industrial building at the Chatham Historic Dockyard, Medway into commercial office space (the new Site). The conversion will create 3,473m<sup>2</sup> of new office space which will accommodate three businesses employing over 350 people.
- 3.2 The Project forms a critical element of Chatham Historic Dockyard Trust's corporate plan based on a strategy of "preservation through re-use" that generates income to maintain the 80 acre heritage site and maintain the sites educational purposes.
- 3.3 Two of the businesses which will locate to the new Site are already located at the Chatham Historic Dockyard but are looking to expand their businesses which require additional space to grow their operations. Without the additional employment space being provided at the new Site it is likely that these two businesses would relocate outside of Medway and potentially outside of the South East Local Enterprise Partnership (SELEP) area. This would result in the loss of 300 jobs in the area.

- 3.4 In addition, as a result of the Chatham Historic Dockyard Trust relocating its own office space to the new Site, this will free up space to enable the University of Kent's Business School to expand into the vacated area, to provide 437m<sup>2</sup> of additional space to create a postgraduate study facility.
- 3.5 Investment in the Project will help the wider Historic Dockyard Chatham become financially self-sustainable and no longer reliant on Government funding. This helps secure the Historic Dockyard Chatham site for the c.170,000 annual visitors and other users; ensuring appropriate future investment in maintenance and services to meet Chatham Historic Dockyard Trusts stated commitment to future growth rather than stagnation. This will help facilitate the growth the Historic Dockyard site contributes to Medway's local visitor economy, which currently stands at c£16m per annum.
- 3.6 The delivery of the Project supports the following objectives:
- 3.6.1 Job creation and employment – The Project will help safeguard jobs at the Chatham Dockyard site and support business growth;
  - 3.6.2 Accelerated development of the Thames Estuary – The Project will help support Medway's local regeneration policy;
  - 3.6.3 Coastal Communities – The wider Historic Dockyard site contributes an estimated £16m to the local economy per annum. The Project will help to commercialise the operation of the Dockyard;
  - 3.6.4 Culture and Tourism – Through supporting the financial sustainability of the wider Historic Dockyard site, this supports the visitor economy with the Dockyard attracting over 170,000 visitors per annum.
  - 3.6.5 Social Enterprise – The Chatham Historic Dockyard Trust is a charity that effectively operates as a social enterprise generating substantial income from operating and services that is circulated to support the wider Dockyard community and the wider community. By operating in this way, Chatham Historic Dockyard Trust is also able to meet its own charitable objectives of preservation and education which include volunteer support, personal development, business support and community engagement.
- 3.7 The expected economic benefits of the Project, as stated in the Economic Impact and GVA (Gross Value Added) assessment reports include:
- 100 net additional jobs (63 net direct jobs and 37 net indirect jobs);
  - 3,473m<sup>2</sup> of commercial floorspace; and
  - £22,630,149 GVA benefits over the next 10 years.

#### **4. Project Cost and Funding**

- 4.1 The total Project cost is estimated at £8.4m, with a GPF allocation of £0.8m; presenting 9.5% of the total Project cost.
- 4.2 As the Project is being undertaken by Chatham Historic Dockyard Trust, a registered charity, it is therefore eligible for a number of charitable grants from

statutory sources and from Charitable Trusts and Foundations. The breakdown of the funding contributions which have been secured for the Project is provided in Table 1 below.

**Table 1 Fitted Rigging House Funding profile (£m)**

Source	2017/18	2018/19	2019/20	Total
GPF	0.000	0.550	0.250	0.800
Heritage Lottery Fund	2.000	2.812		4.812
Department for Culture, Media and Sport (DCMS)	1.500			1.500
DCMS/Wolfson	0.100			0.100
Michael Uren Foundation	0.400	0.200	0.200	1.000
Garfield Weston Foundation	0.150			0.150
Chatham Historic Dockyard Trust Reserves	0.038			0.038
<b>TOTAL</b>	<b>4.188</b>	<b>3.562</b>	<b>0.450</b>	<b>8.400</b>

- 4.3 The £800,000 GPF loan is required to bridge the remaining funding gap for the Project. Whilst private sector investment in the Project (such as through bank loans) has been considered, the main issue in securing private sector investment is the “heritage deficit” incurred by undertaking this Project within an historic building (Grade I listed). The additional costs of borrowing from the private sector will delay the financial sustainability of the Project for a number of years and costs will lead to a reduction in Project scope to the detriment of outcomes.
- 4.4 The heritage deficit is, in part, being funded by the Heritage Lottery Fund’s Heritage Enterprise programme which has been set up to replace the need for private sector investment in property development.
- 4.5 The low cost GPF loan provides a sustainable and responsible funding approach for the Trust that is affordable within the current cash flow projection, set out in the Project Business Case.

## **5. Project GPF repayment**

- 5.1 It is intended that the GPF loan will be repaid through the rental income generated from the new Site following the completion of the Project. This rental income will be available from 2019/20 to make the loan repayments as per the schedule set out in Table 2 below.

**Table 2 Fitted Rigging House GPF repayment schedule (£m)**

	2018/19	2019/20	2020/21	2021/22	Total
GPF repayment	-	0.200	0.300	0.300	0.800

## **6. Fitted Rigging House Outcome of ITE review**

- 6.1 The assessment of the Business Case confirms that the Project demonstrates high value for money with high certainty of value for money being achieved through GPF investment.
- 6.2 The economic appraisal has been conducted following a Gross Value Added (GVA) approach, based on the number of new jobs created through the provision of additional commercial space. A high Benefit Cost Ratio (BCR) has been calculated for the project at 3.1:1 following a sensible and proportionate approach.
- 6.3 The Business Case sets out a clear schedule and procedure for the repayment of the GPF loan. It states that there is a low risk of repayment failure or delay, as the Trust would be able to utilise its limited reserves or borrow money commercially in extreme circumstances.
- 6.4 The Independent Technical Evaluation (ITE) review confirms that the quantifiable benefits of the Project support a good economic case for the Project. The wider impact of keeping businesses in Medway which may otherwise leave the South East strengthens the Value for Money Case.
- 6.5 A risk register has been completed as part of the Business Case. This has identified the highest Project risk for delivery and benefit realisation as the return of a higher tender price for the construction of the Site or limited interest in the tendering opportunity. This risk is being managed through early engagement with the market.

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

- 7.1 Table 3 below considers the SELEP Secretariat assessment of the Business Case against the requirements of the SELEP Assurance Framework.
- 7.2 The assessment confirms the compliance of the Project with SELEP's Assurance Framework.

***Table 3 SELEP Secretariat assessment of the Business Case against the requirements of the SELEP Assurance Framework***

<b>Requirement of the Assurance Framework to approve the project</b>	<b>Compliance</b>	<b>Evidence in the Business Case</b>
A clear rationale for the interventions linked with the strategic objectives identified in the Strategic Economic Plan		The Project is aligned to SELEP's objectives including: <ul style="list-style-type: none"><li>- Sustainable private sector jobs;</li><li>- Universities and innovation; and</li><li>- Creative, cultural, media and the</li></ul>

<b>Requirement of the Assurance Framework to approve the project</b>	<b>Compliance</b>	<b>Evidence in the Business Case</b>
		visitor economy, as set out in 3.6 above.
Clearly defined outputs and anticipated outcomes, with clear additionality, ensuring that factors such as displacement and deadweight have been taken into account		<p>The expected project outputs and outcomes are set out in the Business Case, including :</p> <ul style="list-style-type: none"> <li>-100 net additional jobs (63 net direct jobs and 37 net indirect jobs);</li> <li>-3,473m2 of commercial floorspace; and</li> <li>-£22,630,149 GVA benefits over the next 10 years.</li> </ul> <p>The economic appraisal has given consideration to deadweight, leakage and displacements effects.</p>
Considers deliverability and risks appropriately, along with appropriate mitigating action (the costs of which must be clearly understood)		A risk register, along with risk owners and mitigation measures, have been included as part of the Business Case. A contingency has been included in the project cost breakdown.
A Benefit Cost Ratio of at least 2:1 or comply with one of the two Value for Money exemptions		The Business Case demonstrates a high BCR of 3.1:1

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

8.1 The GPF necessary to fund the Project is available following repayments made by round 1 GPF projects.

8.2 The repayment profile for the proposed loan is set out in table 2 above. Although non-repayment of the loan has been identified as low risk, it should be noted that any non-repayment of the loan will put at risk the funding required for the GPF programme to be maintained as an effective recyclable loan scheme; it is, therefore, imperative that all repayments are made in line with the agreed profile. As such, it is recommended that all GPF repayment risks are monitored as part of the regular GPF updates reported to the Board.

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

9.1 The Accountable Body will have in place a loan agreement with Medway Council which will provide for the repayment schedule set out in Table 2. Any changes to the Project or the repayment schedule will require further approval by the Board.

9.2 It is expected that Medway Council will enter into reciprocal agreements with the Historic Chatham Docks Charity.

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

10.1 There are no staffing and other resource implications arising from this decision.

## **11. Equality and Diversity implication**

11.1 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.

11.2 The protected characteristics are age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, gender and sexual orientation.

11.3 In the course of the development of the project business case, 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 where possible identify mitigating factors where an impact against any of the protected characteristics has been identified.

## **12. List of Appendices**

12.1 Appendix 1 - Report of the Independent Technical Evaluator (As attached to Agenda Item 5).

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

- Business Case for Fitting Rigging House

**(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)	19/04/18