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**To:** **Economic Development Cabinet Committee**  
**21 September 2012**

**Subject:** **GROWING PLACES FUND**

**Classification:** **Unrestricted**

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### **Summary**

Growing Places Fund provides loan finance via Local Enterprise Partnerships to bring forward infrastructure where this will unlock homes and jobs. Following a call for projects, four schemes in Kent have been recommended by the South East Local Enterprise Partnership for approval, and a number of additional schemes are in the appraisal process.

In order to draw down the funding, Kent County Council will need to enter into a series of credit agreements with Essex County Council which has been appointed to act as the accountable body for the LEP. KCC will also need to enter into a number of subordinate agreements with third parties for the delivery of individual projects. A Key Decision to enter into the necessary agreements to draw down Growing Places Funding is published in the Forward Plan.

This report sets out a mechanism for managing Growing Places Fund investment in Kent, KCC's proposed role and the formal agreements that need to be reached. It is recommended that the Cabinet Committee:

- a) Considers the proposed arrangements for managing the Growing Places Fund investment; and
- b) Recommends that the Cabinet Member for Regeneration and Economic Development, through the Key Decision process:
  - i. Decides that KCC shall enter into credit agreements to draw down Growing Places Fund for projects to a maximum and cumulative value of £27 million, subject to the approval of each individual project and credit agreement by the Corporate Director for Finance and Procurement and the Director of Economic Development, in consultation with the Cabinet Member for Regeneration and Economic Development and the Cabinet Member for Finance and Business Support; and

- ii. Delegates to the Corporate Director for Finance and Procurement the authority to enter into credit agreements to draw down Growing Places Funding, in consultation with the Director of Economic Development.

## **Employment impacts**

If all the current schemes being considered for Growing Places Fund in Kent were to come forward, they could help to deliver around 2,100 jobs. However, the anticipated jobs outputs of some projects still need to be tested through appraisal.

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### **1. Introduction: Growing Places Fund**

- 1.1. The Growing Places Fund was launched by central Government in late 2011. £770 million has so far been allocated to Local Enterprise Partnerships on a formula basis. This means that the South East LEP (covering Kent, Essex and East Sussex) has so far received an allocation of £49.2 million.
- 1.2. Formally, GPF is unringfenced capital grant. However, the Government's intention is that it should be used to create local recyclable funds which can provide funding for infrastructure where this will help to unlock jobs and housing.
- 1.3. To deliver GPF locally, the South East LEP Board has agreed that:
  - a) Essex County Council shall act as the accountable body for the overall South East allocation (as the LEP is an informal partnership, it cannot itself receive grants);
  - b) The funding allocated to the LEP shall be treated as a single fund, recycled over time. This fund shall offer loans on an interest-free basis, except where interest must be charged in order to be compliant with state aid regulations;
  - c) To minimise the risk to the accountable body, maximise local control and simplify the management of the fund, all loan agreements on individual schemes will be between Essex County Council as accountable body and the relevant county or unitary authority. This will mean that KCC will be the borrowing authority for all approved schemes in Kent, and will need to put in place subsidiary agreements where projects are being delivered by third parties.
- 1.4. The full £49.2 million has now been provided by Government and is currently held in an interest-bearing account with Essex County Council (with all interest accruing to the Fund).

### **2. Growing Places Fund projects in Kent**

- 2.1. Following receipt of Growing Places Fund monies, two calls for projects have taken place. These have resulted in the LEP approving funds for four projects in Kent (subject to some clarifications), and giving in-principle support to a further five to come forward with more detailed proposals.

### Projects approved for funding

- 2.2. The following Kent projects were approved by the LEP on 7 September:
- Dartford Town Centre (£900,000 loan allocation)
  - Dartford Northern Gateway (£2.5 million)
  - Ebbsfleet Valley (£4 million)
  - Live Margate (£5 million)
- 2.3. KCC has commissioned a full appraisal of all these projects by independent consultants DTZ. The summary appraisal report is attached at Annex 3. In addition, all appraisals have been considered by the accountable body as part of their due diligence process.
- 2.4. In some cases, further discussion needs to take place with the project delivery bodies to ensure that repayment terms are satisfactory to KCC and that state aid compliance has been addressed. However, subject to these issues being resolved, the LEP is content that KCC enters into credit agreements with the accountable body for all four projects.

### Projects approved for further development

- 2.5. Following a second call for projects, the LEP has given in-principle approval for a further four projects to develop full business cases for appraisal. These are:
- KCollege Engineering & Technology Centre, Ashford (£2.622 million)
  - Workspace Kent (incubator facilities) (£1.5 million)
  - Sturry Road, Canterbury (£629,000)
  - A28/ Matalan Roundabout, Ashford (£3.6 million)
- 2.6. In addition, approval has been given for Aylesham Village Expansion (£5.5 million) to come forward should sufficient funds remain unallocated after December or should a reduced application be possible.
- 2.7. The total value of all the Kent schemes approved by the LEP is £12.4 million, with those in the pipeline worth £13.851 million. If all schemes were to proceed, the total potential value of all credit agreements to which KCC would be party would be **£26.251 million**. This is around 53% of the total funds available across the LEP. A summary of all the schemes is set out in Annex 1.

## **3. Taking the projects forward**

- 3.1. In order to draw down the funding, KCC will need to enter into an individual credit agreement with the accountable body for each project. This will commit the authority to repay 100% of the funding to a specified timetable. A draft credit agreement has been drawn up by Essex County Council in consultation with KCC and the other unitary and county councils in the LEP.
- 3.2. In some cases, a subordinate loan will then need to be put in place between KCC and the organisation delivering the project. This will generally follow the primary credit agreement, ensuring that KCC's repayment risk is minimised.

- 3.3. KCC is in a position to enter into credit agreements in respect of some projects (such as Live Margate and Dartford Town Centre) very quickly, as all issues raised during the appraisal process have been addressed. However, in some cases, it will take longer to reach a point at which all risks have been satisfactorily addressed.
- 3.4. Subject to Key Decision by the Cabinet Member for Regeneration and Economic Development, it is therefore recommended that:
- a) Kent County Council enters into individual credit agreements to draw down Growing Places Fund for projects to a maximum cumulative value of £27 million (i.e. the maximum value of all current LEP-approved and pipeline projects). This shall be subject to the approval of each individual project and credit agreement by the Corporate Director for Finance and the Director of Economic Development, in consultation with the Cabinet Member for Regeneration and Economic Development and the Cabinet Member for Finance and Business Support, and following full project appraisal; and
  - b) Subject to being satisfied as to the detailed terms and conditions, the Corporate Director for Finance and Procurement be granted delegated authority County Council to enter on behalf of the County Council credit agreements to draw down Growing Places Funding, in consultation with the Director of Economic Development;
  - c) Progress in entering credit agreements, Fund drawdown and repayment and outputs be reported regularly to the Economic Development Cabinet Committee.

#### Alternative option

- 3.5. The alternative to the recommended process set out above is for KCC to take a single decision to enter into a series of credit agreements for all approved projects once all appraisal issues have been satisfied. This approach would have some advantages, but would also mean that some projects that are ready to go would be delayed, while those that are in the pipeline for appraisal over the next few months would need to seek a fresh decision.
- 3.6. The recommended option therefore seeks to ensure that projects can move forward as appropriate, while making sure that a robust individual project sign-off process is in place. The recommended option also only allows for credit agreements to be entered into in respect of the list of schemes and maximum values set out in Annex 1.

#### **4. Risks**

- 4.1. Clearly, there is financial risk attached to this programme. This risk will be significantly mitigated by the independent assessment of business cases submitted by subordinate borrowers, and by close monitoring of each project. Everything possible will be done to minimise these risks and managing the cash flow will be part of that, as will seeking assurance to the ability to repay
- 4.2. A full Fund-wide risk register is attached as Annex 2.

## **5. Future Growing Places Fund monies**

- 5.1. It is likely that further rounds of Growing Places Fund will be made available, either through additional Government allocations or through locally recycled funds. However, there are no further rounds anticipated imminently, and the LEP has not yet determined how the next round will operate.
- 5.2. However, to ensure that Kent is best placed to take advantage of new funds as they become available, it would be useful to maintain a pipeline of potential projects, to be considered by the Cabinet Committee on a regular basis.

## **6. Recommendations**

- 6.1. The Cabinet Committee is recommended to:
  - a) Note the contents of this report and considers the proposed arrangements for managing Growing Places Fund investment;
  - b) Recommend that the Cabinet Member for Regeneration and Economic Development, through the Key Decision process, takes forward the process set out in paragraph 3.4;
  - c) Receive further reports on the progress of the Growing Places Fund in Kent and the projects benefiting from it, and to regularly consider emerging pipeline projects.

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## ANNEX 1: SUMMARY OF KENT PROJECTS PROPOSED FOR GROWING PLACES FUND

### 1. Projects approved for funding by the LEP Board

Total number of jobs: 318

Total number of homes: 1,616

Scheme	Summary description	Issues/ points to note	LEP decision
<b>Dartford Town Centre</b> GPF requested: £900k  <b>Jobs: 246</b> <b>Homes: 44</b>	This project will prepare the former Co-op department store site in Dartford town centre for a new civic centre, retail and residential development. GPF funding will pay for the demolition of the old Co-op for temporary use as a car park pending the relocation of Dartford BC from its current offices. This then releases the Station Quarter (where the civic centre is currently located) for mixed retail and residential use. Repayment will be made by from parking revenue and capital receipt.	This is a fairly straightforward project, which will be delivered by Dartford Borough Council. The appraisal has been completed and there are no fundamental issues.	Approval, subject to clarification of points relating to our (KCC's) loan agreement with Dartford. This is unlikely to be problematic
<b>Dartford Northern Gateway</b> GPF requested: £2.5m  <b>Jobs: 72</b>	This project will build grow-on space for The Base, a business incubator facility located on a former warehouse site in Dartford. It will also provide an access road to the third phase of The Base. It will create around 100 jobs and support the development of the strategic Northern Gateway site at an early stage. Repayment will be initially through the rental income from the new business units, with the balance through capital receipt on sale of the site.	The project itself is straightforward. However, we are awaiting a decision from the HCA (who own the site) regarding their future involvement in the project. This may take until December to resolve, although alternative delivery options are available, and once funding is made available the project could proceed quickly.	Approval, subject to clarification of the HCA's role. This is a fair recommendation.
<b>Live Margate</b> GPF requested: £5	This project will contribute to the Live Margate housing renewal programme. It will create an investment programme	This is part of a larger project with a total value (at present)	Approval subject to confirmation of

Scheme	Summary description	Issues/ points to note	LEP decision
m <b>Homes: 72</b> <i>(NB – the main outputs are in the wider contribution to regenerating Margate)</i>	that will enable redevelopment of existing poor quality, poorly managed multi-occupancy homes and replace it with a quality balanced mixed tenure offer. Repayment will be through sale of refurbished homes.	of £23 million and is a high priority.	drawdown and payback timescales.
<b>Ebbsfleet Valley</b> GPF requested: £4m <b>Homes: 1,500</b>	This project will fund improvement works to Southfleet Road (the road linking the A2 with Swanscombe via Ebbsfleet) to provide new access to Eastern Quarry and Station Quarter North. This will unlock the Castle Hill and Weldon phase of Eastern Quarry.  The Growing Places Fund loan will be repaid by a through plot sales within Castle Hill and Weldon	Need to clarify whether state aid is present and to fully agree repayment mechanism with developer to minimise risk for KCC	Approval subject to clarification of the repayment and state aid issues.

## 2. Projects approved in principle, to come forward for full appraisal

Total number of jobs: 1,759

Total number of homes: 1,972

Scheme	Summary description	Issues/ points to note	LEP decision
<b>KCollege</b> GPF requested: £2.622 m <b>Jobs: 470</b> <b>Homes: 241</b>	This project supports KCollege's planned relocation within Ashford, by funding the fit-out of a new Engineering and Construction Centre. This will enable the disposal of its current site to proceed.	Full appraisal needs to be undertaken	Approved to go forward as a 'Category A' project to work up a full business case.

Scheme	Summary description	Issues/ points to note	LEP decision
<b>Workspace Kent</b> GPF requested: £1.5m  <b>Jobs: 500</b>	This project will contribute to the proposed KCC Incubators Programme, and is matched with proposed funds from the KCC Regeneration Fund.	Full appraisal needs to be undertaken, although this will be done quickly.	Approved to go forward as a 'Category A' project to work up a full business case.
<b>Sturry Road</b> GPF requested: £629k  <b>Jobs: 250</b>	This project will pay for enabling works (highway improvements, provision of mains services, etc) to enable a retail/ trade counter development to go forward in Canterbury. The project is led by a private sector developer (Glenbeigh Ltd). It is supported by Canterbury City Council and has planning permission	Full appraisal needs to be undertaken. However, outputs are good for a relatively modest amount of funding. Interest will need to be charged as the scheme is state aid.	Approved to go forward as a 'Category A' project to work up a full business case.
<b>A28/ Matalan Roundabout</b> GPF requested: £3.6m  <b>Jobs: 191</b> <b>Homes: 950</b>	This project will fund improvements to the Matalan Roundabout on the A28 at Great Chart, Ashford. This will help to unlock employment and housing at the Chilmington Green development in Ashford and is the first of a series of improvements to the A28 corridor. Repayment will be via developer contributions	We have now carried out appraisal of this project. However, full planning permission is some way off, so we cannot enter into a loan agreement yet	Approved to go forward as a 'Category A' project for business case to be considered alongside other schemes approved in principle
<b>Aylesham</b> GPF requested: £5.5m  <b>Jobs: 348</b> <b>Homes: 781</b>	This project will pay for highways, hard and soft landscaping and community infrastructure as part of the Aylesham Village Expansion scheme. The project submitted an application in GPF Round 1, and while not rejected, was assessed as a lower priority at the time.	£5.5 million in excess of funds currently available	Approved to go forward as 'Category B' – to work up a business case to come forward should any Category A projects fail to proceed.

## ANNEX 2: RISK REGISTER

Risk	Inherent			Mitigation	Residual		
	Impact	Likelihood	I*R		Impact	Likelihood	I*R
Failure to secure repayment from subordinate borrowers	5	4	20	<ul style="list-style-type: none"> <li>Robust appraisal of repayment source</li> <li>Allowance for delay in subordinate repayment in repayment timetable in primary credit agreement</li> <li>Clear obligations within subordinate loan agreement</li> <li>Regular monitoring by KCC</li> </ul>	5	2	10
Failure to meet stated outputs	3	4	12	<ul style="list-style-type: none"> <li>Clear and consistent measurement of outputs through appraisal process</li> <li>Regular monitoring by KCC</li> </ul>	3	3	6
Breach of state aid regulations (resulting in obligation to repay grant-equivalent)	4	3	12	<ul style="list-style-type: none"> <li>Clear analysis of state aid issues at appraisal</li> <li>Commercial (reference rate) interest charged where state aid present</li> </ul>	3	1	3
Project delay impacting on repayment timetable	4	4	16	<ul style="list-style-type: none"> <li>Regular monitoring by KCC and dialogue with delivery body</li> <li>Regular reports to LEP</li> <li>Early renegotiation of repayment timetable if delays unavoidable</li> </ul>	2	3	6
Changes to LEP structure/ future GPF allocations	2	4	8	<ul style="list-style-type: none"> <li>Primary credit agreement between KCC and Essex County Council</li> </ul>	1	4	4
Lack of additionality	3	4	12	<ul style="list-style-type: none"> <li>Additionality considered at appraisal</li> <li>Competitive process for project allocation</li> <li>100% repayment limits cost</li> </ul>	2	2	4