

(Extraordinary) Joint Executive (Cabinet) Committee

Forest Heath & St Edmundsbury councils

West Suffolk
working together

Title of Report:	Haverhill Research Park and Suffolk Business Park Investment Fund	
Report No:	CAB/JT/19/007	
Report to and dates:	(Extraordinary) Joint Executive (Cabinet) Committee	26 February 2019
	SEBC Council	19 March 2019
Portfolio holder:	SEBC Councillor Susan Glossop Portfolio Holder for Planning and Growth Tel: 01284 728377 Email: susan.glossop@stedsbc.gov.uk	
Lead officer:	Andrea Mayley Service Manager (Economic Development and Growth) Tel: 01284 757343 Email: andrea.mayley@westsuffolk.gov.uk	
Purpose of report:	<p>This report seeks the Joint Executive (Cabinet) Committee's support for a loan of up to £7m towards costs that will support growth on the Enterprise Zones at Haverhill Research Park and Suffolk Business Park, Bury St Edmunds. The benefits to the Council include creating more jobs, supporting the local economy, generating income from the commercial loan and enabling the Council to benefit from retained business rates on both sites.</p> <p>As with any loan facility, there are risks to the funding body however, the Council follows a clear and robust process to mitigate these risks to ensure that the loan is protected.</p>	
Recommendations:	<p>It is <u>RECOMMENDED</u> that the Joint Executive (Cabinet) Committee:</p> <p>(1) Agrees the business case to support a £7m loan, as set out in Report No: CAB/JT/19/007, for the development of business centres and associated works by way of loan(s) for Haverhill Research Park and Suffolk Park (Enterprise Zone) Bury St Edmunds; and</p>	

	<p><u>RECOMMENDS</u> to St Edmundsbury Borough Council:</p> <p>(2) To approve a £7m investment facility for the development of business centres and associated works by way of loan(s) for Haverhill Research Park and Suffolk Park (Enterprise Zone) Bury St Edmunds; and</p> <p>(3) Subject to the satisfaction of the Section 151 Officer and the Monitoring Officer that appropriate security is in place to protect the Council’s investment and due diligence, highlighting no significant risks to the Council has been completed, delegated authority be given to the Chief Executive in consultation with the SEBC Portfolio Holder for Planning and Growth to enter into a loan agreement(s) with the developer; and</p> <p>(4) Agree for the Council’s Section 151 Officer to make the necessary changes to the Council’s prudential indicators as a result of recommendation (2) above.</p>
<p>Key Decision:</p> <p><i>(Check the appropriate box and delete all those that do not apply.)</i></p>	<p><i>Is this a Key Decision and, if so, under which definition?</i></p> <p>Yes, it is a Key Decision - <input type="checkbox"/></p> <p>No, it is not a Key Decision - <input checked="" type="checkbox"/></p>
<p><i>The decisions made as a result of this report will usually be published within 48 hours and cannot be actioned until five clear working days of the publication of the decision have elapsed.</i></p>	
<p>Consultation:</p>	<p>With regard to this report and its recommendations, consultation has been undertaken with the developer/promoters, the landowners, the LEP’s, Combined Authority and advisors.</p>
<p>Alternative option(s):</p>	<p>The alternative option is to not enter into a loan arrangement and require the match funding for the businesses centres to be funded privately. This option was discounted for three reasons:</p> <ul style="list-style-type: none"> • Private funding may not be forthcoming; • Private funding may take longer to secure resulting in a delay to the programme which would put the grant funding at risk; and • This option would mean that the Council would not generate income from interest payable on the loan.
<p>Implications:</p>	
<p><i>Are there any financial implications? If yes, please give details</i></p>	<p>Yes <input checked="" type="checkbox"/> No <input type="checkbox"/></p> <ul style="list-style-type: none"> • As detailed in the report
<p><i>Are there any staffing implications? If yes, please give details</i></p>	<p>Yes <input type="checkbox"/> No <input checked="" type="checkbox"/></p>

<i>Are there any ICT implications? If yes, please give details</i>		Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>	
<i>Are there any legal and/or policy implications? If yes, please give details</i>		Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> • As detailed in the report	
<i>Are there any equality implications? If yes, please give details</i>		Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>	
Risk/opportunity assessment:		<i>(potential hazards or opportunities affecting corporate, service or project objectives)</i>	
Risk area	Inherent level of risk (before controls)	Controls	Residual risk (after controls)
That the loan isn't repaid	Low	Appropriate due diligence will be undertaken to ensure the financial soundness of loan recipients. The loan agreement will seek appropriate assurances and security in the event of default.	Low
That the £7m is insufficient to enable the business centres be completed.	Medium	Detailed cost plans are prepared to enable a thorough understanding of the required funding level.	Low
That the grant funding for either of both centres is not forthcoming despite the provision of loan funding from SEBC.	Medium	Demonstrating our own willingness to invest in the sites gives confidence for other partners to support through grant funding (Combined Authority / LEP)	Medium
The EZs remain undeveloped.	Low	Sustained and increased marketing and promotion activity to highlight the benefit of the EZs will reduce this risk. The site development and infrastructure plans will aid the management and delivery of the EZs.	Low
The proposed loan is not compliant with State Aid principles	Medium	Financial support will only be considered when State Aid compliant.	Low
Ward(s) affected:		All Wards	
Background papers: <i>(all background papers are to be published on the website and a link included)</i>		Suffolk Business Park Masterplan (dated June 2010) Reports: <ul style="list-style-type: none"> • SEBC Cabinet: 2 September 2014 Report No: F97 • SEBC Council: 23 September 2014 Report No: F120 • SEBC Special Cabinet: 24 February 2015 Report No: CAB/SE/15/016 Report No: CAB/SE/15/017 	

	<ul style="list-style-type: none">• SEBC Council: 24 February 2015 Report No: COU/SE/15/001• SEBC Cabinet: 24 March 2015 Report No: CAB/SE/15/021 Report No: CAB/SE/15/022• SEBC Special Council: 25 March 2015 Report No: COU/SE/15/015 Report No: COU/SE/15/016• SEBC Cabinet: 20 October 2015 Report No: CAB/SE/15/064• SEBC Cabinet: 9 February 2016 Report No: CAB/SE/16/006:• SEBC Council: 23 February 2016 Report No: COU/SE/16/002
Documents attached:	None

Key issues and reasons for recommendation(s)

1. Proposal

- 1.1 This report seeks authority to set up a £7m loan to enable the development of two innovation/business centres on the Enterprise Zones of Haverhill Research Park and Suffolk Business Park.
- 1.2 There are benefits of providing a commercial loan to the developer. The first reason relates to the benefits to the local economy. This loan would provide the match funding to go with the grant applications that have been made by the developer for the capital cost of building both centres. The result of this is to make the delivery of both or either centre more likely and therefore to enable West Suffolk to benefit from much needed start-up space for new and growing enterprises.
- 1.3 Any loan from this facility would be arranged at a commercial interest rate (and would be properly assessed and due diligence undertaken please see Section 4 below) and will generate an annual income for the Council.
- 1.4 Any lending will be subject to the strict criteria in the Loans Policy and this includes ensuring that due diligence has been undertaken and the repayment of the loan is sufficiently secured to the right value. The risks associated with this proposal are therefore low.

2. Current Situation

Suffolk Business Park

- 2.1 Significant progress has been made by the developer/promoter with regard to bringing forward the Enterprise Zone (EZ) at Suffolk Park. The internal spine road has been constructed and provides access to the EZ. Two large warehouses have been constructed on the edge of the EZ land and planning permission has been granted for Treatt Plc to build its headquarters/manufacturing plant on the site.
- 2.2 The long-term aspiration for Suffolk Business Park has been for the provision of a range of opportunities for businesses to start, grow and relocate. Marketing activity has promoted the opportunities on the site to include a wide range of options including the sale of land; design and build packages for headquarters buildings; speculative warehousing; and a range of small to medium offices/spaces etc.
- 2.3 It is clear from the evidence we have that the number of new businesses (start-ups) in West Suffolk are comparatively low, whilst at the same time we have higher survival rates for those businesses that do start. The quantity of physical spaces for businesses to start from is low and those start-up facilities we do have are generally oversubscribed. The benefits from this proposal include the development of a building that provides flexible space; enables West Suffolk to attract new businesses and innovation which stimulate growth and inspire our local communities; maximises the potential for the growth of key sectors and exploits the benefits of being located on the Cambridge Ipswich corridor. Activities within the centre can be provided that will support

skills development within the local and regional economies; and strengthen existing relationships between SME's, education providers (e.g. West Suffolk College and the Eastern Institute of Technology), West Suffolk Councils, the Enterprise Zone, and the CPCA and NALEP.

- 2.4 The developer has identified the need for a business centre on Suffolk Business Park. Like most centres of this type, public investment is required to make the development of the centres commercially viable.
- 2.5 Therefore, the developer Jaynic has applied to New Anglia Local Enterprise Partnership (NALEP) for a grant to support the construction of an innovation/business centre on the EZ. NALEP will be taking the decision whether to provide funding towards the cost of the business centre at the end of March 2019, and would require match funding from the developer, hence the need for this decision to be taken now. NALEP has made it clear that any scheme must be able to be delivered by the end of January 2021. If the Council does not decide to loan; and equivalent private funding is not secured in time; the grant funding will be put at risk. Both grant funding bodies have indicated that the provision of match funding by way of a loan from West Suffolk Council is an important factor in the decision making process for them.
- 2.6 There is no way of guaranteeing that the developer will enter into a loan agreement with us for both or either of the centres. It is obviously possible for the developer to borrow from another source. However, the fact that the Council is willing to provide access to this match funding is an important consideration for the grant funding bodies. It shows that the Council believes in supporting the Enterprise Zones and will do everything it can to facilitate appropriate development.
- 2.7 A Draft Feasibility Cost Estimate report has been received from the developer/promoter, which was prepared to identify the potential costs of the business centre. Further due diligence will be undertaken with regards the cost estimates to ensure that they are robust to support delivery of the business centre and that there will be sufficient value in the security for the loan such that it can be repaid.

Haverhill Research Park

- 2.8 The progress made towards the development of Haverhill Research Park (HRP) by contrast, has been restricted to uses such as the public house and the children's nursery.
- 2.9 The developer has applied to the Cambridge and Peterborough Combined Authority (CPCA) for a grant to support the construction of the business centre ("the Epicentre") on the EZ. CPCA will be taking the decision whether to provide funding towards the cost of the business centre at the end of March 2019. CPCA has made it clear that any funding must be drawn down by the end of January 2021, hence the need for this report to be considered at this stage. Both grant funding bodies have indicated that the provision of match funding by way of a loan from West Suffolk Council is an important factor in the decision making process for them. If the Council

does not decide to loan; and private funding is not secured in time; the grant funding will be put at risk.

- 2.10 Planning permission exists on HRP for a 35,000 sq. ft. business centre with a range of offices sizes and meeting rooms over four floors. The reception area also includes an informal café area and flexible meeting space. The developer plans to call this centre "the Epicentre". However, it is now proposed to construct the centre on a different parcel of land on the site. The developer proposes to construct the Epicentre on the land closest to the roundabout to act as a gateway to the site (and the town). A new planning application (reserved matters) will be submitted in the next few weeks reflecting the change in site.
- 2.11 The benefits of providing the Epicentre in Haverhill are similar to the points made at paragraphs 2.2 to 2.4 above. The development of a building that provides flexible space; enables West Suffolk to attract new businesses and innovation which stimulate growth and inspire our local communities; maximises scale-up potential for advanced manufacturing at Haverhill and exploits the benefits of being part of Cambridge Compass Enterprise Zone. Activities within the centre can be provided that will support skills development within the local and regional economies; and strengthen existing relationships between SME's, education providers (e.g. West Suffolk College and the Eastern Institute of Technology), West Suffolk Councils, the Enterprise Zone, and the CPCA and NALEP.
- 2.12 Evidence shows that the start-up rates and aspiration/innovation levels in West Suffolk are lower than in other parts of Suffolk and the UK. Whilst there is more provision for start-up space in Haverhill than in Bury St Edmunds there is a gap in the market for high quality start-up space such as would be provided in the Epicentre.
- 2.13 The role of the Council is one of enabler – working with the developer and providing the necessary match funding. The provision of a loan or loans will assist the delivery of the business units.

The investment fund

- 2.14 Subject to the agreement of Council in accordance with this report, it would be possible to use the £7m amount to enter into a loan agreement(s) with the developer/promoter at HRP and/or Suffolk Park. This loan would constitute the developer's match funding, which may assist in obtaining grant funding for one or both of the business centres. Any loan would, of course, require the developer to satisfy all due diligence processes. The £7m fund is a maximum amount available for both centres; if only one centre is progressed, the maximum amount will be halved.

3. Financial implications

- 3.1 The Council's Loans Policy (Report No: E102: SEBC Cabinet – 10 September 2013) seeks to place appropriate safeguards in place where the Council is providing finance to external organisation. Each loan has to be judged on its own merits, and ensure that the loan contributes to achieving Council objectives, the organisation is financially sound, and/or there is appropriate

security in place. Consideration will be given to the loan policy as part of the due diligence and exercising of the delegations proposed.

- 3.2 The merits of the loan are set out above, and primarily relate to the opportunity to accelerate growth on the EZs in Haverhill and Bury St Edmunds, allowing the benefits of growth to come forward.
- 3.3 This loan will form part of the Council's Investing in Our Growth Agenda fund, and as such will require it to be funded from external borrowing. The principle of the Council's Investing in Our Growth Agenda Fund is to support delivery of the West Suffolk Strategic Priorities and produce revenue to support the ongoing delivery of services. The interest rate of any loans agreed with the developer will be at a commercial interest rate and will cover any external borrowing costs, as well as looking to provide a financial return in line with the funds objectives.
- 3.4 A new accounting standard has recently come into force, which means that councils have to make provisions for potential losses they may incur if any loans they make default. These provisions do not need to be made if there is adequate security on the loan, which can be shown to be worth the same or more than the value of the loan. As is highlighted at paragraph 5.1 below, negotiations are already taking place to ensure the appropriate security is in place to protect the Council's investment, and in addition, further due diligence will be undertaken on the viability of the company/site.

4. Legal implications

- 4.1 The Council has received copies of agreements between the landowners and the developer/promoter. These set out the terms under which the land can be developed and sold, and provide, for example, step in rights for land funders in the event of insolvency. However, clearly the Council will need to ensure there is appropriate security in place for any loan provided to the developer. The nature of the security provisions are currently being discussed. The proposed delegated authority to enter into an agreement will only be exercised once appropriate security has been confirmed.
- 4.2 As this is a loan on commercial terms, officers are satisfied that there are no immediate state aid implications with respect this funding proposal.

5. Future space for business support in West Suffolk

- 5.1 The aim of this fund is predominantly to enable development of the EZs at HRP and SBP and to deliver the aspirations and objectives set out by Council. The fact that this fund has the potential to support two business centres that may then be developed in West Suffolk does not preclude the development of other such centres across the area. Over time, the provision of this type of start-up provision is likely to stimulate demand for more space. However, it is usually the case that this type of facility has to be subsidised to enable the market to deliver and this is likely to be the case for other centres in other towns or sites.

6. Conclusion

- 6.1 It is usual for Innovation centres to require subsidy, hence the applications by the developer to the CPCA and NALEP for grant funding towards both centres. The CPCA and NALEP are both considering funding these applications from Growth Deal money given to them by the Government. The Growth Deal funding comes with the restriction that it must be drawn down by January 2021. In both cases the CPCA and NALEP need to understand the certainty of delivery so that they are reassured that the timescales will be adhered to. Both grant funding bodies have indicated that the provision of match funding by way of a loan from West Suffolk Council is an important factor in the decision making process for them. The provision of match funding in the form of a loan from the Council provides both bodies with additional comfort and is likely to influence their decisions to grant fund or not.
- 6.2 By the end of March 2019, we will know whether either of the grant funding applications for HRP and/or SBP have been successful. In the event that both grant funding and loans are provided, the developer has confirmed an achievable delivery programme that could result in the business centres being constructed by this time next year. This is in line with the EZ timelines that dictate that companies need to locate on either EZ by March 2021 in order to benefit from the business rate reductions. The location of businesses in the EZs results in a return for the Council from retained business rates.
- 6.3 The result of the provision of this loan facility is to make the delivery of both or either centre more likely and therefore to enable West Suffolk to benefit from much needed start-up space for new and growing enterprises and to deliver its objectives. This is in line with our strategic aspirations to promote economic growth in West Suffolk. In addition, both centres will play a role in generating more development on the respective parks.
- 6.4 Aside from the local economic advantages, this also provides some clear benefits to West Suffolk that subject to the appropriate due diligence and security being in place, the Council can receive a higher rate of income on its investment and potential additional business rates as soon as possible.