

D2N2 Investment Board Cover Sheet – 19th October 2023

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Meeting and Date	Investment Board – 19 th October 2023		
Subject	Economic Growth Fund Call		
Author	T Goshawk	Total no of sheets	7

Papers are provided for:	Approval <input checked="" type="checkbox"/>	Discussion <input type="checkbox"/>	Information <input type="checkbox"/>
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Summary and Recommendation
<p>This paper is being presented to the D2N2 Investment Board to follow on from the Investment Boards views on the Economic Growth Fund projects which were presented to the September Meeting.</p> <p>The Board are recommended to:</p> <ul style="list-style-type: none"> - Agree the Hill Crest Business Park Units project and adopt it on to the LEP's Capital Programme - Agree to not accept any further projects on to the capital programme and the funds to be reconsidered for other uses by the LEP.

D2N2 INVESTMENT BOARD – 19th October 2023

1.0 Background

At the meeting of the Investment Board on the 7th of September, LEP and Accountable Body officers recommended three projects to be approved on to the LEP's Capital Programme as a result of the call for projects for the Economic Growth Fund. Following discussions at the meeting the Investment Board decided the following:

- Agree to fund and welcome on to the capital programme the University of Derby's Nuclear Skills Academy project.
- Reject the recommendation to bring Bolsover District Council's, Park Lane Pinxton project on to the capital programme.
- Review and present further evidence around high growth jobs and affordability of the Hill Crest Business Units project in Calverton.

Following the meeting, LEP officers have been working with Gedling Borough Council to seek clarifications on the issues raised by the Board and provide clarity for a final decision to be made at the October IB meeting.

2.0 Hillcrest Park

2.1 Project Summary

Project Name	Hill Crest Park – Business Units	Project Sponsor	Gedling Borough Council
EGF Ask	£693,884	Total Project cost	£1,387,769
Revised EGF Offer	£642,457	Start Date	January 2024

Project Description

This project is to build four new small industrial units (B1/B2), totalling 462sqm alongside the existing units within an established business area in Calverton, increasing the EV provision for the existing units, and new EV provision for the new units. PV roof panels would be part of the new construction, as well as on the existing units, supporting the net zero carbon agenda. The existing units have full occupancy, with very low void time, and a waiting list, demonstrating a high demand for such units. This has been consistently demonstrated over several years, and most recently in May 2023 when a unit became free and was filled immediately. The Council will be responsible for delivery of the Project using the Pagabo Framework to deliver the build.

The site is located within Calverton, one of the largest Gedling villages, in a road off other employment uses. Calverton has seen population growth of 7% between 2011 and 2021 (2021 Census) and in line with the adopted Local Plan, growth will continue, increasing its importance to the Borough. By providing an increased number of business premises, this will support the growth of additional employment opportunities, as well as minimising the need to commute to other centres.

The proposed scheme will deliver 462sqm of floor space and create 18 new job opportunities. The development will also include the provision of 2EV charging points, as well as additional provision for the existing units.

Strategic Fit

This proposal meets the objectives of the D2N2 Recovery and Growth Strategy and in particular:

- **Low Carbon Growth:** Aligned to Guiding Principle #1, is Gedling Borough Council's declaration of a climate emergency, with a target of 2030 to be carbon neutral; this project includes enhancements to the existing building in terms of PV and EV provision, as well as incorporating them into the new build element.
- **Productivity:** The proposed is aligned with this Guiding Principle, as it looks to create premises for new and existing businesses in the Borough, with approximately 20 jobs created as a result (based on the current occupancy/employment levels of existing tenants). The Gedling Plan 2023-2027 clearly sets out the Council's priority for the Economy: "To encourage and support healthy businesses in our town and local centres, improving local skills and employment opportunities, and promoting an economy that attracts visitors throughout the day and supports leisure activity" and more specifically for business to "attracts new business investment enabling growth and the creation of jobs." Therefore, this proposed development clearly aligns with these priorities, enabling new and existing businesses to successfully grow and develop in the Borough.
- **Connectivity and Inclusion:** the development supports the recommendations in the "Next Steps in Levelling Up the Former Coalfields" from the All-Party Parliamentary in terms of providing premises for small businesses and support the growth of areas and provide for infrastructure to address demand for employment space in rural areas. This proposal, whilst modest in nature, brings forward new space in an area suffering from a lack of opportunities and connectivity, providing it with the ability to deliver jobs locally.

The project has the full backing and support of the two transport authorities that the route runs through.

Output Description	Total	Output Completion
New Jobs Created	18	2025
Commercial Floorspace Constructed	462 m ²	2024
Businesses Assisted	4	2024
GVA Uplift	£2.986m	2030

2.2 Further Information and Evidence

The Investment Board members requested that two factors were investigated before any approval would be made to bring the project on to the capital programme:

- Could the level of grant intervention from the LEP Capital Programme be reduced and Gedling Borough Council fund more towards the project?
- Can GBC provide evidence that jobs will be 'High Growth' and give evidence as to how the council will ensure these are the tenants that occupy the space?

The following responses have been received by GBC to answer the questions of the Investment Board.

Reduction to the level of intervention?

The Council's bid was submitted based on a 50/50 contribution from both parties, which demonstrated a payback period of 28 years which is outside the standard payback period. There was a subsequent request to accept a lower LEP contribution at 47/53, which demonstrated a payback period of 30 years, this request. The further request to move to a model of 40/60 means that the payback period to the Council extends further to 31 years, putting significant financial pressure on the Council at a time when it has seen its Government grant reduced by 33% since 2015/16, and further reductions scheduled in 2025/26 and 2026/27.

The current units at Hill Crest Park are commercial premises, charged at market rent reflecting market conditions, with annual rent increases of 3% included in the lease agreement and this would be the approach for the new units. It is understood that Board Members have suggested that rents could be increased; but with rents at market value, and developed with start-up/growth businesses in mind, this is not seen as practical and could result in long term vacant units, putting the commercial viability of the development at significant risk. In addition, it may also result in steady state businesses as lease holders, and therefore not fulfilling the LEPs wish for high growth businesses and jobs.

Having reviewed the latest financial projections based on a 40/60 model, it is clear that this would put unacceptable financial pressures on the Council, and the view of the Senior Leadership Team and the Leader of the Council is that funding based on a 45/55 split is the only model that would be acceptable, allowing the Council to achieve a payback within a reasonable timescale whilst supporting the Calverton business community and its residents.

How will High Growth Jobs be ensured?

As with other Council-owned units, potential tenants will be asked to submit their business plan and cashflow forecasts to demonstrate that the business is founded on good business practices, is commercially viable, and sustainable, as well as having the potential for growth. The business plan and cashflow forecasts will be reviewed by internal Council officers from both Property and Finance but also by the independent Small Business Adviser prior to a lease being granted.

Subsequently, regular interactions with the Small Business Adviser will be put in place, as well as signposting tenants to other sources of support where needed, including British Business Bank, the Government's Export Support Service, FSB, and others, etc. Via this support, progress will be tracked against their business plan.

2.3 Recommendation

Based on the evidence received in section 2.2 LEP Officers believe that there is still a credible case for intervention on the project and evidence has been provided which justifies the grant amount as well as the evidence for High Growth businesses to occupy the space. Therefore, LEP Officers recommend that the project is accepted on to the Capital programme and the Hill Crest project is allocated £642,457 of funding from the Economic Growth Fund.

3.0 Remaining Projects

Subject to the approval or non-approval of the Gedling Borough Council project the following list shows the closest scores to the original three projects presented for approval. The projects have been re-evaluated and following this exercise the LEP Officers are not recommending any of the projects to be accepted on to the EGF Programme. The table below demonstrates the primary reason(s) for not recommending a funding allocation be granted.

Project Name	£ request	Reasoning for not recommending for funding
National Stone Centre	2,600,000	The project requires £2.6m of funding from the EGF, a reduced allocation means there will still be a significant funding gap for the project.
Stodman Street	500,000	The application offered no added value from the project that was already taking place through Newark and Sherwood's funding. The request for funding is to cover inflation.
SONE Headquarters	750,000	The project delivers a move in premises for a company headquarters. The project is unlikely to meet subsidy control requirements. One option is that it could be funded through debt financing for the business
Project 22	1,510,000	The project has multiple unknowns still such as planning etc, the project is not near a deliverable stage yet so could not be put forward for funding.
ADMC	1,300,000	The project offers little additionality to the current activity and would not deliver all the outputs outlined in the application. There may be other means of intervention for this project.
Mansfield Woodhouse Station Gateway	210,299	The project doesn't offer many outputs for delivery and adds little value to the D2N2 Programme. The funding is as a result of inflationary pressures.
Air and Space Institute	500,000	The application offers little added value and few outputs could be gathered from the funding ask as the project is a Towns Fund project..

3.1 Recommendation

LEP Officers recommend that no further projects from the list in 3.0 are adopted on to the D2N2 Capital Programme due to the reasons listed above. The LEP will now reconsider the funds for future use

