

Forward Plan reference number: FP/AB/215

Report title: Flightpath Phase 2 LGF funding decision	
Report to Accountability Board on 7th June 2019	
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Date: 7 th May 2019	For: Decision
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SELEP Partner Authority affected: Essex	

1. Purpose of Report

- 1.1 The purpose of this report is for the Accountability Board (the Board) to consider the award of £1.422m LGF to the delivery of the Flightpath Phase 2 project (the Project) at Woodside Industrial Estate, Thornwood, Essex. This project has been identified by the Investment Panel as a priority through the LGF3b pipeline development process.
- 1.2 The Business Case for the Project has been considered through the Independent Technical Evaluation (ITE) process and the Project has been assessed as presenting high value for money with medium to high certainty of achieving this.

2. Recommendations

- 2.1. The Board is asked to:
 - 2.1.1. **Agree** the award of £1.422m LGF to support the delivery of the Project identified in the Business Case and which has been assessed as presenting high value for money with medium to high certainty of achieving this.

3. Flightpath Phase 2

- 3.1. Woodside Industrial Estate is located just outside of the town of Epping off the B1393 which runs from Harlow to Epping. The site is 3 minutes from Junction 7 of the M11 and 8 minutes from Junction 25 of the M25, 20 minutes from Stansted Airport, 30 minutes from Docklands & London City Airport and 40 minutes from the City of London & Cambridge. It is also well placed for the Ports of Felixstowe and Harwich.
- 3.2. Woodside Industrial Estate was formerly known as Thornwood Camp and was erected by the MOD on requisitioned farm land and was used throughout World War 2 as the training and accommodation base for the nearby North Weald Airfield. Shortly after the war it became the home of the air cadets before being handed back to the former owners who gradually converted the

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buildings, first for farming and storage related uses, and later for wider commercial use, after which the site was established as a commercial site. Due to the age of the buildings some have reached the end of their useful life, whilst others require refurbishment in order to attract high quality tenants to the site.

- 3.3. The site was purchased by its current owners in 2015, and was purchased with a view to retaining, improving and intensifying the important employment site for future generations.
- 3.4. The first phase of the development, funded through alternative means, is nearing completion and consists of 15 two storey B1/B8 industrial mixed-use units totalling 30,000 sq ft (Gross Internal Area). Considerable interest in these units was received whilst construction was ongoing and prior to any formal advertising taking place.
- 3.5. The LGF funding will be used to help bring forward the second and final phase of the Project. This phase will deliver a further 21 single and two storey industrial B1/B8 mixed use units in 4 blocks totalling 40,000 sq ft (Gross Internal Area). This will be coupled with estate infrastructure replacement and improvements including resurfacing roads, environmental remediation, security improvements, a landscaping scheme and making the whole site fibre communication ready bringing the site up to date and in line with the needs of modern businesses.
- 3.6. Due to the current standard of existing buildings on the site, other than those which have been recently refurbished, many tenants are currently paying below market rates and in its current form the site is not providing a return on investment for the current owners.
- 3.7. The key objectives for the Project are:
 - 3.7.1. Construction of Flightpath Phase 2 to deliver 21 new high-quality commercial premises for SME's;
 - 3.7.2. Completion of overall site development and infrastructure to include security upgrades and fibre communications to the whole site to bring the site up to date in line with the expectations of business owners;
 - 3.7.3. Promote localism and increase business to business transactions within the local area;
 - 3.7.4. Increase and continue to develop to business community at the site;
 - 3.7.5. Provision of start-up and grow on space so that the site can offer a range of single and two storey premises from 1000 sq ft thus offering a road map from start up through to medium size;
 - 3.7.6. Increase economic development in the district and increase revenues to the Local Authority through business rate collections on the larger premises;
 - 3.7.7. Creation of 4 new FTE positions within GT Commercial Holdings Ltd., all of which would be located at the site;

- 3.7.8. Expanding the site to create more jobs and employment prospects for local people and encouraging entrepreneurship;
 - 3.7.9. Creating a pleasant working environment close to local amenities where businesses aspire to locate to;
 - 3.7.10. Maximum intensification and remediation of an existing brownfield site in line with local, region and national planning policies;
 - 3.7.11. Safeguarding existing jobs.
- 3.8. The Project (phase 2) will deliver 144 new jobs. The wider Project will safeguard the existing 157 jobs on the site and will create 249 new full-time jobs in the 36 units constructed.

4. Options Considered

- 4.1. When GT Commercial Holdings Ltd. purchased the Woodside Industrial Estate a number of options were considered for the site. These options included:
- 4.1.1. Do Nothing – this option would mean that the site would continue to operate under the previous owner’s business model of renting out the sub-standard space at below market rates to undesirable tenants and managing the problems that are linked with that approach. GT Commercial Holdings Ltd. paid top market value for the site, and continuing with low rental incomes is not considered either viable or desirable.
 - 4.1.2. Do Nothing and obtain residential planning permission – this option would mean that the site would be demolished and employment space would be lost forever, with housing being delivered on the site. This option does not fit with GT Commercial Holdings Ltd. vision for the site. The driving force behind the purchase of the site was to develop and protect the site as a valuable commercial location. For this reason, this option was ruled out.
 - 4.1.3. Do the bare minimum but don’t invest in the site – this option would involve managing the site, moving on undesirable non-paying tenants and replacing them with new tenants. The existing buildings would be maintained but not improved. Under this option it was considered that it would be difficult to attract quality tenants due to the age and poor condition of the buildings. This option is not viable as it would not be possible to achieve a sensible return on the initial investment in purchasing the site.
 - 4.1.4. Do something and invest a little in the site – under this option the existing buildings on the site would be refurbished in order to attract higher quality tenants and therefore a better return on investment. This is a viable option in some cases, however, some buildings on the site are of an age and condition where they are at the end of their useful life. In addition, due to tightening legislation there were

significant cost implications in bringing the existing buildings up to the required standard. This was not considered economically viable.

- 4.1.5. Do something and consider utilisation of unused space throughout the site – under this option existing buildings would be refurbished to attract better quality tenants and consideration would be given to uses for the parcels of brownfield land around the site, including open storage, various yard uses or container storage in order to both increase rental revenue and make use of the brownfield land without bearing any potential remediation costs. External storage and yard space is in high demand in the local area and commands high levels of rent. However, it was felt that this option would not help improve the reputation, look or feel of the site and should therefore not be pursued even in the short-term.
- 4.1.6. Do something and consider filling open spaces on the site with new buildings – this option would involve refurbishment of existing buildings and consideration of options to infill open spaces around the site with new buildings. The planning history for the site suggests that this option has been attempted before with no success, suggesting that this is unlikely to be a viable option.
- 4.1.7. Do something and consider building on the brownfield area of the site – under this option suitable existing buildings would be refurbished, and consideration would be given to constructing a new build on the one large open space on the site, which is currently used as overflow parking and a lorry yard. It is considered that up to 15 units could be constructed on the site. This was considered to be a viable option; however, it was felt that more could be done to maximise the economic benefits offered by the site.
- 4.1.8. Do something and work towards the long-term masterplan for the site – under this option suitable existing buildings would be refurbished and a large-scale proposal put together to completely overhaul and modernise the site. This would include both demolition of buildings which are at the end of their useful life and construction of new buildings. This option would provide the greatest opportunity to attract high quality tenants to the site, with the new buildings attracting high levels of rental income.
- 4.2. The preferred option is to do something and work towards the long-term masterplan for the site. This option would bring forward the most new development on the site, and would offer the opportunity for the greatest economic benefit to the area. In addition, this option is in line with GT Commercial Holdings Ltd. vision for the site.
- 4.3. Planning consent was gained in January 2017 for the demolition of 6 units that had reached the end of their life and construction of 36 new units in 5 blocks

on the site. These units will be delivered through both phase 1 and phase 2 of the Project.

- 4.4. The rental income received from the units delivered as part of the Project will be received by GT Commercial Holdings Ltd, as landowner. The Business Case is clear that without LGF funding the scheme is unviable and that the LGF funding is required in order to help secure the bank borrowing needed to bring the Project forward.
- 4.5. The Project is seeking to address the severe shortage of commercial space in the county, with recent reports highlighting the loss of commercial sites and employment locations to residential developments. Construction of these residential developments has in turn increased the need for local employment sites. In addition, the Employment Land Review 2010 noted that vacancy levels of available commercial sites were very low in the local area. Consistently high levels of demand have been reported by the landowner over the last three years, supporting the evidence that there is a shortage of high-quality commercial space in the local area.

5. Project Cost and Funding

- 5.1. The total cost of the Project is estimated at £2.843m, as set out in Table 1 below.
- 5.2. GT Commercial Holdings Ltd. is seeking a £1.422m LGF contribution towards the delivery of the Project. The remaining cost of the Project will be met by GT Commercial Holdings Ltd. primarily through secured borrowing.

Table 1 – Flightpath Phase 2 Spend Profile (£)

	2018/19	2019/20	2020/21	Total
SELEP LGF	-	1,421,500	-	1,421,500
GT Commercial Holdings Ltd. through bank backed finance	-	150,400	1,271,100	1,421,500
Total	-	1,571,900	1,271,100	2,843,000

- 5.3. Whilst the required loan has not yet been secured, the bank has issued a loan offer to GT Commercial Holdings Ltd.

6. Outcome of ITE Review

- 6.1. The ITE review confirms that the Project Business Case provides a proportionate assessment of the scheme costs and benefits and results in a strong benefit cost ratio representing high value for money.

- 6.2. The analysis was robustly carried out using a GVA-based appraisal methodology and delivers high levels of certainty around this value for money categorisation.

7. Project Compliance with SELEP Assurance Framework

- 7.1. Table 2 below considers the assessment of the Business Case against the requirements of the SELEP Assurance Framework. The assessment confirms the compliance of the Project with SELEP's Assurance Framework.

Table 2 - Assessment of the Project against the requirements of the SELEP Assurance Framework

Requirement of the Assurance Framework to approve the project	Compliance (RAG Rating)	Evidence in the Business Case
A clear rationale for the interventions linked with the strategic objectives identified in the Strategic Economic Plan	Green	The Business Case identifies the current problems and why the scheme is needed now. The objectives presented align with the objectives identified in the Economic Strategy Statement.
Clearly defined outputs and anticipated outcomes, with clear additionality, ensuring that factors such as displacement and deadweight have been taken into account	Green	The expected project outputs and outcomes are set out in the Business Case and are considered in the economic case. Comprehensive value for money calculations have been undertaken.
Considers deliverability and risks appropriately, along with appropriate mitigating action (the costs of which must be clearly understood)	Green	The Business Case demonstrates clear experience of delivering similar schemes. A comprehensive risk register has been developed which provides appropriate mitigation.
A Benefit Cost Ratio of at least 2:1 or comply with one of the two Value for Money exemptions	Green	A BCR of 2.98:1 has been calculated which indicates high value for money.

8. Financial Implications (Accountable Body comments)

- 8.1. All funding allocations that are agreed by the Board are dependent on the Accountable Body receiving sufficient funding from HM Government. Funding allocations for 2019/20 have been confirmed, and the funding has been received, however, funding for future years is indicative.
- 8.2. Until confirmation of receipt of grant is received, any future year funding awards made by the Board remain at risk.
- 8.3. All LGF is transferred to the sponsoring authority under the terms of a Funding Agreement or SLA which makes clear that future years' funding can only be made available when HM Government has transferred LGF to the Accountable Body.
- 8.4. The Funding Agreements also set out the circumstances under which funding may have to be repaid should it not be utilised in line with the requirements of the grant or in accordance with the Decisions of the Board.

9. Legal Implications (Accountable Body comments)

- 9.1. There are no legal implications arising out of this decision. The allocation will be released to the relevant Upper Tier Authority in accordance with the terms and conditions of the SLA already in place. It will be the responsibility of the Upper Tier Authority to ensure that there is a sufficient back to back agreement in place ensuring that the conditions of the SLA are reflected and formulate the basis of any agreement put in place.

10. Equality and Diversity implication

- 10.1. 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.
- 10.2. The protected characteristics are age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, gender and sexual orientation.

- 10.3. 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 it is possible to identify mitigating factors where an impact against any of the protected characteristics has been identified.

11. List of Appendices

- 11.1. Appendix 1 - Report of the Independent Technical Evaluator (as attached to Agenda Item 6).

12. List of Background Papers

- 12.1. Business Case for the Flightpath Phase 2 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)

Role	Date
Accountable Body sign off Stephanie Mitchener (On behalf of Margaret Lee, S151 Officer, Essex County Council)	 24/5/19