

PLYMOUTH CITY COUNCIL

Subject: Urban Enterprise: new enterprise units at Millfields Trust.
Committee: Cabinet
Date: 12 March 2013
Cabinet Member: Councillor Evans
CMT Member: Anthony Payne (Director for Place)
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Ref: Your ref. PB /UE
Key Decision: Yes
Part: I

Purpose of the report:

Millfields Trust Block C development is a £5.12 million building project which unlocks £4.66 million public funding to create 50 new enterprise units in a deprived area that will provide up to 200 new jobs and forms one of the 'Plans for Jobs' projects. This report explains how the delivery of the project is facilitated by the Council acting as guarantor and how the potential financial impact of this enabling role will be mitigated.

The project expands one of the two existing Community Economic Development Trusts (CEDTs). CEDTs develop sustainable businesses that create local jobs in a defined area, involving support for community development and business development advice. They help wealth to be created and kept local, encouraging all income – whether CEDT business surpluses or community income - to be reinvested for community benefit, leading to a more sustainable, cost-effective and value for money approach to development.

The primary funder is the European Regional Development Fund (ERDF) which seeks to address economic disparity issues in some of the most deprived parts of the South West Competitiveness area through supporting regeneration and creating and safeguarding jobs. This project forms part of the wider, extended Urban Enterprise Programme in Plymouth which is a job creation programme made up of revenue and capital elements which targets mainly unemployed people and equips them with the advice, skills and knowledge to set up their own business.

In addition to the £2.56million sought from ERDF, the Millfields Trust will be taking a loan of £2.1 million from the Growing Places Fund administered by the Local Enterprise Partnership to enable delivery of the project and the Council proposes to act as guarantor for any balance of the loan outstanding at the end of the 10 year repayment period. The remainder of the costs (£0.46 million) will be met from the applicant.

The Local Enterprise Partnership have indicated that the Council acting as guarantor will be a condition of their funding offer. Therefore without this support the project, with a total value of £5.12m is unlikely to proceed. The report sets out the mitigations measures proposed to limit the financial liability on the Council.

The rationale for this capital project is to respond to the lack of managed workspace provision in the deprived wards and provide an enterprise culture centred around enterprise hubs which create new work opportunities for local people and for them to grow their new start businesses and is embraced by the recently approved 'Plan for Jobs' as one of the nineteen projects.

Corporate Plan 2012-2015:

The commitments included within this project fully supports the Co-operative Council's approach to ensuring that customers are engaged and that local needs are met. The project is integrated with the Plan for Jobs which recognises that addressing the significant issues of unemployment and worklessness cannot be tackled by the Council alone, and requires a multi-partnership approach to have the greatest impact on the lives of Plymouth residents.

The Urban Enterprise programme helps deliver the Corporate Plan's four key priorities:-

- Deliver growth – through increasing the number of new jobs
- Raise aspirations – through creating new business and an enterprise culture
- Reduce inequality – through focusing on deprived communities and disadvantaged groups
- Provide value for communities – through introducing new enterprise hubs in the heart of deprived communities

Implications for Medium Term Financial Plan and Resource Implications: Including finance, human, IT and land

It should be noted that project delivery and funding arrangements are directly between Millfields Trust and the funders. The Council is not acting as an accountable body nor is it associated with the procurement or project delivery.

The decision would require the Council to act as Guarantor to a Growing Places Fund loan up to a maximum of £2,100,000. However, the development appraisal submitted with business case states that the Trust would have paid back £0.7 million of the GPF loan in years 1 – 10. In order to mitigate the financial liability upon the Council, the report explains that further refinement of the Heads of Terms seeks to achieve the aim that the Council will be funder of last resort.

This guarantee will only come into effect at the end of the 10 year loan period should Millfields Trust not be able repay the loan at that time. The Council will have no liability should the project fold within the initial 10 year period.

In accordance with the Business Plan presented by the Millfields Trust, it is anticipated the growing places loan will be repaid directly by them through a combination of retained surpluses and a commercial loan arrangement at the end of the 10 year period.

Should the Council be required to step in as guarantor at the end of the period, the Trust have been agreed to provide security in the form of a legal charge against the freehold asset of the Block C building.

In order to mitigate the financial liability upon the Council, Heads of Terms have been drafted up and are referred to in the report.

Other Implications: e.g. Child Poverty, Community Safety, Health and Safety and Risk Management:

In order that the proposal progresses satisfactorily through the ERDF application process, a number of key requirements need to be met which demonstrate that the economic disparities of Plymouth are being addressed and the core outputs of job creation and managed workspace area are being met. This needs to be set in the context of providing new opportunities for the local community, in particular those isolated from the labour market and demonstrate sustainability and long term value for money.

Risk management is central to the whole package, notably the desirability to base the proposal on a sound funding package.

Equality and Diversity

Has an Equality Impact Assessment been undertaken? No

As part of the ERDF requirements the proposal submitted by the Millfields Trust needs to demonstrate a positive contribution towards equality or opportunity. The Trust has its own Equality Policy and has proposed Equality Indicators as part of their application for ERDF funding.

Recommendations and Reasons for recommended action:

It is recommended that

- I. Subject to a favourable outcome to both the ERDF and GPF applications, the Council agrees to act as guarantor for Millfields Trust for repayment of the balance of the Trust's loan from the LEP outstanding to a maximum of £2.1 million in accordance with an agreed Heads of Terms between Plymouth City Council and the Millfields Trust which mitigates the potential financial impact upon the Council. Authority to agree the Heads of terms be delegated to the Director of Place

Reason – The Heads of Terms will be further refined to mitigate the financial liability upon the Council and take account of comments made at the Capital Delivery Board.

Alternative options considered and rejected:

The Regional Growth Fund (RGF) has been comprehensively researched as potential match but an application made under RGF 2 in June 2011 was unsuccessful.

The Council has also explored the opportunities to use the rates rebate and the new business rates retention scheme to reduce the applicant's repayments on the GPF but any decisions thereon are premature. If agreed, this will allow increased repayments to the GPF.

Published work / information:

Cabinet – 12 February 2013 – Building for Jobs – Plymouth Investment Fund
<http://www.plymouth.gov.uk/mgInternet/documents/s44381/Building%20for%20jobs%20-%20Plymouth%20Investment%20Fund.pdf>

Background papers:

Title	Part I	Part II	Exemption Paragraph Number						
			1	2	3	4	5	6	7

Sign off:

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Originating SMT Member: David Draffan													
Has the Cabinet Member(s) agreed the contents of the report? Yes													

1.0 Background

- 1.1 The primary goal is to develop Millfields Trust Union Street based HQ site in order strengthen their business , to create a flexible range of new workspace units catering for new businesses at various stages of growth for the community of Stonehouse, and to aid the economic regeneration of this neighbourhood.
- 1.2 This Urban Enterprise hub scheme has been conceived to create jobs for local people from a deprived ward. It is a component of a master plan prepared for the immediate urban block, commissioned jointly by Plymouth City Council, The SW Regional Development Agency and the Homes & Communities Agency and sits within the wider regeneration ambitions of the wider Millbay area.
- 1.3 The total cost of the project is £5.12 million with £2.56 million being applied for from ERDF, £2.1 million being applied for from Growing Places Fund and the remainder £0.46 million coming from the applicant and land value.
- 1.4 The Urban Enterprise extension – Strategic Investment framework (SIF) Phase 2 discussion paper to Cabinet Planning on 26th November explained the difficulties that a project such as Millfields Trust Block C would have in paying back the entirety of its Growing Places Fund (GPF) loan within the 10 year stipulated term for repayment owing to its status as a social enterprise. The outcome was a letter sent expressing the Council's potential intent to act as a guarantor of the capital loan repayment beyond the 10 year Growing Places Fund loan, subject to Cabinet decision on this report and the Council being satisfied with contractual arrangements emanating from the GPF.
- 1.5 The Building for Jobs – Plymouth Investment Fund Report to 12th February Cabinet makes clear the types of project that might benefit from the fund citing Millfields as an example of a quality business premises that would fill a current gap in the market at the same time as leverage funding from ERDF and GPF.
- 1.6 The Millfields Trust project also features in 'Plans for Jobs' 'Project 5' which aims to create a series of managed business hubs to support the growth of start-ups, capitalising upon the success of the Urban Enterprise programme, through the development of a series of projects specifically targeting disadvantaged groups in the City.

2.0 Capital Programme Business Case

- 2.1 The project status details and programme milestones are consistent with the ERDF and GPF timescales. With regard to costs / budget and risks, a detailed assessment of cost and an agreed schedule of consultant costs and due diligence surveys has been produced and submitted as part of the various ERDF and GPF funding applications.
- 2.2 A full application was submitted to ERDF on 7th February and is programmed to be presented for approval at the 20th March ERDF Competitiveness Operational Group meeting.
- 2.3 Once due diligence is undertaken by the Local Enterprise Partnership who administer the GPF is completed, recommendation of a formal loan offer is expected to be made at the 7th March LEP Board meeting.
- 2.4 A full Capital Programme Business Case was submitted to the Capital Delivery Board on 15th February following meetings held between the Council and the Millfields Trust. This provided

information about the project details, finance, procurement and risk. Much of the justification for the business case is provided in the ERDF and GPF applications, so the Capital Programme Business Case primarily concentrated on the required contractual arrangements with the Council as guarantor and how the risks to the Council are mitigated through the Heads of Terms described below.

2.5 The business case indicates an annual operational surplus will be achieved. It should be noted that the current plan is based on 90% occupancy and includes provision for a business rate rebate from the Council, equivalent to approx. £30,000 per annum. This rebate will be subject to a separate approval, pending the implementation of new local business rate legislation and policy. In the event rate relief were refused, the Business Case indicates the project will remain viable, albeit with reduced margins to meeting loan payments and other business risks such as reduced levels of occupation. Performance against the business plan will be regularly monitored, and it has been agreed the Trust would formally assess whether the outstanding loan could be repaid from commercial borrowing from year 7 of the growing places loan term

2.6 Legal Services, Finance and Capital Strategy teams have been involved through offering advice on the proposal in the meetings referred to above.

3.0 **Mitigation of PCC role acting as guarantor**

3.1 The Council has already shared draft Heads of Terms with the Millfields Trust who believe they are reasonable and realistic. The Heads of Terms will be further refined in response to comments made by the Capital Delivery Board which include details of the charge, and the means required to ensure the Council ends up as funder of last resort.

4.0 **Heads of Terms**

4.1 The overarching requirement from the Council's perspective is that the Millfields Trust must explore every opportunity to minimise the Council's liability in its proposed role to act as guarantor.

4.2 At the expiration of 7 years after the date of the LEP loan agreement, the Trust will instigate an assessment of whether the GPF loan then outstanding could be repaid from commercial borrowing over a term of up to a further 20 years.

4.3 If commercial borrowing can then be arranged, the Trust will enter into the relevant funding obligations, and once in receipt of the commercial loan monies, will repay all GPF funding then outstanding.

4.4 If the assessment of commercial borrowing does not identify any suitable lender, the Trust will repeat the process outlined in 4.2 at the end of years 8 and 9.

4.5 If these further assessments prove ineffective, the Council will undertake to provide funding (not exceeding £2.1 million) to enable the GPF funding outstanding to be repaid at the expiration of 10 years from the original loan agreement.

4.6 The outcome of 4.5 would be the Trust repay such outstanding borrowing to the LEP and will enter into a new loan agreement with the Council on the same financial terms as per the original LEP loan, and on the same basis as in the Heads of terms, except that the loan period shall be 15 years.

- 4.7 The Trust will also enter into a Legal charge for the benefit of the Council over the site and premises from commencement of construction works. This charge will rank behind any charge imposed by any other external funder of the development works, such as the LEP.

5.0 Next steps

- 5.1 Decisions expected on the formal offer of the GPF grant expected to be made at the 7th March 2013 LEP Board meeting.
- 5.2 Decisions expected on the ERDF full application to be made at the 20 March ERDF Competitiveness Operational Group meeting.
- 5.3 Contractual arrangements between the Council and Millfields Trust to be finalised after successful outcomes to the ERDF and GPF applications.

