

Report title: Growing Places Fund update	
Report to Accountability Board	
Report author: Rhiannon Mort, SELEP Capital Programme Manager	
Date: 14 th September 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. **Approve** the amended repayment schedule for the Charleston Centenary Project;
 - 2.1.3. **Note** the risk to the repayment schedule for the Workspace Kent Project;
 - 2.1.4. **Note** the proposed amended repayment schedule for the Priory Quarter Project, prior to consideration of the amendment by the SELEP Strategic Board.
 - 2.1.5. **Note** the £425,691 funding gap between the GPF draw-down schedule and the GPF available through repayments during 2019/20, as set out in section 5 below
 - 2.1.6. **Note** the project change for the Eastbourne Fisherman GPF round 2 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, GFP 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.
- 3.3. In the last quarter, SELEP has been informed of delayed repayments for the Priory Quarter and Charleston Centenary projects in East Sussex, as detailed in sections 6 and 7 below.
- 3.4. In addition, the Board are asked to agree a project change for the Eastbourne Fisherman's project, as set out in section 8 below.

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 £2,754,000 is due to be repaid during 2018/19. This takes into account the proposed changes to the repayment schedule for the Priory Quarter, Charleston Centenary and risk to the Workspace Kent Project.

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.
- 5.2. Due to the delayed GPF repayments, there is now expected to be a £425,691 gap between the amount of GPF available in 2019/20 and project draw-down schedule.
- 5.3. This gap will be further exacerbated if any additional LGF slippages are incurred to the expected GPF repayments in 2018/19 as set out in Appendix 1. A specific risk has been identified in relation to the repayment for the Workspace Kent project, set out in Section 8 below.
- 5.4. The Board has previously considered and indicated willingness to consider the borrowing of LGF to manage GPF cash flow issues, in advance of GPF repayments being made. However, there is also currently a gap between the LGF available and LGF spend forecast in 2019/20 of £5.991m as set out under Agenda Item 7.

- 5.5. Through the next quarter, SELEP will work with local partners to explore options to mitigate the LGF funding gap in 2019/20. If the current gap between the LGF available and the LGF spend forecast can be closed then recommendations will be made at the next meeting of the Board for within year borrowing of £425,691 from LGF in advance of GPF repayments being made in Q4 2019/20.
- 5.6. The expected repayment of £10.175m GPF in Q4 2019/20 will enable the repayment of the GPF prior to the end of the 2019/20 financial year, subject to GPF repayments being made as set out in Appendix 1.
- 5.7. All GPF awards to Round 2 projects have been made subject to sufficient GPF being available to SELEP. If the option to borrow against LGF in 2019/20 is not available, then the GPF awards to certain GPF 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:
- 5.7.1. Colchester Northern Gateway;
 5.7.2. Javelin Way Development Park;
 5.7.3. Innovation Park Medway;
 5.7.4. Fitted Rigging House;
 5.7.5. No Use Empty (NUE) Commercial.
- 5.8. 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.

Table 1 GPF Cash Flow Position

£	2018/19	2019/20
GFP available at the outset of year	6,747,602	4,021,309
GPF Round 1 planned investments	363,000	1,200,000
GPF Round 2 planned investments	4,697,000	3,247,000
Position before GPF repayments are made	1,687,602	-425,691
GPF repayments expected	2,333,707	10,175,309
Carry Forward	4,021,309	9,749,618

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 award £7m GPF through the earlier rounds of GPF, now referred to 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 agree to the amendment of the repayment schedule.
- 6.4. At a 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. Through the latest project update report the new tenants have signed a fifteen year agreement for occupation of the site. The agreement includes a 'soft start', resulting in below market value rental receipts for the first five year period. This will create challenges in the amended GPF repayment schedule (agreed in March 2017) being met.
- 6.6. The loan recipient, Sea Change Sussex Ltd, is therefore seeking Board approval for a further variation to the GPF repayment schedule for the Project. This is set out in Table 2 below.

Table 2 Priory Quarter Repayment Schedule (£000)

	2016/17	2017/18	2018/19	2019/20	2020/21	Total
Schedule in Loan Agreement	400	400	400	400	5,400	7,000
Amended schedule, agreed in March 2017	65	65	735	735	5,400	7,000
Proposed updated repayment Schedule, September 2018	65	65	211	211	6,448	7,000
Movement between March 2017 and September 2018 profile	0	0	-525	-524	1,048	0

- 6.7. When Board members have previously considered the amendment to repayment schedules for GPF projects, there has been a request from Board members that Strategic Board should also be made aware of changes to the

repayments prior to the Board agreeing repayments to an individual project on multiple occasions. As such, in March 2018, the Strategic Board agreed that:

“where delays are identified to a project’s GPF repayment schedule on more than one occasion, this should be brought to the attention of the Strategic Board prior to a recommendation being made to the Accountability Board for approval of any further slippage”.

- 6.8. It is therefore intended that the delay to the repayment schedule will be brought to the attention of the Strategic Board at its meeting on the 28th September, prior to decision making by the Accountability Board in November 2018.
- 6.9. The Board may wish to request a presentation update from Sea Change East Sussex at the next Strategic Board on the 28th September. This would provide Sea Change Sussex Ltd with the opportunity to set out the progress which they have made in delivery GPF projects on behalf of East Sussex and to provide assurances that the GPF repayments can be made, as per the proposed amended repayment schedule set out in Table 2.

7. Charleston Centenary

- 7.1. A minor change to the GPF repayment schedule has also been identified for the Charleston Centenary Project.
- 7.2. The Charleston Trust is going to create a café-restaurant in the Threshing Barn on the farmhouse’s estate. This work is part of a wider £7.6m multi-year scheme, known as the Centenary Project, which aims to transform the operations of the Charleston farmhouse museum.
- 7.3. This project was approved as a GPF Round 2 project for a £120,000 loan but there have been delays in putting the necessary legal agreements in place to transfer the GPF to the third party. It was originally intended that the GPF would be draw down in 2017/18 but this has been delayed to 2018/19. As such, both the GPF draw down and repayment schedule have been amended, as set out in Table 3 below.

Table 3 Charleston Centenary updated GPF repayment

	2018/19	2019/20	2020/21	2021/22	Total
Repayment schedule agreed when Board approval awarded	£26,250	£27,500	£36,250	£30,000	£120,000
Proposed amended repayment schedule	-	£53,000	£36,000	£31,000	£120,000
Movement	-£26,250	£25,500	-£250	£1,000	£0

- 7.4. The GPF agreement is due to be signed imminently to enable the funding to be transferred. In addition, the £5m Local Growth Fund award to the project has been fully invested and the project is now nearing completion.

8. Workspace Kent

- 8.1. 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.
- 8.2. 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 contact variations are currently being considered by Kent County Council in relation to two of the four projects.
- 8.3. 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 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.
- 8.4. Once the revised repayment schedule has been considered by Kent County Council then a decision will be sought from the Board to update the repayment schedule. However, an updated repayment schedule has been included in Appendix 1 and in the cash flow calculations in Section 5 to reflect the most likely scenario.

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

- 9.1. Eight GPF Round 1 projects have now been completed, with the benefits of this infrastructure investment starting to be realised. It is reported that 1,697 jobs have been delivered through investment in commercial space and new business premises, as set out in Table 4 below.

Table 4 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	74	0
North Queensway	865	0	0	0
Rochester Riverside	402	450	402	489
Chatham Waterfront	211	115	211	115
Bexhill Business Mall	125	0	150	0

Name of Project	Outputs defined in Business Case		Outputs delivered to date	
	Jobs	Houses	Jobs	Houses
Parkside Office Village	169	0	135	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	3
Totals	9,144	2,081	1,697	118

- 9.2. Whilst there have been delays to the repayment schedule for the Priory Quarter Phase 3 development, the site is now fully occupied with new tenants having signed a fifteen year lease. As such, the number of jobs located at the site is now expected to increase from the 74 jobs currently located at the site. The increase to the project outputs will be reported in the update to the Board.
- 9.3. In addition, progress is being reported on projects such as the No Use Empty scheme with to return long-term empty commercial properties to use, for residential, alternative commercial or mixed-use purposes. In particular, it will focus on town centres, where secondary retail and other commercial areas have been significantly impacted by changing consumer demand and have often been neglected as a result of larger regeneration schemes.
- 9.4. Following the approval of the project by the Board in February 2018, contracts are now in place for the delivery of three projects, in Dover, Margate and Folkestone, which will provide 5 commercial units and 16 residential units when delivered. The renovation and re-financing of these properties will enable the GPF loan to be repaid by March 2022.

10. Change to Eastbourne Fisherman Scheme

- 10.1. A risk has previously been reported in relation to the Eastbourne Fisherman's Quayside and infrastructure development project.
- 10.2. The project is for the build of a Fishermen'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.
- 10.3. The project is being led by the Community Interest Company (Eu110CIC), a company set up by the local fisherman.
- 10.4. A £1.0m grant has been secured from the European Marine and Fisheries Fund (EMFF), which is available to draw down following the completion of

the project. A GPF loan was therefore awarded to help manage the project cash flow and purchase the land from Carillion to enable the project to progress.

- 10.5. However, following the decision by the Board to award the GPF loan, Carillion went into administration before the land purchase could be completed. Administrators sold the land freehold to Premier Marinas, who are not willing to sell the freehold. As an alternative, the lease of the land over 75 years, with peppercorn rent, has been offered instead and presents a feasible option to enable the delivery of the project, as previously approved by the Board.
- 10.6. The project change from the purchase of the land to a long lease will not impact on the outcomes of the project, as stated in the Business Case or the cost of delivering the project. As such, the Board are asked to note the change of scope.
- 10.7. Updates on the delivery of the Eastbourne Fisherman's project will continue to be presented to the Board through the GPF update reports.

11. Financial Implications (Accountable Body Comments)

- 11.1. 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; the 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 cash is not available, this could delay the payment of allocations to Projects planned in 2019/20.
- 11.2. 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.
- 11.3. 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.
- 11.4. 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.

12. Legal Implications (Accountable Body Comments)

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

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 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 On behalf of Margaret Lee	 06/09/18

14. List of Appendices

14.1 Appendix 1 – Growing Places Fund Project Summary

14.2 Appendix 2 – Growing Places Fund Repayment Schedule

15. List of Background Papers

15.1 Accountability Board Agenda Pack 31th March 2017