

Report title: Growing Places Fund update	
Report to Accountability Board	
Report author: Rhiannon Mort, SELEP Capital Programme Manager	
Date: 16 th November 2018	For: Decision
Enquiries to: Rhiannon Mort, rhiannon.mort@southeastlep.com	
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 risk to the repayment schedule for the Priory Quarter Project;
 - 2.1.3. **Note** the risk to the repayment schedule for the Workspace Kent Project;
 - 2.1.4. **Note** the potential £753,398 funding gap between the GPF draw-down schedule and the GPF available through repayments during 2019/20, as set out in section 5 below.

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 is allocated for investment in a total of 20 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 £7,405,033 having been repaid to date. A further £2,292,707 is due to be repaid during 2018/19 if all repayment schedules are met.
- 4.3. Specific risks have been identified in relation to the repayment schedule for the Priory Quarter and Workspace Kent projects, set out in Sections 6 and 7 below. When the risk to these repayment schedules is taken into account the remaining GPF due to be repaid in 2018/19 totals £1,441,000.

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 repayment schedule for both the Priory Quarter and Workspace Kent projects.

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

£	2018/19	2019/20
GPF available at the outset of year	7,312,602	4,825,309
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	98,309
GPF repayments expected	2,292,707	11,742,691
Carry Forward	4,825,309	11,841,000

- 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. This takes into account the risk to the repayment schedules for the Priory Quarter and Workspace Kent projects.

Table 2 - GPF Cash Flow Position taking into account the risk to the repayment schedules for the Priory Quarter and Workspace Kent projects

£	2018/19	2019/20
GPF available at the outset of year	7,312,602	3,973,602
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	-753,398
GPF repayments expected	1,441,000	11,218,691
Carry Forward	3,973,602	10,465,293

- 5.4. If the repayment schedules for the Priory Quarter and Workspace Kent projects are delayed, it is expected that there will be a £753,398 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 gap between the GPF funding available and the project draw-down schedule in 2019/20 arises due to the timing of the expected repayments. It is anticipated that funding draw down for all approved GPF projects will be requested in April 2019, whilst repayments won't be forthcoming until March 2020.
- 5.6. This gap will be further exacerbated if any additional slippages are incurred to the expected GPF repayments in 2018/19 as set out in Appendix 1.
- 5.7. The gap between the amount of GPF funding available and the project draw-down schedule presents a risk to the Round 2 projects which are seeking funding draw-down in 2019/20.
- 5.8. All GPF awards to Round 2 projects have been made subject to sufficient GPF being available to SELEP. If there is insufficient GPF funding available

to meet the project draw-down schedule, then the GPF awards to certain projects in 2019/20 will be delayed until sufficient funding is made available through repayments. The following projects are due to draw down GPF in 2019/20:

- 5.8.1. Colchester Northern Gateway;
- 5.8.2. Javelin Way Development Park;
- 5.8.3. Innovation Park Medway;
- 5.8.4. Fitted Rigging House;
- 5.8.5. No Use Empty (NUE) Commercial.

5.9. The Board will be updated on this risk at its next meeting and the Board will be asked to consider the 2019/20 cash flow risk prior to making any further GPF awards to Round 2 projects.

5.10. If there remains a risk in relation to availability of sufficient GPF funding to meet the project draw-down schedule mitigation options will be presented to the Board in February 2019.

6. Priory Quarter Phase 3

6.1. In March 2017, the Board were made aware of delays to the repayment of GPF for the Priory Quarter Phase 3 project in East Sussex.

6.2. This 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.

6.3. Whilst the commercial space has been delivered, the take up of tenancies at the site has been slower than anticipated. As such, 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.

6.4. 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.

6.5. 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.

6.6. 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.

- 6.7. It was intended that, following discussion at Strategic Board, the Board would make a decision on the proposed amended repayment schedule. However, through the last project update report it was noted that options are currently being considered locally to enable the planned repayment schedule to be met.
- 6.8. The Board are asked to note the ongoing risk to the repayment schedule for the project. The Board will be required to make a decision regarding the proposed amended repayment schedule at the February Board meeting if the options currently under consideration do not enable the planned repayment schedule to be fulfilled.

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. However, a risk has been identified to the repayment of the GPF loan as contract variations are currently being considered by Kent County Council in relation to two of the four projects.
- 7.3. The project was brought forward in 2012 during the early rounds of GPF awards and was awarded a £5m GPF allocation. A credit agreement was put in place in May 2015 between Essex County Council, as the Accountable Body and Kent County Council but this agreement did not set out explicit repayment dates for the loan. However, loan repayment dates are specified in the agreements between Kent County Council and the loan recipients.
- 7.4. Kent County Council will provide an updated repayment schedule following completion of the contract variations, which are currently being negotiated. A decision will then be sought from the Board in February 2019 to update the repayment schedule. In the interim the repayment schedule included in Appendix 1 and in the cash flow calculations in Section 5 reflects the most likely scenario.
- 7.5. Through the last project update report a further risk to the repayment schedule was identified, with considerable risk attached to the repayment of the loan made to one of the four projects. Whilst repayments are currently being made by the loan recipient to Kent County Council there is an identified risk to future repayments due to 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. This risk to the repayment schedule will be monitored and the Board will be updated at its next meeting.

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

- 8.1. Eight GPF Round 1 projects have now been completed, with the benefits of this infrastructure investment starting to be realised. It is reported that 1,865 jobs have been delivered through investment in commercial space and new business premises, as set out in Table 3 below.
- 8.2. 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 1,200m² 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 LGF programme.

Table 3 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	115	211	115
Bexhill Business Mall	299	0	150	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	180	0
Workspace Kent	198	0	91	0
Harlow West Essex	4,000	1,200	0	0
Discovery Park	130	250	0	0
Live Margate	0	66	0	9
Totals	9,318	2,081	1,865	613

9. Financial Implications (Accountable Body Comments)

- 9.1. The current cashflow forecast position for the GPF loan scheme in 2019/20 indicates that there is risk of insufficient funding being available to meet the agreed investments due to a potential mismatch of payments and repayments in that year; any further request for changes to repayment profiles increases this risk. The options for mitigating this risk in 2019/20 are expected to be considered by the Board at the next meeting. However, it should be noted that if loans are not repaid as planned, then this could delay the payment of allocations to other Projects that were expected to be made in 2019/20.
- 9.2. 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.
- 9.3. 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 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.
- 9.4. It is recommended that consideration is given to commencing the next round of funding allocations in advance of the £11m due to be returned by 31 March 2020.

10. Legal Implications (Accountable Body Comments)

- 10.1. There are no legal implications arising out of the recommendations within this report.

11. Equality and Diversity implications (Accountable Body Comments)

- 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 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.

Role	Date
Accountable Body sign off	
Stephanie Mitchener	8/11/18
On behalf of Margaret Lee	

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 Accountability Board Agenda Pack 31th March 2017