

## Award of Growing Places Fund Funding

Forward Plan reference numbers: FP/AB/293, 294 and 295

<b>Report title:</b> Award of Growing Places Fund Funding	
<b>Report to Accountability Board on 18<sup>th</sup> September 2020</b>	
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<b>Date:</b> 27 <sup>th</sup> August 2020	<b>For:</b> Decision
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<b>SELEP Partner Authority affected:</b> Kent and East Sussex	

### 1. Purpose of report

- 1.1 The purpose of this report is to allow the Accountability Board (the Board) to consider the award of £5,820,000 Growing Places Fund (GPF) funding to the three projects (the Projects) detailed at Appendix B. These Projects were included in the GPF project pipeline agreed by Strategic Board on 12<sup>th</sup> June 2020.

### 2. Recommendations

- 2.1 The Board is asked to:

2.1.1 **Approve** the award of:

- 2.1.1.1 £600,000 GPF by way of a loan to support the delivery of the Wine Innovation Centre project, as set out in Appendix C, which has been assessed as presenting high value for money with low/medium certainty of achieving this;
- 2.1.1.2 £3,470,000 GPF by way of a loan to support the delivery of the Green Hydrogen Generation Facility project, as set out in Appendix D, which has been assessed as presenting high value for money with high certainty of achieving this;
- 2.1.1.3 £1,750,000 GPF by way of a loan to support the delivery of the Observer Building, Hastings (Phase 1) project, as set out in Appendix E, which has been assessed as presenting high value for money with high certainty of achieving this.

### 3. Background

- 3.1 The GPF was established by the Ministry for Housing, Communities and Local Government (MHCLG) and the Department for Transport (DfT) in 2011 to unlock economic growth, create jobs and build houses and help 'kick start' development at stalled sites. The fund operates as a recycled capital loan

scheme regenerating funds based on the repayment schedules agreed for the existing GPF projects.

- 3.2 A total of £45.477m GPF capital funding was made available to SELEP for spend as a capital loan. The recyclable nature of the pot has enabled a total of £54.4m to be invested across 21 projects to date.
- 3.3 Repayments are now being made on the initial GPF investments, with SELEP holding £22m of GPF funding at the end of 2019/20 which was available for reinvestment during the course of 2020/21.

#### **4. Growing Places Fund Overview**

- 4.1 The overarching objectives of the Growing Places Fund are to support development at stalled investment sites, improve skills and learner numbers, to accelerate the delivery of new houses and to support the creation of new jobs.
- 4.2 Growing Places Fund projects must be aligned with SELEP's strategic objectives as set out in SELEP's Economic Strategy Statement, SmarterFasterTogether.
- 4.3 On the 4<sup>th</sup> October 2019, the Strategic Board agreed a 3-stage approach to the GPF prioritisation and award process. Details of the full process can be found in the Guidance Note for Applicants.
- 4.4 At the Strategic Board meeting on 12<sup>th</sup> June 2020, the GPF project pipeline was agreed and the top 5 projects in the pipeline list received a provisional GPF allocation. This report considers the award of funding to the first 3 of these projects.
- 4.5 In line with the requirements of the SELEP Assurance Framework, each project under consideration in this report has been subject to a two-stage review undertaken by the SELEP Independent Technical Evaluator (ITE). The ITE has been appointed by the Accountable Body on behalf of SELEP Ltd. to provide impartial technical advice on value for money and project deliverability.
- 4.6 The ITE assessment is based on adherence of individual project Business Cases to the guidance set out in The Green Book, and related departmental guidance such as the DfT's WebTAG (Web-based Transport Analysis Guidance) or the MHCLG Appraisal Guide. The Green Book, WebTAG and MHCLG Appraisal Guide provide proportionate methodologies for project Business Case appraisal.
- 4.7 Details of each project considered in this report can be found at Appendix C (Wine Innovation Centre), Appendix D (Green Hydrogen Generation Facility) and Appendix E (Observer Building, Hastings (Phase 1)). The ITE assessment can be found at Appendix A (as attached to Agenda Item 6).

## 5. Case for Investment

- 5.1 This report considers the award of GPF funding to 3 new projects, as prioritised by the Strategic Board on 12<sup>th</sup> June 2020.

### Wine Innovation Centre

- 5.2 Table 1 provides an overview of the Wine Innovation Centre project.

Table 1: Overview of the Wine Innovation Centre project

GPF allocation: £0.6m		Total project cost: £0.7m	
Key outputs:			
<ul style="list-style-type: none"><li>• Infrastructure (i.e. utility services, ground works and drainage) required to enable the full development of the Wine Innovation Centre;</li><li>• A state-of-the-art wine research facility (500sqm) housing a modern fruit press and fermentation tanks.</li></ul>			
Key project milestones:			
Milestone		Indicative date	
Planning approval		July 2020	
Ground and foundations work undertaken		April to June 2021	
Construction of building		August 2021	
Completion of internal fit out		August to December 2021	
Wine Innovation Centre open		April 2022	
Repayment schedule:			
2023/24	2024/25	2025/26	Total
£100,000	£250,000	£250,000	£600,000

- 5.3 The delivery of the Wine Innovation Centre forms a key part of the National Institute of Agricultural Botany and East Malling Research's (NIAB EMR) aim to establish the South East as global leaders in the viticulture sector. A sector which has the potential to grow at an accelerated rate in a post-Brexit economy. NIAB EMR and the East Malling Trust have invested in the development of the only Research Vineyard in the United Kingdom, which has proved to be an invaluable resource and point of reference for the industry, and has enabled the implementation of a variety of research and innovation projects. The Wine Innovation Centre builds on this investment and provides the opportunity to support further development of the sector through the provision of advanced technology.
- 5.4 The ability to provide the independent research and innovation, for which NIAB EMR is renowned, is severely constrained by a lack of the infrastructure needed for the cutting-edge technologies that are being developed to increase productivity and the adoption of sustainable production methods. The delivery

of the Wine Innovation Centre is fundamental to tackling this issue and to removing the barrier to increasing wine productivity in the United Kingdom.

- 5.5 Following consideration of the Business Case by the ITE, the Wine Innovation Centre project has been assessed as offering high value for money, with low/medium certainty of achieving this. The ITE is satisfied that a proportionate, GVA-based approach to the economic appraisal of the project has been taken. This appraisal provides a reasonable indication that were a full monetised economic appraisal to be undertaken, that the scheme would represent high value for money. However, the lack of a full monetised economic appraisal does reduce the certainty of the value for money categorisation.
- 5.6 The SELEP Assurance Framework states that schemes may be eligible for exemption from quantified benefit cost analysis, under value for money exemption 1, when a project satisfies the following five conditions:
- 5.6.1 the project has a benefit to cost ratio greater than 1.5:1, or the project benefits are notoriously difficult to appraise in monetary terms; and
  - 5.6.2 the funding sought from the SELEP is less than £2m; and
  - 5.6.3 to conduct further quantified and monetised economic appraisal would be disproportionate to the GPF ask; and
  - 5.6.4 there is an overwhelming strategic case (with minimal risk in the other cases of the Business Case); and
  - 5.6.5 there are qualitative benefits which, if monetised, would most likely increase the benefit-cost ratio above 2:1.
- 5.7 As the GPF ask is below £2m, the project meets the criteria for this exemption. The ITE is satisfied that an overwhelming Strategic Case has been made for the project, which provides a compelling case for intervention. The scheme promoter has provided assurances that the horticulture sector, and particularly viticulture, has remained very active during the COVID-19 pandemic. In addition, there is an increased demand for innovation due to the current labour shortages and this will support realisation of the planned benefits of this project.
- 5.8 It is also noted that there is minimal risk in the other sections of the Business Case. However, the Board are asked to consider the risk that a lack of full, monetised benefit cost analysis presents before determining whether or not to approve funding for the project.

#### Green Hydrogen Generation Facility

- 5.9 Table 2 provides an overview of the Green Hydrogen Generation Facility project.

Table 2: Overview of the Green Hydrogen Generation Facility project

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GPF allocation: £3.47m											
Key outputs:											
<ul style="list-style-type: none"><li>• A new Hydrogen Production Facility;</li><li>• Equipment for use in the Hydrogen Production Facility (i.e. electrolyzers and compressors), specialised tube trailers for storage and distribution of hydrogen and hydrogen refuelling systems which will be installed within the SELEP region.</li></ul>											
Key project milestones:											
<table><tr><th>Milestone</th><th>Indicative date</th></tr><tr><td>Planning consent secured</td><td>June 2020</td></tr><tr><td>Procurement of contractors</td><td>January 2020 to July 2020</td></tr><tr><td>Construction works</td><td>March 2020 to May 2021</td></tr><tr><td>Start of commercial operations</td><td>May 2021</td></tr></table>		Milestone	Indicative date	Planning consent secured	June 2020	Procurement of contractors	January 2020 to July 2020	Construction works	March 2020 to May 2021	Start of commercial operations	May 2021
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- 5.10 The Green Hydrogen Generation Facility will be the United Kingdom's first utility-scale green hydrogen plant with enough capacity to meet fuel demand from hundreds of fuel cell buses and cars daily. Delivery of the project represents an important step towards reducing reliance on nuclear and coal as the main sources of power and realising the decarbonisation targets in the South East.
- 5.11 Climate Emergencies have been declared by a number of councils across the South East and a commitment has been made to reduce their carbon emissions to net zero by 2030. This project will help to achieve this target and will place the South East at the forefront of the energy revolution.
- 5.12 The relevance of this project has been further highlighted following the recent period of lockdown where significant environmental benefits were reported as a result of reduced transport movements. This project seeks to act as a catalyst to encourage development of innovative solutions to the Climate Emergency and to reduce reliance on the car as the preferred mode of transport. Achieving these objectives will help maintain some of the environmental benefits experienced during the lockdown.
- 5.13 Following consideration of the Business Cases by the ITE, the Green Hydrogen Generation Facility project has been assessed as offering high value for money, with high certainty of achieving this. The ITE is satisfied that a proportionate and robust assessment of scheme costs and benefits has been undertaken and that appropriate guidance has been followed.

Reasonable and robust assumptions have been used in the project appraisal, meaning that the project delivers high levels of certainty in relation to the value for money categorisation.

### The Observer Building, Hastings (Phase 1)

- 5.14 Table 3 provides an overview of the Observer Building, Hastings (Phase 1) project.

Table 3: Overview of the Observer Building, Hastings (Phase 1) project

GPF allocation: £1.75m		Total project cost: £2.67m (Phase 1)	
Key outputs:			
<ul style="list-style-type: none"><li>• Full renovation of the Alley Level and Ground Floor;</li><li>• Provision of universal access (lift and entrance ramp);</li><li>• Completion of essential safe-guarding works to the roof and external facades;</li><li>• Installation of new electricity substation and Air Source Heat Pumps; and</li><li>• Key internal structural works that would otherwise be disruptive to tenants in future.</li></ul>			
Key project milestones:			
Milestone		Indicative Date	
Purchase of the Observer Building		February 2019	
Planning permission granted		July 2020	
Appointment of construction contractor		October 2020	
Construction of Phase 1 works starts		November 2020	
Construction of Phase 1 works completed		May 2021	
Construction of Phase 2 and 3 works		June 2021 to December 2022	
Repayment schedule: The full £1.75m GPF loan will be repaid in 2025/26.			

- 5.15 The Observer Building has been empty for 35 years and has become increasingly derelict over that period of time. This project seeks to transform the building and bring it back into highly productive use, offering a variety of uses including commercial, leisure and residential. The project seeks to offer opportunities for those in the hardest to reach economically deprived communities in Hastings and has a key role to play in catalysing the wider revitalisation of Hastings Town Centre.
- 5.16 The Observer Building will support creativity and will enable businesses with growth potential to expand by providing flexible space, coaching and leadership development. The regeneration of the building will also enable the delivery of a package of training and start-up support to entrepreneurs and start-up businesses, helping to foster and grow emerging businesses locally, thereby helping to improve start-up and survival rates. The delivery of the project will play an important role in supporting the local economy in Hastings,

an economically deprived area, and will provide important opportunities for the local community.

- 5.17 Following consideration of the Business Case by the ITE, the Observer Building project has been assessed as offering high value for money, with high certainty of achieving this. The ITE is satisfied that a proportionate and robust assessment of scheme costs and benefits has been undertaken and that appropriate guidance has been followed. Reasonable and robust assumptions have been used in the project appraisal, meaning that the project delivers high levels of certainty in relation to the value for money categorisation.

## **6. Risks**

- 6.1 Each of the projects under consideration in this report has produced a comprehensive risk register which identifies the key risks faced by the Projects and sets out appropriate individual mitigating actions in each case.
- 6.2 As would be expected, there are a number of risks stemming from the COVID-19 pandemic and the associated measures introduced by Government which have the potential to impact on the delivery of all the Projects. These risks all stem from the likely impact on the construction industry and the associated supply chains.
- 6.3 The social distancing measures introduced by Government to slow the spread of COVID-19, are likely to result in protracted construction programmes due to restrictions on the number of contractors who can be onsite at any given time. This also has the potential to result in increased construction costs if this risk is not factored into the procurement process.
- 6.4 There is a further risk that construction programmes could be adversely impacted by delays in the supply of materials. Following lockdown there is likely to be a backlog in orders which need to be met, and it is to be expected that the supply chain will take some time to return to normal which could lead to increased lead in times. There is also a risk that the supply chain will not return to normal due to business failures which have arisen as a result of the impacts of the COVID-19 pandemic.
- 6.5 In relation to project specific risks, the key risk to the delivery of the Observer Building project is that planning consent has not yet been granted. The planning application was submitted in May 2020, following positive pre-planning discussions with Hastings Borough Council. It is anticipated that the planning application will be determined by mid September 2020.
- 6.6 There is evidenced demand for the use of hydrogen as a fuel for sustainable travel modes, however, at this stage the level of demand is low. The success of the Green Hydrogen Generation Facility project is dependent upon the level of demand increasing over the coming years. The scheme promoter has indicated that there is the potential for changes in climate policy as a result of

the COVID-19 pandemic, with the Committee for Climate Change (the Government's advisors on climate policy) identifying actions to tackle climate change as being central to the rebuilding of the economy.. This expectation is supported by the publication of the Decarbonising Transport report released by DfT on 4<sup>th</sup> March 2020, which highlights the importance of hydrogen as a transport fuel. Based on this evidence, it is expected that the demand for hydrogen as a fuel remains, with the potential for accelerated growth as a result of likely policy change.

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

- 7.1 There is sufficient GPF held in 2020/21 for reinvestment in the projects identified through GPF round 3 and included on the agreed prioritised pipeline of GPF projects, which are asking for a funding decision in this paper.
- 7.2 The repayment schedule for each project is as set out in Appendices C, D & E. Any changes to the Project or the repayment schedule will require further approval by the Board.
- 7.3 In the event of Project failure, the risk of non-repayment of the loan sits with the fund; any delay in repayment or non-repayment reduces the funding available to reinvest into new projects on the GPF investment pipeline. To mitigate this risk, it is a requirement of the lead County / Unitary authority to undertake regular monitoring and evaluation of the projects and report progress on delivery, outcomes and risks to the SELEP Secretariat.
- 7.4 It is expected that each lead County/Unitary authority will enter into reciprocal agreements with the project promoter for each GPF project coming forward for a funding decision.

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

- 8.1 The Growing Places Fund will be administered by the Accountable Body in accordance with the terms set by Central Government. For each project, where a loan is to be provided following approval by Accountability Board, a loan agreement will be put in place between the Accountable Body and each partner authority, this will include a repayment schedule.

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

- 9.1 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.
- 9.2 The protected characteristics are age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, gender and sexual orientation.
- 9.3 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.

## **10. List of Appendices**

- 10.1 Appendix A – Report of the Independent Technical Evaluator (as attached to Agenda Item 6)
- 10.2 Appendix B – GPF funding awards
- 10.3 Appendix C – Wine Innovation Centre project information
- 10.4 Appendix D – Green Hydrogen Generation Facility project information
- 10.5 Appendix E – The Observer Building, Hastings (Phase 1) project information

## **11. List of Background Papers**

- 11.1 Business Case for the Wine Innovation Centre project
- 11.2 Business Case for the Green Hydrogen Generation Facility project
- 11.3 Business Case for the Observer Building, Hastings (Phase 1) project

**(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)	08/09/20