

Report to Accountability Board	Forward Plan reference number: FP/AB/107
Date of Accountability Board Meeting:	22nd September 2017
Date of report:	29th August 2017
Title of report: London Southend Airport Business Park LGF Funding Decision	
Report by:	Rhiannon Mort, SELEP Capital Programme Manager
Enquiries to:	Rhiannon.mort@essex.gov.uk

1. Purpose of report

- 1.1 The purpose of this report is to make the Accountability Board (the Board) aware of the value for money assessment for the London Southend Airport Business Park Phase 2 Project (Phase 2 Project) in Southend which has been through the Independent Technical Evaluator (ITE) process to enable £815,000 Local Growth Fund (LGF) to be devolved to Southend Borough Council to support the further development of the Project.
- 1.2 In addition, to help mitigate expected LGF slippage for the Phase 2 Project from 2017/18 the report sets out the proposal to accelerate £4.5m LGF spend on Phase 1 of the Project in place of Southend Borough Council spend. This will be offset through a £4.5m reduced LGF contribution and £4.5m increase in Southend Borough Council contribution to Phase 2.

2. Recommendations

- 2.1 The Board is asked to:
 - 2.1.1 **Approve** an initial £815,000 LGF allocation to London Southend Airport Business Park Phase 2 Project to support the development of the Project identified in the Business Case and which has been assessed as presenting achieving high value for money with medium certainty of achieving this.
 - 2.1.2 **Approve** the re-allocation of £4.5m of LGF from Phase 2 to Phase 1
 - 2.1.3 **Approve** the additional spend of £4.5m LGF on Phase 1
 - 2.1.4 **Note** the intention to develop a Full Project Business Case to be considered by the Board for the remaining allocation to the Project.
 - 2.1.5 **Note** the amended LGF spend profile for the Project

3. Background

- 3.1 This report brings forward the London Southend Airport Business Park Phase 2 Project for the £815,000 LGF allocation to this project, to support the further development of the Project.

- 3.2 Through LGF Round 2 a £3.2m LGF award was made to Phase 1 of works at the Airport Business Park, previously titled 'Southend and Rochford Joint Area Action Plan'.
- 3.3 A further £19.89m LGF allocation was made to Phase 2 of the Project through LGF Round 3. An Outline Business Case has been developed for Phase 2 and has completed Gate 1 and 2 assessments as required by the SELEP Assurance Framework, to enable a proportion of funding allocation to be released to support the development of Phase 2 of the Project.
- 3.4 As the LGF allocation to the Phase 2 Project exceeds £8m, a Full Business Case is expected to complete Gate 4 and 5 of the ITE process to secure the remaining LGF allocation to the Phase 2 Project. Once the Project has completed Gate 4 and 5 review of the Business Case assessment process then a further decision will be sought from the Board to seek the award of the remaining LGF allocation to the Project.
- 3.5 The ITE report sets out the detailed analysis of the Phase 2 Project. This report is included in Appendix 1, of Agenda Item 6.

4. London Southend Airport Business Park Phase 1 Project (previously awarded £3.2m LGF)

- 4.1 The Phase 1 Project involves the delivery of site enabling infrastructure works, and the relocation of Westcliffe Rugby Club, to unlock the first phase of employment land for development at the site.
- 4.2 The Project was approved by the Board on the 12th February 2017 for the allocation of £3.2m LGF based on the Project Business Case demonstrating that the Project would deliver high value for money with medium to high certainty of this being achieved.
- 4.3 The total cost of these works was estimated at £8.8m, with a £3.2m LGF investment in the Project and £5.62m Southend Borough Council funding contributions.
- 4.4 The LGF investment was set to be spent on supporting off-site enabling works, including highway works, incoming service infrastructure (electricity, water, gas and telecoms) and strategic site-wide drainage infrastructure. The £5.62m Southend Borough Council contribution was intended to fund the on-site infrastructure works, including the Rugby Club relocation.
- 4.5 Phase 1 works commenced on site in November 2016, but have been subject to delays in finalising the planning consent.
- 4.6 In 2016/17, the Project was profiled to spend the full £3.2m LGF allocation. Given the project delays, to maximise the LGF spend in 2016/17, LGF spend was used to support the relocation of the Rugby Club, with SBC contributions being swapped to fund a greater proportion of the infrastructure works.

- 4.7 Whilst the funding swap should have been brought to the attention of the Board in advance of spend, the LGF has been spent in line with the outputs and outcomes considered as part of the Phase 1 Business Case economic appraisal and the previous funding decision by the Board to award £3.2m LGF to the Project.
- 4.8 The Phase 1 infrastructure works are now well underway with the construction of the new access roundabout having commenced in December 2016 and is due to be completed in August 2017. At the same time, the delivery of the new spine road has started and will be completed in November 2017. Off-site utility works (gas, power, water and broadband) commenced in May 2017 and will also be completed in November 2017.
- 4.9 The LGF funded Phase 1 infrastructure works will therefore be fully delivered by November 2017 and the construction of the new rugby club by June 2018.
- 4.10 This will directly unlock the first six development plots (based on the latest masterplan) which could accommodate up to 22,000m² of new commercial development as the first phase of business park development to include 17,500m² of high value B1 office/R&D based floorspace and 4,800m² of proposed hotel floorspace (equating to a 100 bed hotel with leisure/conference facilities).

5. London Southend Airport Business Park Phase 2 Project

- 5.1 The second and final phase of the Project is closely interlinked with the first phase.
- 5.2 The Phase 2 works include further on site road infrastructure, drainage, utilities, archaeological works, footpaths, off-site sustainable cycle/footpath scheme and the build of a new 2,600 m² (Gross Internal Area, GIA) innovation centre.
- 5.3 In addition, the Phase 2 scheme will unlock the potential for a further 60,000m² of commercial floorspace, with the potential to accommodate 2,600 permanent new gross jobs and 1,400 permanent net additional jobs, resulting in a discounted net additional Gross Value Add (GVA) impact of an estimated £560m.

Innovation Centre

- 5.4 The intention of the innovation centre is to provide high quality and environmental sustainable physical accommodation for new business start-ups and small businesses, with a particular but not exclusive/restrictive focus on the life science/med-tech and advanced engineering sectors, both recognised priority growth sectors for the SELEP and the UK economy as a whole.

- 5.5 Feasibility work has been undertaken which identifies potential demand for accommodation of this type to support the development of small businesses in this location, particularly in the med-tech sector, building upon the academic/research strengths of Anglia Ruskin University as part of this.
- 5.6 The existing 20,000 sqft MedBic Innovation Centre on the Anglia Ruskin University's Chelmsford Campus opened in June 2014 and is 100% occupied. There is evidence of a number of other enquiries for this type of floorspace in the local area which cannot currently be met due to the lack of any dedicated specialist facilities in the local area.

Cycling and Walking Network

- 5.7 The new sustainable cycling and walking network around the Airport Business Park site and its surrounding area will significantly enhance the sites sustainable connectivity with London Southend Airport, Southend and Rochford Town Centres, railway stations and the significant areas of new residential development underway in Rochford. This will ensure that the new economic opportunities that are created and unlocked on the Airport Business Park site are accessible to all, including local communities, and that the site is connected to existing economic assets and transport hubs in a sustainable manner.
- 5.8 The delivery of the Phase 2 infrastructure scheme is intended to commence on site in June 2018 and be completed by November 2019, with the innovation centre being delivered in September 2018 and completed in September 2019. The delivery of the balance of additional commercial floorspace across the rest of the Airport Business Park will then be fully delivered/occupied by March 2027, representing a 10 year delivery plan across the Airport Business Park site as a whole (Phases 1 and 2).
- 5.9 The overall objectives of the Project are summarised in Table 1 below

Table 1 London Southend Airport Business Park Phase 2 Project Objectives

- To deliver the Phase 2 infrastructure works by September 2019
- To directly deliver a 2,600m ² (GIA) innovation centre by November 2019
- To directly unlock the potential for a further 6,000m ² of new commercial floorspace as part of Phase 2 scheme (accepting that the delivery of the commercial development will be phased to meet occupier demand through to April 2027)
- To support the delivery of 2,600 new gross jobs by April 2027 as part of the Phase 2 scheme
- To deliver the first phase of a comprehensive, integrated and sustainable walking and cycling network in accordance with Southend – on-Sea

6. London Southend Airport Business Park Project Summary

- 6.1 The total cost of the Phase 1 and Phase 2 project is £31.09m, as set out in Table 2 below.

Table 2 Current Funding Profile for Phases 1 and 2

	Phase 1	Phase 2	Total
SELEP - LGF	£3.200m	£19.890m	£23.090m
Southend Borough Council	£5.620m	£2.380m	£8.000m
Total	£8.820m	£22.270m	£31.090m

- 6.2 The SELEP 2017/18 budget set out the planned spend of £10.44m LGF on Phase 2 during this financial year, based on the spend profile set out in the original LGF Round 3 submission to Government. However, as a result of the time taken between the initial identification of the project by Opportunity South Essex and the consideration by the Board for the award of funding, the forecast spend on the Phase 2 project in 2017/18 has reduced substantially to just £325,000. The majority of the costs for the Phase 2 Project are expected to be incurred in 2018/19 and 2019/20.
- 6.3 The forecast slippage of £10.115m LGF spend on the Phase 2 project from 2017/18 to 2018/19 and 2019/20 will add substantially to the amount of LGF carried forward from 2017/18 to 2018/19.
- 6.4 SELEP Secretariat has therefore recommended that £4.5m LGF is brought forward for the Phase 1 project, as a swap with Southend Borough Council contributions. This will be offset against a £4.5m reduction in the LGF allocation to the Phase 2 project, as detailed in Table 3 below.
- 6.5 The LGF allocation and Southend Borough Council contribution to the Phase 1 and 2 Project will remain the same in total, but the phasing of these contributions will be adjusted to accelerate LGF spend. The proposed changes to the phasing of LGF spend (as set out in Table 3) will not impact on the Project delivery outputs or outcomes.
- 6.6 Southend Borough Council remains committed to the Phase 2 and has confirmed their total £8m contribution to the overall Phase 1 and Phase 2 project.
- 6.7 If the Phase 2 Project is unable to progress to delivery, such as due to the Board not awarding the remaining LGF allocation to the project then Southend

Borough Council may be required to repay the £815,000 award to the Phase 2 if required to do so by the Board.

Table 3 Proposed amended Funding Profile for Phase 1 and Phase 2

	Phase 1 *	Phase 2	Total
SELEP - LGF	£7.700m	£15.390m	£23.090m
Southend Borough Council	£1.120m	£6.880m	£8.000m
Total	£8.820m	£22.270m	£31.090m

- 6.8 If the Board agree the proposed acceleration of LGF spend for Phase 1 of the Project, going forward the Phase 1 and Phase 2 spend will be reported on as one Project with a total LGF allocation of £23.090m.

7. Outcome of ITE Review

- 7.1 The SELEP ITE has assessed the Project Business Case through the Gate 1 and Gate 2 process and has recommended that the Project achieves high value for money with a medium certainty of achieving this.
- 7.2 The Business Case is considered robust and follows a sensible and proportionate approach to the scale of project and LGF sought. The economic assessment has demonstrated that the Project has an initial Benefit Cost Ratio (BCR) of 2.19:1 and an adjusted BCR of 2.32:1, both categorised as high value for money.
- 7.3 When Phase 1 and Phase 2 are considered together the BCR increases to an initial BCR of 3.74:1 and an adjusted BCR of 4.1:1.
- 7.4 The economic appraisal has followed both the Homes and Communities (HCA) 2015 Additionality Guide and the new Department for Communities and Local Government (DCLG) Land Value Uplift assessment approach.
- 7.5 As the LGF allocation to the project is over the £8m threshold, a full Business Case is expected to come forward following the completion of detailed costings and design work, to ensure that the project cost has not escalated and that the value for money remains high. The full Business Case is currently scheduled to be considered by the Board in 2018.

8. Compliance with SELEP Assurance Framework

- 8.1 Table 4 below considers the SELEP Secretariat assessment of the Business Case against the requirements of the SELEP Assurance Framework.

8.2 The assessment confirms the compliance of the Phase 2 Project with SELEP's Assurance Framework.

Table 4 SELEP Secretariat assessment of the Business Case against the requirements of the SELEP Assurance Framework

Requirement of the Assurance Framework to approve the project	Compliance	Evidence in the Business Case
A clear rationale for the interventions linked with the strategic objectives identified in the Strategic Economic Plan		The ITE review confirms that issues of strategic fit are discussed and addressed, including alignment with the objectives and outlooks of national/sub-regional/local planning policies.
Clearly defined outputs and anticipated outcomes, with clear additionality, ensuring that factors such as displacement and deadweight have been taken into account		<p>The expected project outputs and outcomes are stated in the Business Case and summarised in section 5 above.</p> <p>The ITE review confirms that appropriate assumptions have been made as part of the economic appraisal.</p>
Considers deliverability and risks appropriately, along with appropriate mitigating action (the costs of which must be clearly understood)		<p>The Business Case includes a risk register/ risk assessment. A 5% contingency has been included as part of the cost estimate for the enabling works and walking/ cycling infrastructure. A 10% contingency has been applied for the innovation centre works.</p> <p>The Phase 2 Project has Outline Planning Consent.</p> <p>A work programme has been provided, which the ITE review has confirmed, appears realistic.</p>
A Benefit Cost Ratio of at least 2:1 or comply with one of the two Value for Money exemptions		<p>The Phase 2 Project has a BCR value of 1.19 and an adjusted BCR of 2.32, both presenting high value for money.</p> <p>When Phase 1 and Phase 1 of the Project are considered together the BCR increases to an initial BCR of 3:75:1 and an adjusted BCR of 4.1:1</p>

9. Financial Implications (Accountable Body comments)

- 9.1 This Project is seeking forward funding of £815,000 in advance of the completion of the full business case which, due to the overall value being in excess of £8m is required to undertake additional due diligence through the gate 4 and 5 business case process; should the full business case not be approved by the Board and the remaining LGF not allocated, then there may be a requirement for the £815,000 to be returned in line with the SLA in place between Southend-on-Sea Borough Council and Essex County Council as the Accountable Body for SELEP.
- 9.2 The current forecast spend for 2017/18 as set out in the Capital Programme Management report (agenda item 12), anticipates slippage of LGF of £7.890m (excluding retained schemes) and as such, there is sufficient LGF available in the current year to meet the planned spend requirement for the project in 2017/18.
- 9.3 The Government has previously stated that failure to spend LGF in the year allocated, may impact on future year funding allocations; the slippage in the current year identified in the Capital Programme Management report therefore represents a risk to future allocations for all projects. This position is being actively monitored by the SELEP Capital Programme Manager to address this risk (see Capital Programme Management report for further information).
- 9.4 It should be noted, however, that whilst future year grant payments from Government haven't been confirmed, funding for this project is included in the current indicative LGF allocations provided by Government. There is a risk, however, that the profiling of the indicative allocations of LGF is out of alignment with the current planned spend across the whole programme - this creates a forecast funding gap of £9.2m in 2018/19 and £17.3m in 2019/20 respectively. The funding gaps present a delivery risk to all projects that require LGF in those years. The Capital Programme Report sets out how that risk is to be managed. The funding gaps in both years are offset by an excess of funding in 2020/21 and the indicative programme funding is sufficient to meet the costs of all currently programmed projects and allocated projects over the life of the programme.
- 9.5 There are SLAs in place with the sponsoring authority which makes clear that future year funding can only be made available when the Government has transferred LGF to the Accountable Body.

10. Legal Implications (Accountable Body comments)

- 10.1 There are no legal implications arising out of this decision. All funding will be transferred to the sponsoring authority under the provisions of the SLA's currently in place.

11. Staffing and other resource implications (Accountable Body comments)

11.1 None at present.

12. Equality and Diversity implication

- 12.1 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.
- 12.2 The protected characteristics are age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, gender and sexual orientation.
- 12.3 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.

13. List of Appendices

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

14. List of Background Papers

- Business Case for London Southend Airport Business Park

(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	
Lorna Norris	14.09.2017
(On behalf of Margaret Lee)	