



Cabinet 2 September 2014

Eastern Relief Road, Bury St Edmunds (Sep14/03)

1. Summary and reasons for recommendations

- 1.1 Planning permission has been granted for the Eastern Relief Road (ERR) that will link Moreton Hall/Suffolk Business Park to Junction 45 of the A14 Trunk Road (Rookery Crossroads).
- 1.2 The ERR will open up 68 hectares of employment land; land for about 500 homes; a secondary school site; leisure and community opportunities; and motorist facilities associated with the A14.
- 1.3 The estimated cost of the ERR and upgrade of junction 45 of the A14 Trunk Road is £15 million. New Anglia Local Enterprise Partnership (NALEP) has committed £10 million and Suffolk County Council is taking a proposal to its Cabinet on 9 September 2014 to contribute a further £2 million of grant funding resulting in a gap of £3 million.
- 1.4 St Edmundsbury Borough Council (SEBC) has the opportunity to invest £3 million of Growth Area Funding. As a result of this investment, SEBC could receive land; or a share of the development profits; or some of both.
- 1.5 In addition, there is a requirement to upgrade the electricity supply to the area at a cost of £4.5 million of which £1.5 million will be funded by the residential development (its share). SEBC can make an application to NALEP for the remaining £3 million of the electricity costs.
- 1.6 SEBC has instructed Price Waterhouse Coopers (PWC) to undertake an independent assessment of the opportunity to invest in this project.
- 1.7 Subject to the appropriate due diligence (legal and financial), which is supported by PWC's work, it is requested that Cabinet recommends to full Council that SEBC commits £3 million of Growth Area Funding to the ERR project; and that delegated authority be granted to enter into an appropriate vehicle with the developer and landowners to realise a return on this investment and to deliver the ERR.
- 1.8 Subject also to the appropriate due diligence, it is requested that Cabinet authorises officers to make an application to the New Anglia LEP Growing Places Fund for a loan facility of £3 million to enable the electricity infrastructure works to be commissioned/installed.

1.9 It is considered that the investment into the ERR has two very clear benefits for SEBC. Firstly, SEBC will help to realise its long term ambition to unlock the 68 hectares of employment land; affordable homes; secondary school etc that are necessary for the growth of Bury St Edmunds and the wider West Suffolk region. Secondly, it will secure a return for SEBC that may extend beyond the short term and will be available for SEBC to use in any way it feels appropriate (which could include further investment in other projects in the future).

2. Recommendations

2.1 It is **RECOMMENDED** that:

- (1) Cabinet recommends to full Council that, subject to the Section 151 and Monitoring Officers being satisfied, after carrying out due diligence of the appropriateness of this course of action:
 - (a) the original £2.5 million loan to Churchmanor be changed to a capital investment along with an additional £0.5 million to be allocated to the Eastern Relief Road (ERR) project in St Edmundsbury Borough Council's (SEBC) capital programme, funded through the Council's Growth Area Funding reserve (current balance £845,000), as detailed in Section 4 of Report F97; and
 - (b) delegated authority be given to the Head of Economic Development and Growth, in consultation with the Leader of the Council to enter into an agreement or agreements with the developer and landowner to enable the development of the ERR and to enable SEBC to realise a return on its investment in line with the principles approved in the Medium Term Financial Strategy; and
- (2) subject to the Section 151 and Monitoring Officers being satisfied with the outcome of the due diligence referred to in (1) above, delegated authority be given to the Head of Economic Development and Growth, in consultation with the Leader of the Council, to make an application to and enter into a loan arrangement with the New Anglia Local Enterprise Partnership for £3 million from its Growing Places Fund to enable the electricity infrastructure works to be commissioned, as detailed in Section 4.9 of Report F97.

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3. Strategic priorities

- 3.1 The recommendations meet all three of the Council's priorities, as contained within the West Suffolk Strategic Plan:

Priority 1: Increased opportunities for economic growth

Priority 2: Resilient families and communities that are healthy and active

Priority 3: Homes for our communities.

4. Key issues

- 4.1 Planning permission has been granted for the Eastern Relief Road (ERR) that will link Moreton Hall/Suffolk Business Park to Junction 45 of the A14 Trunk Road (Rookery Crossroads). The road would cut across agricultural land to the south of the Rougham Showground/Airfield linking the existing roundabout on Lady Miriam Way to the A14.
- 4.2 The ERR will open up 68 hectares of employment land; land for about 500 homes; a secondary school site; leisure and community opportunities; and motorist facilities associated with the A14. This land is within the parish of Rougham. Over a 20 to 25 year period the employment land alone could generate 14,000 jobs and approximately £275 million worth of inward investment into West Suffolk. At present, there is a significant shortage of employment land in Bury St Edmunds for companies that wish to expand or relocate. A good example of this is the extension of Sealey Power Products on land close to their existing site and previously owned by St Edmundsbury Borough Council (SEBC). If that land had not been made available to Sealey they would have been forced to relocate out of the town.
- 4.3 The high up front infrastructure costs have prevented the construction of the ERR to date and therefore the associated commercial and residential developments have been stalled. The estimated cost of the ERR and upgrade of junction 45 of the A14 Trunk Road is £15 million.
- 4.4 New Anglia Local Enterprise Partnership (NALEP) included the ERR as its number one priority in its Strategic Economic Plan (SEP). As a result of this, a further £5.7 million has been allocated to NALEP from the Government as part of its Local Growth Deal. NALEP had already identified £4.3 million from its Local Transport Body funding resulting in a £10 million grant towards the costs from NALEP.
- 4.5 Suffolk County Council (SCC) is taking a proposal to its Cabinet on 9 September 2014 to contribute a further £2 million of grant funding, resulting in a gap of £3 million. SCC requires the construction of the ERR because it opens up the land for its 1,800 place secondary school.
- 4.6 SEBC has an existing loan agreement with the developer Churchmanor for £2.5 million of Growth Area Funding. The first part of this funding (£0.75 million) is being used for the detailed design work required for the planning consent and tender documents associated with the construction of the ERR. These costs are included in the £15 million cost estimate.
- 4.7 The original loan to Churchmanor was the subject of a report from the Growth Area Partnership Board to Cabinet in December 2010 (Reports B325 and B346 refer). In that report the total £2.5 million was in the form of a loan, with the initial £750,000 repayable within 10 days of construction work starting on the

road and the remaining £1.75 million within five years of the start of construction. The loan agreement was drawn up on this basis. The £0.75 million was unsecured, but before the remainder was to be handed over there was a requirement to place a legal charge over the land.

- 4.8 The opportunity exists for SEBC to convert the £2.5 million loan to a £3 million investment using an additional £0.5 million all funded through its Growth Area Funding reserve. As a result of this investment, SEBC could receive land; or a share of the development profits; or some of both. The precise nature of this return has yet to be established, but the principles of the Medium Term Financial Strategy will be followed, and the Council will call on professional advisors to assist in the negotiations.
- 4.9 In addition, there is a requirement to provide additional electricity capacity to serve the developments unlocked by the ERR. Due to the lead-in time for the electricity infrastructure works, the power companies need to receive notification of this requirement before November this year. The cost of this additional capacity is £4.5 million of which £1.5 million will be funded by the residential development (its share). New Anglia LEP has a loan facility called the Growing Places Fund which has been set up to help with cash flow issues such as high up front infrastructure costs. SEBC can make an application to NALEP for the remaining £3 million of the electricity costs. If approved, this loan would be repaid from commercial lets as the employment land comes forward. SEBC would be liable for this loan initially; although once the legal agreements between the partners are in place, the responsibility will be shared or even transferred.
- 4.10 In order to understand the opportunities and risks involved with this project along with procurement restrictions; State Aid; VAT; Stamp Duty Land Tax implications etc, SEBC has instructed Price Waterhouse Coopers (PWC) to undertake an assessment of the opportunity which will enable SEBC to be assured that it has carried out the due diligence necessary; that the case for investment involvement is proven (or not); and that it understands the associated risks with the delivery/investment model. Advice will also be sought as to the best structure for the legal agreement between the relevant partners. For example, this could be a Joint Venture.
- 4.11 Subject to the appropriate due diligence (legal and financial), which is supported by PWC's work, it is requested that Cabinet recommends to full Council that the original £2.5 million loan to Churchmanor be changed to a capital investment along with an additional £0.5 million to be allocated to the ERR project in the Council's capital programme. In addition, it is recommended that delegated authority be granted to the Head of Economic Development and Growth in consultation with the Leader of the Council, to enter into an appropriate vehicle with the developer and landowners to realise a return on this investment and to deliver the ERR.
- 4.12 Subject also to the appropriate due diligence, it is requested that Cabinet authorises officers to make an application to the New Anglia LEP Growing Places Fund for a loan facility of £3 million to enable the electricity infrastructure works to be commissioned.
- 4.13 It is considered that the investment into the ERR has two very clear benefits for SEBC. Firstly, SEBC will help to realise its long term ambition to unlock the 68 hectares of employment land that is necessary for the growth of Bury St Edmunds and the wider West Suffolk region. It will facilitate the development

of additional homes and crucially a high percentage of affordable homes. In addition, SCC will be able to build an 1,800 place secondary school in three phases which will support the transformation of the education system across Suffolk. Secondly, it will secure a return for SEBC that may extend beyond the short term and will be available for SEBC to use in any way it feels appropriate which could include further investment in other projects in the future.

5. Other options considered

- 5.1 The first option considered was to “do nothing” to effectively leave the existing loan arrangement in place. This option was discounted for two reasons, firstly because there would remain a shortfall in the funding for the ERR and a contract would not be able to be let for its construction.
- 5.2 The second option considered was to use the additional £500,000 of Growth Area Fund for another project. Like option one above this was discounted because it would not resolve the issue of a funding gap for the ERR.
- 5.3 The final option considered was to grant the funding into the ERR project without return. This option was discounted as the principle of a return on the investment has already been accepted by the landowner(s).

6. Community impact

6.1 Crime and disorder impact *(including Section 17 of the Crime and Disorder Act 1998)*

6.1.1 No impact from this report.

6.2 Diversity and equality impact *(including the findings of the Equality Impact Assessment)*

6.2.1 No impact from this report.

6.3 Sustainability impact *(including completing a Sustainability Impact Assessment)*

6.3.1 No impact from this report.

6.4 Other impact *(any other impacts affecting this report)*

6.4.1 No impact from this report.

7. Consultation *(what consultation has been undertaken, and what were the outcomes?)*

- 7.1 The development of the ERR is a long established aspiration of SEBC. Most recently the Vision 2031 documents confirm the allocation of the residential, commercial and leisure/community uses along with the ERR and junction 45 of the A14 Trunk Road upgrade.
- 7.2 In June 2010 the Masterplan for the extension to Suffolk Business Park was adopted following the due consultation phase. The Masterplan included a section entitled “The Eastern Relief Road”.
- 7.3 A series of meetings are proposed with Rougham Parish Council; Moreton Hall Residents’ Association; and local business representative organisations.

8. Financial and resource implications *(including asset management implications)*

8.1 As detailed in the main body of the report.

8.2 The external support from PWC, estimated at approximately £40,000 will be funded in the first instance from reserves on the basis of invest to save; however, Officers have received an in principle agreement from all partners that this due diligence work could be funded within the overall project costs. PWC's work will support the Section 151 and Monitoring Officers in executing their responsibility to the degree required.

9. Risk/opportunity assessment *(potential hazards or opportunities affecting corporate, service or project objectives)*

9.1 A full risk profile will be included in the Business Case to be prepared by an independent third party.

10. Legal and policy implications

10.1 Investment in the ERR falls within the aspirations of both the Council's Strategic Plan through economic growth and continuing to be an investing authority within our Medium Term Financial Strategy.

10.2 Legal input will be required to ensure that all agreements into which the Council enters meet the needs of the project and protect the Council's interests.

11. Wards affected

11.1 All wards in St Edmundsbury

12. Background papers

12.1 Reports B325 and B346

13. Documents attached

13.1 None.