

<b>Report title:</b> Growing Places Fund Update	
<b>Report to Accountability Board on 20<sup>th</sup> November 2020</b>	
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<b>Date:</b> 29 <sup>th</sup> October 2020	<b>For:</b> Decision
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<b>SELEP Partner Authority affected:</b> All	

## 1. Purpose of report

- 1.1 The purpose of this report is 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 **Approve** the revised repayment schedule for the Workspace Kent project;
- 2.1.3 **Approve** the revised repayment schedule for the Live Margate project and agree that, despite repayments not being made in line with the original repayment schedule, no interest will be charged on the loan;
- 2.1.4 **Approve** the revised repayment schedule for the No Use Empty Commercial project and agree that, despite repayments not being made in line with the original repayment schedule, no interest will be charged on the loan;
- 2.1.5 **Approve** the revised repayment schedule for the North Queensway project and agree that, despite repayments not being made in line with the original repayment schedule, no interest will be charged on the loan;
- 2.1.6 **Approve** the revised repayment schedule for the Sovereign Harbour project and agree that, despite repayments not being made in line with the original repayment schedule, no interest will be charged on the loan.

### **3. Background**

- 3.1 In total, £49.21m 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 27 capital infrastructure projects, as detailed in Appendix A. In addition, a small proportion of GPF revenue funding was allocated to Harlow Enterprise Zone (£1.244m) and a further £2m was ring-fenced to support the activities of SELEP's Sector Working Groups (known as the Sector Support Fund); as agreed by the Strategic Board.
- 3.2 In June 2020, the Strategic Board took the decision to repurpose £10m of the GPF funding to enable delivery of interventions which will support economic recovery post COVID-19. Subsequent to this decision being taken by the Strategic Board, HM Government confirmed the payment of the final third of SELEP's 2020/21 LGF allocation thereby releasing the £3.6m of GPF funding which had been repurposed to underwrite the risks associated with the change in approach regarding the payment by Government of LGF funding to LEP's. This funding has now been returned to the GPF pot for reinvestment in pipeline projects.
- 3.3 Quarterly updates are provided to the Board on the latest position of the GPF projects in terms of delivery progress, realisation of project benefits and any risks to the repayment of the GPF loans

### **4. Current Position**

#### **COVID-19 Impacts**

- 4.1 The impact of the COVID-19 pandemic and the associated social distancing measures introduced by Government have resulted in a severe shock to our economy. Whilst the full impact is not yet known, the existing GPF projects are feeling the effects and longer-term risks have been identified which may affect the delivery of the projects, the realisation of expected project benefits and the ability to repay the current GPF loans.
- 4.2 Further information regarding the effects and risks identified as a result of the COVID-19 pandemic is provided in Appendix F.
- 4.3 GPF project risks will continue to be monitored over the coming months as the wider impacts of the COVID-19 pandemic become evident. This may result in currently unidentified risks being highlighted in future Board reports.

#### **Cash Flow Position**

- 4.4 Through the latest round of GPF reporting, risks to repayment schedules for eight projects have been identified predominantly as a result of the impact of the COVID-19 pandemic. The GPF repayment schedules are set out in Appendix B.

- 4.5 Scheme promoters have been working to understand the impacts of COVID-19 on their projects and their intended repayment mechanism. Revised repayment schedules for five projects are set out within this report and it is expected that a revised repayment schedule for the Javelin Way Development project will be brought to the Board for consideration in February 2021.
- 4.6 No update reporting has been received in relation to the Centre for Advanced Engineering project since the onset of the COVID-19 pandemic and therefore it is unknown if the repayment schedule is likely to be impacted. To be prudent a repayment risk has been flagged until further information is provided. In addition, a repayment risk has been flagged for the Colchester Northern Gateway project as a result of delayed drawdown of the GPF funding due to issues finalising the loan agreement between Essex County Council (as Accountable Body) and Essex County Council (as Upper Tier Local Authority).
- 4.7 Table 1 below sets out the current cash flow position based on the planned GPF investment and the GPF available for re-investment through loan repayments. The cash flow is based on the assumption that the six projects at the top of the GPF round 3 project pipeline, agreed by the Strategic Board in June 2020, will receive Board approval during the course of 2020/21.
- 4.8 This cash flow reflects the assessment of repayment risk set out in Appendix D and assumes repayments in 2020/21 against the four projects currently showing no repayment risk. This will continue to be monitored and updated in accordance with updates from scheme promoters.
- 4.9 Proposed changes to the repayment schedules for the Live Margate and No Use Empty Commercial projects are set out in this report. Under these revised repayment schedules, repayments will be made in 2020/21, and therefore these changes have been included in Table 1.
- 4.10 Revised repayment schedules for all other projects which were due to make repayments in 2020/21 have been provided by scheme promoters. Under the revised repayment schedules, no repayments will be made against these projects in 2020/21. Repayments forecast for 2021/22 under the revised repayment schedules have been included in the updated cash flow position.

*Table 1: GPF Cash Flow Position*

£	2020/21	2021/22
GPF available at the outset of year	25,347,202	15,167,202
GPF funding repurposed	6,400,000	-
GPF available for investment	18,947,202	15,167,202
GPF Round 1 planned investments	0	0
GPF Round 2 planned investments	3,055,000	0
GPF Round 3 planned investments	5,320,000	9,250,000
Position before GPF repayments are made	10,572,202	5,917,202
GPF repayments expected	4,595,000	4,664,042
Carry forward	15,167,202	10,581,244

- 4.11 As shown in Table 1 total GPF drawdown of £8.375m is forecast for 2020/21. Sufficient GPF funding is currently being held to meet these drawdown requirements. It is expected that by the end of 2020/21 all currently approved Round 1 and 2 GPF projects will have drawn down their full allocation of funding. The drawdown schedule for the GPF programme is set out in Appendix C.

### Growing Places Fund Round 3 Projects

- 4.12 On 12<sup>th</sup> June 2020 the Strategic Board agreed a GPF prioritised pipeline of projects, which will be used to inform the allocation of any available GPF funding during 2020/21, 2021/22 and early 2022/23. The first four projects from this pipeline have now come forward for consideration of funding approval by the Board. The remaining project pipeline is set out in Table 2.

*Table 2: GPF prioritised pipeline of projects*

Project	Federated Area	GPF ask (£)	Cumulative total (£)
Barnhorn Green Commercial and Health Development (Phase 1)	TES	1,750,000	6,970,000
Leigh Port Quay Wall (Cockle Wharf)	OSE	3,500,000	11,070,000
No Use Empty Commercial South Essex	OSE	1,000,000	15,570,000
No Use Empty Commercial Phase II	KMEP	2,000,000	17,570,000
Observer Building, Hastings (Phase 2)	TES	1,616,500	19,186,500

Barnhorn Green Commercial and Health Development (Phase 2)	TES	1,750,000	20,936,500
No Use Empty Homes Initiative	KMEP	2,500,000	23,436,500

4.13 There is sufficient GPF funding currently available to support investment in the Barnhorn Green Commercial and Health Development (Phase 1) and Leigh Port Quay Wall (Cockle Wharf) projects during 2020/21. Funding decisions on these projects will be sought at the February 2021 Board meeting.

## 5. Growing Places Fund Project Delivery to Date

- 5.1 A deliverability and risk update is provided for each GPF project in Appendix A. A high delivery risk has been identified for the Innovation Park Medway (southern site enabling works) project, as the adoption of the Local Development Order (LDO) is required prior to commencement of the GPF southern site works. Adoption of the LDO is subject to statutory consultee comments being satisfactorily addressed, including comments raised by Highways England.
- 5.2 A high risk in relation to repayment of the GPF loan has been identified in relation to the following projects: Workspace Kent, North Queensway and Sovereign Harbour. Proposed revised repayment schedules for all three of these projects are set out within this report.
- 5.3 Eleven GPF projects have now been completed, with the benefits of this infrastructure investment starting to be realised. It is reported that 2,292 jobs have been delivered through investment in commercial space and new business premises, as set out in Appendix E.
- 5.4 Additional benefits are expected to be delivered through the completion of the remaining GPF projects and through the follow-on investment which has been unlocked through the infrastructure delivered with GPF investment. It is expected in many cases that there will be a time lag between spend of the GPF investment and benefit realisation due to the use of the GPF funding to enable wider development at the project location.
- 5.5 A RAG rating is being used, on Appendix E, to assess how the completed projects are progressing towards delivering the jobs and homes outcomes stated within the Business Case. To date, it can be seen that the Grays Magistrates Court project has exceeded the number of jobs stated within the project Business Case, and that the Charleston Centenary project has met the forecast jobs figure for the project.
- 5.6 The North Queensway project has been completed, however, due to slower uptake of land than originally anticipated no jobs outcomes have been delivered to date. Steps are being taken by the scheme promoter to accelerate development at the site.

- 5.7 There are also a number of completed projects which are demonstrating progress towards meeting the outcomes defined in the Business Case but have not yet reached the forecast, including Harlow West Essex and Fitted Rigging House.
- 5.8 Due to the COVID-19 pandemic a number of projects have raised risks in relation to the realisation of these benefits. In most cases it is expected that the project benefits will still be realised, however, this is now likely to be over a longer time period than originally anticipated. This is for a number of reasons, including extended construction programmes, likely impact on the tourism sector, uncertainty regarding the effect on the property sales and rental market and the as yet unknown long-term impact on the economy and the viability of businesses. This will continue to be monitored as scheme promoters gain a clearer understanding of the wider economic impacts of the ongoing COVID-19 pandemic.

## **6. Workspace Kent – revised repayment schedule**

- 6.1 The Workspace Kent project aims to unlock jobs and employment opportunities by enabling increased provision of business incubator space and other workspace. The project provides funding to bring forward business premises that would otherwise not be developed through a Challenge Fund managed by Kent County Council.
- 6.2 The project was awarded £1.5m GPF and to date repayments totalling £1.18m have been made.
- 6.3 In response to the COVID-19 pandemic, Kent County Council took the decision to apply a 12 month repayment free period from 28<sup>th</sup> March 2020 on all loans issued as part of this project. This is in line with the overarching approach by Kent County Council to support all their loan recipients. As a result, repayment of the remaining GPF allocation will be delayed.
- 6.4 It is anticipated that there could be further requests for contract variations involving the reprofiling of repayments, however, at this stage it is not possible to accurately forecast these changes. Therefore, a conservative approach has been adopted when establishing the proposed revised repayment schedule. The revised repayment set out below accounts for all potential requests for further reprofiling of repayments. If no contract variations are requested, repayment of the outstanding GPF funding will be accelerated in line with repayments received by Kent County Council.
- 6.5 As outlined at the July 2020 Board meeting, there is an ongoing risk in relation to repayment from one of the Workspace Kent loan recipients. Kent County Council received individual voluntary arrangement (IVA) documentation from the loan recipient, who has an outstanding balance of £18,767. Kent County Council have submitted their response to this documentation and are awaiting the outcome of the IVA process, to find out whether there will be a payment made to creditors which could be applied to the outstanding balance. The

Board will receive further updates on this risk as the IVA process progresses but, until confirmed otherwise, full repayment of the GPF loan is forecast.

6.6 The proposed revised repayment schedule is set out in Table 3 below.

*Table 3: Proposed revised repayment schedule for the Workspace Kent Project*

£m	Repaid to date	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	Total
<b>Repayment schedule</b>									
Current	1.176633	0.0764	0.0084	0.0084	0.0086	0.0096	0.0112	0.200767	<b>1.5</b>
Revised	1.176633	0	0.07	0	0	0	0	0.253367	<b>1.5</b>

## 7. Live Margate – revised repayment schedule

7.1 Live Margate is a programme of interventions in the housing market in Margate and Cliftonville, which includes the acquisition of poorly managed multiple occupancy dwellings and other poor-quality building stock in order to deliver improvements which achieve social and economic benefits in the local area.

7.2 The Live Margate project specifically targets long-term derelict or problem buildings in Margate for refurbishment into family homes. The project was awarded £5m through the first round of the GPF which has been provided to individual property owners in the form of a loan by Kent County Council.

7.3 The preferred repayment mechanism for the individual property owners who are in receipt of GPF funding, is through refinancing of the properties following completion of the works. The COVID-19 pandemic has had an impact on the ability for property valuations to be undertaken, with a back log of work in this area. This has impacted on the ability of loan recipients to refinance their properties. In addition, withdrawal of some mortgage products and tighter lending criteria has resulted in some repayment risks being identified.

7.4 Where required, Kent County Council are offering extensions of 6 to 9 months on the original agreed repayment schedules to assist property owners. Therefore, a revised repayment schedule has been brought forward for Board consideration. Should property owners meet their original repayment dates, repayment of the GPF funding will be accelerated.

7.5 The proposed revised repayment schedule is set out in Table 4 below.

*Table 4: Proposed revised repayment schedule for the Live Margate Project*

£m	2020/21	2021/22	2022/23	2023/24	2024/25	Total
<b>Repayment schedule</b>						
Current	1.0	1.0	1.0	1.0	1.0	<b>5.0</b>
Revised	0.5	1.0	1.0	1.0	1.5	<b>5.0</b>

## 8. No Use Empty Commercial – revised repayment schedule

- 8.1 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.
- 8.2 The No Use Empty campaign has a proven track record, returning more than 6,300 empty homes back into use across Kent.
- 8.3 As part of round 2 of the GPF, Kent County Council received GPF loan funding of £1m for the No Use Empty Commercial Property Scheme. The aim is to return long-term empty commercial properties to use, either as residential, alternative commercial use or for mixed-use purposes through the provision of a short-term loan to the property owner.
- 8.4 The preferred repayment mechanism for the individual property owners who are in receipt of GPF funding, is through refinancing of the properties following completion of the works. The COVID-19 pandemic has had an impact on the ability for property valuations to be undertaken, with a back log of work in this area. This has impacted on the ability of loan recipients to refinance their properties. In addition, withdrawal of some mortgage products and tighter lending criteria has resulted in some repayment risks being identified.
- 8.5 Where required, Kent County Council are offering extensions of 6 to 9 months on the original agreed repayment schedules to assist property owners. Therefore, a revised repayment schedule has been brought forward for Board consideration. Should property owners meet their original repayment dates, repayment of the GPF funding will be accelerated.
- 8.6 The proposed revised repayment schedule is set out in Table 5 below.

*Table 5: Proposed revised repayment schedule for the No Use Empty Commercial Project*

£m	2020/21	2021/22	2022/23	Total
<b>Repayment schedule</b>				
Current repayment schedule	0.55	0.5	-	<b>1.0</b>
Revised repayment schedule	0.3	0.5	0.2	<b>1.0</b>

## **9. North Queensway – revised repayment schedule**

- 9.1 The North Queensway project has received GPF investment totalling £1.5m, which has been used to fund junction improvements and preliminary site infrastructure works to prepare the site for development. The expectation was that completion of the GPF works would enable the development of a new business park providing serviced development sites with the capacity for approximately 16,000m<sup>2</sup> (gross) of high quality industrial and office premises.
- 9.2 The GPF funded aspects of the project have been delivered, the GPF has been invested in full and to date repayments totalling £1.0m have been made



to SELEP. However, the repayment of the remaining £500,000 remains outstanding.

- 9.3 As outlined at the February 2020 Board meeting, the development of the site has been delayed as a result of challenges in securing planning consent for the commercial development due to concerns raised by statutory consultees; particularly in relation to drainage issues. The challenges in securing planning consent have deterred private sector investment in the site.
- 9.4 In order to mitigate this issue Sea Change Sussex, as the delivery organisation for the project, are intending to carry out further site enabling works. This will provide additional infrastructure to address the identified challenges to enable the stalled development to progress. These infrastructure works include the installation of a pumping station and provision of mains drainage, water and electricity supplies to the site.
- 9.5 Due to the COVID-19 pandemic, the delivery of the further site enabling works has been delayed. As a result, it is expected that development of commercial space on the site will also be delayed. The intention is to repay the GPF loan through income generated by sale of development plots and therefore a revised repayment schedule has been brought forward for Board consideration.
- 9.6 The proposed revised repayment schedule is set out in Table 6 below.

*Table 6: Proposed revised repayment schedule for the North Queensway Project*

£m	Repaid to date	2020/21	2021/22	Total
<b>Repayment schedule</b>				
Current repayment schedule	1.0	0.5	-	<b>1.5</b>
Revised repayment schedule	1.0	-	0.5	<b>1.5</b>

## **10. Sovereign Harbour – revised repayment schedule**

- 10.1 The Sovereign Harbour project was awarded £4.6m GPF in 2014, for the delivery of high-quality office space in Eastbourne. This development was the first major development in the Sovereign Harbour Innovation Park and was expected to facilitate up to 299 jobs.
- 10.2 The Project is now complete and has delivered 2,345sqm of office space in Pacific House, which has facilitated delivery of 214 jobs to date.
- 10.3 Repayments totalling £825,000 have been made against the Project, leaving an outstanding balance of £3.775m which is still to be repaid.
- 10.4 In April 2020, as a direct result of the COVID-19 pandemic, Sea Change Sussex (as delivery partner) offered all tenants at Pacific House a three month

rent-free period. This measure was offered to try and protect the tenants long term survival and their ability to meet their rental payments following the COVID-19 pandemic.

- 10.5 Despite this measure, as the COVID-19 crisis continues to have an effect on the UK property market and with the likelihood of a second wave lasting until July 2021 at best, there is a high risk of tenants serving notice and/or business failures resulting in empty workspace within Pacific House. As a result, a proposed revised repayment schedule has been brought forward for Board consideration.
- 10.6 The proposed revised repayment schedule is set out in Table 7 below.

*Table 7: Proposed revised repayment schedule for the Sovereign Harbour Project*

£m	Repaid to date	2020/21	2021/22	2022/23	Total
<b>Repayment schedule</b>					
Current repayment schedule	0.825	0.3	3.475	-	<b>4.6</b>
Revised repayment schedule	0.825	-	0.2	3.575	<b>4.6</b>

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

- 11.1 A total of £15.167m (table 1) GPF is expected to be available by the end of the 2020/21 for reinvestment into the pipeline; this is on the assumption that repayments are made in line with current expectations.
- 11.2 The 2020/21 forecast cashflow position indicates that there is enough funding available to meet the agreed GPF investments due at present in this financial year including the funding decision coming forward at this meeting.
- 11.3 The Board are advised to note that in consideration of the reprofiling request and the further repayment risks that are highlighted, that a delay in the amount of GPF repaid by existing projects, as a result of re-profiled repayment schedules, will reduce the amount of GPF available for reinvestment in 2021/22.
- 11.4 If an existing GPF project is put forward for a change to its repayment schedule, under the terms of the credit agreement with Essex County Council, the lead County/Unitary Authority is required to provide assurance that there is reasonable justification for a delay in repayment and that the project is still viable in the longer term to make the repayments in full.
- 11.5 If any loan is confirmed by the lead County/Unitary Authority as not repayable in part or in full due to failure, or part failure, of the project, under the terms of the credit agreement with Essex County Council and, the Board will be updated and asked to agree that the balance is written off. The Board will not

be asked to make this decision until there is certainty that the funding cannot be recovered. The status of the at-risk projects and all GPF projects in train are being closely monitored by SELEP.

- 11.6 There is a continued risk that scheduled repayments by existing projects will not be made as planned due to difficulties experienced by projects as a result of COVID-19. At its June 2020 meeting the Strategic Board agreed to offer flexibility to delay GPF repayments for existing projects due to the impact of COVID-19, therefore, it is likely that there will be a further reduction in the amount of GPF repaid by existing projects in 2020/21.
- 11.7 In June 2020 the Strategic Board agreed to utilise the available GPF of £22.3m in 2020/21 (value is prior to scheduled repayments being made) in response to the COVID-19 pandemic and allocate £12m to a prioritised list of GPF projects. The pot has subsequently increased by £3.6m in August 2020 following the receipt of the final third of LGF from BEIS, and therefore LGF project allocations are fully funded, resulting in the contingency fund of £3.6m (table 1) no longer being required and automatically reallocated to invest in the GPF pipeline.
- 11.8 It is noted that actual delivery of jobs and homes reported to date remained out of line with the expected levels identified in the business cases for most completed projects and there has been some evaluation of why delivery of outcomes is lower than expected. This should continue to form part of the on-going monitoring with reasons for under delivery explained fully to the Board. This is critical due to the Covid-19 situation and to help monitor the economic impact of the crisis on the SELEP region and project outcomes. Where appropriate, these reviews should be used to inform future business case estimations of growth to ensure there is not a pattern of over-ambition.

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

- 12.1 The Growing Places Fund is provided by the Accountable Body to the partner authorities for each project under a loan agreement. Revising a payment schedule for a project under a GPF loan agreement will be subject to the terms of the loan agreement and Accountability Board approval.

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

- 13.1 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.

- 13.2 The protected characteristics are age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, gender and sexual orientation.
- 13.3 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 were possible identify mitigating factors where an impact against any of the protected characteristics has been identified.

#### **14. List of Appendices**

- 14.1 Appendix A – GPF Project Update  
 14.2 Appendix B – GPF Repayment Schedule  
 14.3 Appendix C – GPF Drawdown Schedule  
 14.4 Appendix D – Assessment of GPF Repayment Risk for 2020/21  
 14.5 Appendix E – Monitoring of GPF Project Outcomes  
 14.6 Appendix F – COVID-19 impacts

#### **15. List of Background Papers**

- 15.1 Strategic Board Agenda Pack 12<sup>th</sup> June 2020, including decision to repurpose an element of the GPF funding to support economic recovery post COVID-19.

**(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)**

<b>Role</b>	<b>Date</b>
<b>Accountable Body sign off</b>  Peter Shakespear  (On behalf of Nicole Wood, S151 Officer, Essex County Council)	09.11.2020