Growing Places Fund Update Report

Forward Plan reference number: FP/AB/194 and 195

Report title: Growing Places Fund update	
Report to Accountability Board	
Report author: Helen Dyer, SELEP Capital Programme Officer	
Date: 28th January 2019	**For:** Decision
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SELEP Partner Authority affected: All	

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:

2.1.1. **Note** the updated position on the GPF programme;
2.1.2. **Note** the accelerated repayment schedule for the Priory Quarter Project;
2.1.3. **Approve** the proposed repayment schedule for the Workspace Kent Project;
2.1.4. **Approve** the cancellation of the remaining element of the Harlow West Essex Project;
2.1.5. **Approve** the accelerated drawdown of funding for the No Use Empty Commercial Project;
2.1.6. **Note** the amended draw down schedule for the Eastbourne Fisherman's Quayside and infrastructure development Project.

3. SELEP Growing Places Fund investments

3.1. In total, £49.210m 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 21 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 (known as the Sector Support Fund); as agreed by the Strategic Board.

3.2. The allocation of GPF to the new projects within GPF Round 2 is on the condition that funding will only be awarded to these projects by the Board or transferred to the lead authority if sufficient GPF is available through the repayments of GPF loans from Round 1 projects. As such, on a quarterly basis, updates are provided to the Board on the latest position for GPF projects in terms of delivery progress and any risks to the repayments of GPF loans.

4. GPF repayments

4.1. The loan repayment schedule for each GPF project 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.

4.2. Repayments are now being made on the initial GPF Round 1 investments, with £7,476,233 having been repaid to date. A further £8,696,200 is due to be repaid prior to the end of 2018/19 if all repayment schedules are met. This takes into account the accelerated repayment schedule for the Priory Quarter Project and the final repayment schedule for the Workspace Kent Project, as set out in sections 6 and 7 below.

4.3. No risks to repayment have been identified for any of the GPF Round 1 investments for which a repayment is expected in 2018/19.

5. GPF cash flow

5.1. Table 1 below sets out the current cash flow position based on the planned GPF investment and the GPF available for investment though loan repayments. This assumes that the repayments are made in accordance with the approved repayment schedules.

Table 1: GPF Cash Flow Position assuming all approved repayment schedules are met

£	2018/19	2019/20
GPF available at the outset of year	7,312,602	4,825,602
GPF Round 1 planned investments	363,000	1,200,000
GPF Round 2 planned investments	4,417,000	3,527,000
Position before GPF repayments are made	2,532,602	98,602
GPF repayments expected	2,293,000	12,243,000
Carry Forward	4,825,602	12,341,602

5.2. If all GPF repayments are made in line with the approved repayment schedules during 2018/19 there will be no gap between the amount of GPF available in 2019/20 and the project draw-down schedule. However, if there are any further delays to the repayment schedule there is a risk that there will not be sufficient GPF funding available during the course of 2019/20 to meet the project draw down schedule.

5.3. Table 2 below sets out the cash flow position based on the planned GPF investment and the GPF available for investment through loan repayments taking into account all the proposed changes outlined within this report:

5.3.1. the accelerated repayment schedule for the Priory Quarter project, as set out in section 6 below;

5.3.2. the updated repayment schedule for the Workspace Kent project, as set out in section 7 below;

5.3.3. the cancellation of the remaining element of the Harlow West Essex Enterprise Zone project, as set out in section 8 below;

5.3.4. the accelerated draw down in funding for the No Use Empty Commercial Project, as set out in section 9 below; and

5.3.5. the amended draw down in funding against the Eastbourne Fisherman's Quayside and infrastructure development Project, as set out in section 10 below.

Table 2: GPF Cash Flow Position taking into account the proposed project changes outlined in the report

£	2018/19	2019/20
GPF available at the outset of year	7,312,602	11,675,002
GPF Round 1 planned investments	63,000	-
GPF Round 2 planned investments	4,342,000	3,602,000
Position before GPF repayments are made	2,907,602	8,073,002
GPF repayments expected	8,767,400	10,606,600
Carry Forward	11,675,002	18,679,602

5.4. If the Board approve the proposed project changes there will be no gap in the cashflow between the amount of GPF funding available during the course of 2019/20 and the expected project draw-down schedule.

5.5. The updated project repayment schedules are set out in Appendix 2.

6. Priory Quarter Phase 3

6.1. The Priory Quarter Phase 3 project was awarded £7m GPF through the earlier rounds of GPF, now referred to as GPF Round 1, for the delivery of new office and industrial space in Hastings.

6.2. The commercial workspace was delivered in accordance with the application for GPF funding, however, the take up of tenancies at the site was slower than anticipated. As a result, in March 2017 the Board were made aware of the challenges in meeting the original repayment schedule and the Board agreed to the amendment of the repayment schedule.

6.3. At the point of the amended repayment schedule being agreed it was anticipated that contract negotiations for the occupation of the site would enable the remaining GPF to be paid in full by the end of 2019/20.

6.4. In September 2018 the Board were made aware that new tenants had been found for the remainder of the building and a fifteen-year agreement for occupation of the site had been signed. However, the agreement includes a 'soft start', resulting in below market value rental receipts for the first five-year period, including one year rent free, which creates challenges in meeting the amended GPF repayment schedule (agreed in March 2017). As a result, the loan recipient Sea Change Sussex Ltd. submitted a proposed amended repayment schedule for consideration by the Board.

6.5. In line with agreed governance processes for projects where delays are identified to the GPF repayment schedule on more than one occasion, the request to delay the GPF repayment for the Priory Quarter project was brought to the attention of the Strategic Board on 28th September 2018.

6.6. It was intended that, following discussion at Strategic Board the Board would make a decision on the proposed amended repayment schedule. However, at the November meeting the Board were made aware that options were being considered locally to enable the planned repayment schedule to be met.

6.7. The latest project update indicates that Priory Quarter has now been sold. This sale removes the need to amend the repayment schedule and will enable full repayment of the outstanding GPF funding (£6.870m) prior to the end of the 2018/19 financial year. This is in advance of the expected repayment date of 2020/21, as set out in the requested amended repayment schedule.

6.8. Full repayment of the Priory Quarter GPF allocation during 2018/19 will significantly improve the GPF cash flow position and will remove any risk of the GPF draw down schedule for 2019/20 exceeding the level of funding available. In addition, early repayment brings forward the opportunity for the funding to be reinvested in a different GPF project, subject to further applications for funding being sought.

6.9. The Board are asked to note the accelerated repayment schedule for the Priory Quarter project.

7. Workspace Kent

7.1. The Workspace Kent Project is a project aimed at unlocking jobs and employment opportunities by enabling increased provision of business incubator space and other workspace. The GPF loan is managed by Kent County Council as a Challenge Fund, open to private developers, public sector and third parties to apply for, in order to bring forward business premises that would otherwise not be developed.

7.2. Through the Workspace Kent programme, three projects have been completed and are making repayments, whilst a fourth project is underway.

7.3. The Workspace Kent project was brought forward in 2012 during the early rounds of the GPF and was awarded a £5m GPF allocation. A loan agreement was put in place in May 2015 between Essex County Council, as the Accountable Body, and Kent County Council but as the agreement was put in place prior to the implementation of the current Governance processes it did not set out explicit repayment dates for the loan. Loan repayment dates are, however, specified in the agreements between Kent County Council and the loan recipients.

7.4. Interim repayment schedules have been presented to the Board whilst Kent County Council have been negotiating contract variations with two of the loan recipients.

7.5. In addition, as reported at the last Board meeting a further risk to the repayment of the loan made to one of the four projects has been identified. In the latest project update Kent County Council have indicated that there is currently a slight delay on repayment of the loan, with the loan agreement being renegotiated in line with income received by the company. There remains a risk to future repayments as a result of the company's current uncertain financial position. If the loan recipient defaults on or delays their repayment schedule this will impact on Kent County Council's ability to repay the GPF funding in line with the expected repayment schedule.

7.6. Kent County Council have now provided a repayment schedule for approval by the Board, which takes into account the risks identified. Under the revised repayment schedule the GPF investment will be repaid in full by the 2026/27 financial year. The repayment schedule reflects the fact that some of the funding has only been issued to companies during the 2018/19 financial year and therefore an extended repayment schedule is required.

7.7. Whilst the extended repayment schedule will delay the return of funding into the central pot for reallocation to a new project, it increases the certainty of the funding being repaid in accordance with the schedule.

7.8. The repayment schedule provided by Kent County Council for the Workspace Kent project is shown in Table 3:

Table 3: Repayment schedule for the Workspace Kent project (£)

2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
219,526	145,507	667,400	145,600	78,000	8,400	8,400	8,600	9,600	11,200	197,767

7.9. A total repayment against this project of £667,400 has been confirmed for 2018/19, with a payment of £71,200 already having been made. This is a significant increase on the anticipated repayment for 2018/19 that was reported at the last Board meeting (£328,000) and will assist with the GPF cash flow position in 2019/20.

7.10. The Board is asked to approve this extended repayment schedule, which will be used as the baseline repayment schedule for the project and will be used as the basis for future monitoring. There is an expectation that any future changes to the repayment schedule will be managed in accordance with the agreed governance processes applied to all GPF projects, and will therefore require a decision from the Board.

8. Harlow Enterprise Zone

8.1. As part of round 1 of the GPF a request for £3.5m GPF loan investment was put forward by Essex County Council, as the local Accountable Body, for infrastructure works across the two sites within the Harlow Enterprise Zone. These works would unlock both sites within the Enterprise Zone for development and the project was therefore considered to be of significant strategic importance. The Board approved the award of GPF funding to the project in September 2012.

8.2. The project was split into two separate elements. The first element focussed on supporting the construction of a new access road to the London Road site of the Enterprise Zone. This part of the project had a GPF allocation of £1.5m, which was to be repaid through S106 contributions from an adjacent development which would also benefit from the construction of the access road.

8.3. The access road has been constructed and is now in use. The construction of this road has been successful in unlocking the site for development.

8.4. The £1.5m GPF allocation to this part of the project has been repaid through the S106 contributions as expected.

8.5. The second element of the project focused on construction of a new access road into the Templefields site of the Enterprise Zone and associated junction improvements. This element of the project was allocated £2m and was due to be repaid through the increase in Business Rates that would be generated from development of the Enterprise Zone.

8.6. The lack of access to the Templefields site from Cambridge Road was considered to be the principal barrier to the long-term development of the site. At the time of the application the Templefields site consisted of a 1km long cul-de-sac with low value and low level uses congregated to the eastern end. The vision for the site was of a modern high-tech business park, however, this transformation would not be achievable without significantly improved road access, hence the request for GPF funding to bring about the required improvements.

8.7. To date no work has been undertaken to progress this element of the project, with none of the £2m GPF allocation having been drawn down.

8.8. Essex County Council have now confirmed that they are not progressing with the construction of the new access into the Templefields site. Whilst this decision may contribute to a delay in realising the vision for the site, through GPF revenue contributions to the Harlow Enterprise Zone SELEP has supported the vision for the site.

8.9. The application for GPF funding indicated that the GPF investment in the project would directly contribute to the provision of up to 7,000 jobs across the two sites. It is expected that some of these jobs will be created through the development of the London Road site, however, at the present time it seems unlikely that significant additional jobs will be forthcoming on the Templefields site in the short-term.

8.10. Given the stalled development of the Templefields site and that the project is currently unable to spend the GPF allocation, it is expected the reallocation of the funding to an alternative GPF project across the SELEP area would be a more effective way of utilising the GPF funding to deliver economic growth.

9. No Use Empty Commercial

9.1. Kent County Council launched its ‘No Use Empty’ campaign in 2005, with the primary aim of improving the physical urban environment in Kent by bringing long-term empty properties back into use as quality housing accommodation.

9.2. The No Use Empty campaign has a proven track record, returning more than 5,000 empty homes back into use across Kent.

9.3. As part of round 2 of the GPF, Kent County Council requested GPF loan funding for the No Use Empty Commercial Property Scheme, which would run alongside the residential element of the No Use Empty scheme. The aim is to return long-term empty commercial properties to use, either as residential, alternative commercial use or for mixed-use purposes.

9.4. In February 2018 the Board approved the award of £1m GPF funding to the No Use Empty Commercial project. The project Business Case indicated that the GPF funding would be drawn down in 2018/19 (£500,000) and 2019/20 (£500,000).

9.5. The £500,000 of GPF funding that was drawn down by the project in 2018/19 has been fully invested, through short-term secured loans, in six long-term empty commercial properties across Dover, Margate and Folkestone. Work on the first of these properties, in Margate, has been completed and the property is now operating as a restaurant. Work is ongoing to bring the other five properties back into use.

9.6. Once all the committed works are completed a total of eight new commercial units and 16 residential units will have been supported by the project. The Business Case indicated that through the GPF investment, the Project would enable the delivery of 28 residential units and eight commercial units. The project is on track to meet, and potentially exceed, these projections.

9.7. In order to maintain momentum and have the opportunity to bring additional properties forward earlier Kent County Council have requested accelerated draw down of the £500,000 GPF funding which was originally programmed for spend in 2019/20, with the funding now required in 2018/19.

9.8. The cash flow position, set out in section 5, shows that there is sufficient funding available in 2018/19 to allow draw down of the remaining £500,000 allocation for the No Use Empty Commercial project as requested by Kent County Council. The Board are asked to approve the accelerated draw down of funding for the project.

10. Eastbourne Fisherman’s Quayside and infrastructure development project

10.1. The Eastbourne Fisherman’s Quayside and infrastructure development project sought GPF funding for the build of a Fisherman’s Quay in Sovereign Harbour, to develop local seafood processing infrastructure to support long term sustainable fisheries and the economic viability of Eastbourne’s inshore fishing fleet.

10.2. The project aims to protect the fishing fleet in Sovereign Harbour, safeguarding up to 72 fishing jobs and over £2m revenue per year, as well as the resulting impacts on the local economy.

10.3. The Board approved the allocation of £1.15m to the project in December 2017. The project Business Case indicated that the GPF funding would be drawn down in 2017/18 (£0.5m) and 2018/19 (£0.65m), however, as the GPF loan agreement was not in place by the end of the 2017/18 financial year this was revised to facilitate draw down of the entire project allocation in 2018/19.

10.4. The latest update provided on the project demonstrates that progress has been made towards delivering the stated outputs. Terms of the lease agreement have been negotiated and are awaiting ratification on 7th February 2019. Once the lease agreement has been ratified it will be possible to engage a contractor and begin the required construction works.

10.5. It is expected that construction will commence in 2018/19 and will continue into 2019/20. As a result, a revised funding draw down schedule has been provided, as shown in Table 4 below:

Table 4: updated draw down profile for the Eastbourne Fisherman's Quayside and infrastructure development project

	2018/19	2019/20	Total
Draw down required	£575,000	£575,000	£1,150,000

10.6. Despite the amendments to the draw down profile the project is still expected to meet the agreed repayment schedule, with full repayment expected by the 2020/21 financial year.

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

11.1. Eight GPF Round 1 projects have now been completed, with the benefits of this infrastructure investment starting to be realised. It is reported that 1,849 jobs have been delivered through investment in commercial space and new business premises, as set out in Table 5 below. Significantly it was noted in the last project update that a further 40 jobs have been delivered as a result of the Sovereign Harbour project.

11.2. Additional benefits are expected to be delivered through the completion of the remaining five GPF round 1 projects and through the follow on investment which has been unlocked through the infrastructure delivered through GPF investment. For example, the Rochester Riverside project is now complete and has delivered a site access road, along with public realm works. The GPF investment has now enabled a large scale residential development to come forward for 1,400 new homes and 1,200m^2 of commercial space, which will be delivered in phases to March 2023. This time lag between spend of the GPF investment and benefit realisation is expected across a number of projects included in the GPF programme.

Table 5 - Monitoring of GPF Round 1 project outputs

Name of Project	Outputs defined in Business Case		Outputs delivered to date	
	Jobs	**Houses**	**Jobs**	**Houses**
Priory Quarter Phase 3	440	0	240	0
North Queensway	865	0	0	0
Rochester Riverside	402	450	402	489
Chatham Waterfront	211	159	211	115
Bexhill Business Mall	299	0	98	0
Parkside Office Village	169	0	137	0
Chelmsford Urban Expansion	2,105	0	365	0
Grays Magistrates Court	200	0	89	0
Sovereign Harbour	299	0	220	0
Workspace Kent	198	0	87	0
Harlow West Essex	4,000	1,200	0	0
Discovery Park	130	250	0	0
Live Margate	0	66	0	22
Totals	**9,318**	**2,125**	**1,849**	**626**

11.3. Benefits are also now being realised for some of the initial GPF round 2 projects. As outlined in section 9, the initial investment through the No Use Empty Commercial project is beginning to deliver benefits with one commercial unit already having been brought back into use, with a further seven commercial sites and 16 residential units expected to be returned to use in the coming months.

11.4. Construction works at the Fitted Rigging House in the Chatham Historic Dockyard are nearing completion and the first two tenants are now operating from the building. This has resulted in the delivery of 100 jobs on the site to date, with a further three tenants expected to move into the Fitted Rigging House during 2019.

11.5. The GPF investment in the Charleston Centenary project has enabled the refit of space to provide a café-restaurant. This café-restaurant is now open and all the forecast six jobs have been delivered.

12. Financial Implications (Accountable Body Comments)

12.1. The cashflow forecast position reported to the Board in November 2018, indicated that there was risk of insufficient funding being available in 2019/20 to meet the agreed investments due to a potential mismatch of payments and repayments in that year; it is noted, however, that the proposed early repayments recommended in this report have addressed this issue and provide a positive investment position moving into 2019/20.

12.2. Although non-repayment of the majority of loans has been identified as low risk, it should be noted that any repayments not made in line with their approved profile will put at risk the funding required for the GPF programme to be maintained as an effective recyclable loan scheme. As such, it is recommended that all GPF repayment risks continue to be monitored as part of the regular GPF updates reported to the Board.

12.3. It is noted that actual delivery of jobs and homes is not in line with the expected levels identified in the business cases for many projects; where this is the case, it is recommended that an evaluation of why this is the case should form part of the on-going monitoring and, where appropriate, be used to inform future business case estimations of growth.

12.4. It is recommended that consideration is given to commencing the next round of funding allocations during 2019/20, to enable the timely reinvestment of uncommitted GPF repayments.

13. Legal Implications (Accountable Body Comments)

13.1. Where changes are approved to the repayment or drawdown schedules for the projects, a deed of variation will be required to the credit agreements in place between Essex County Council, as Accountable Body, and the lead County/ Unitary Authority for each project, in order to ensure that the Agreements are reflective of the actual position and approvals given.

14. Equality and Diversity implications (Accountable Body Comments)

14.1. 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.

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

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

15. List of Appendices

15.1. Appendix 1 – Growing Places Fund Project Summary

15.2. Appendix 2 – Growing Places Fund Repayment Schedule

16. List of Background Papers

16.1. Accountability Board Agenda Pack 31st March 2017

(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 Stephanie Mitchener (On behalf of Margaret Lee, S151 Officer, Essex County Council)	07/02/19