

PLYMOUTH CITY COUNCIL

Subject: Urban Enterprise: New Enterprise Units at Ocean Studios.
Committee: Cabinet
Date: 6 August 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:

Ocean Studios development is a £4.06 million building project which could unlock £3.27 million public funding to create 1,900 sq metres of affordable artists' studios in a deprived area that has the strong will to provide 104 new jobs, safeguarding 40, and forms one of the 'Plans for Jobs' projects. This report explains how the delivery of the project is facilitated by a capital contribution of £794,000 from the City Council's Investment Fund. In addition, the Council will act as guarantor to a loan of similar value, and this report explains how the potential financial impact of this enabling role will be mitigated.

Ocean Studios is a Community Interest Company (CIC) in the creative sector, one of the priority sectors identified for growth. Plymouth artists have been appealing for studio space for a long time and Ocean Studios is the product of many years cooperation between several networks of local creative producers. The vacant, derelict Cooperage building at Royal William Yard – a Grade I listed building – provides the project with a fitting home.

Ocean Studios will provide a unique mix of studio space, fully equipped workshops and business support to help stem the loss of over 600 student graduates in arts related degrees from the City's University and College of Art who seek workspace and infrastructure but end up moving away from Plymouth because no such facilities currently exist. Ocean Studios based at Royal William Yard currently have a waiting list of 151 artists which is indicative of the actual demand.

Additionally, Ocean Studios will run an extensive education and outreach programme focussing on the residents of Stonehouse as well as the many recovery houses and homeless centres nearby so that participants can take the vital stepping stone from worklessness, crime and addiction to recovery, self-esteem and eventual employment.

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 £1.978 million sought from ERDF, Ocean Studios will be seeking a loan of £0.794 million from the Growing Places Fund (GPF) administered by the Local Enterprise Partnership matched by the Investment Fund 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 funding package will be made up by £0.445 million from English Heritage and £0.052 million from others.

The Local Enterprise Partnership (LEP) has 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 £4.06m is very unlikely to proceed. The report sets out the mitigation 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.

The Brilliant Co-operative Council Corporate Plan 2013/2014 – 2016/17:

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 outcomes:-

- Pioneering Plymouth – through the cultural offer providing value to the city
- Growing Plymouth – through creating a strong economy creating a range of job opportunities
- Caring Plymouth – through helping people take control of their lives and communities
- Confident Plymouth – Citizens wanting to live and work in Plymouth 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

The cost of the capital project is estimated at £4,063 and will be met from the following sources of funding

£1.978m	-	ERDF
£0.794m	-	Growing Places Loan (re-payable by Ocean Studios)
£0.794m	-	Plymouth City Council Grant (met from the Investment Fund)
£0.445m	-	English Heritage Grant
£0.052m	-	Other Sources

It should be noted that project delivery and funding arrangements are directly between Ocean Studios CIC and the funders (with the exception of the Council's Grant). The Council will be acting as accountable body in respect of the Investment Fund contribution but is not associated with the procurement or project delivery.

The decision will require the Council to act as Guarantor to a Growing Places Fund (GPF) loan up to a maximum of £0.794 million and secured by a charge against Ocean Studios lease should the project

fold. This guarantee will only come into effect at the end of the 10 year loan period should Ocean Studios CIC not be able repay the loan at that time. The Council will have no liability should the project fold within this initial 10 year period. Should it be necessary for the Council to step in as guarantor at the end of this period, this will involve the Council paying off the Growing Places Loan and entering into a loan itself with Ocean Studios as explained in 4.6.

The development appraisal submitted with Ocean Studios business case makes clear that the capital repayment of the GPF loan in years 1 – 10 is likely to be significant. However, it is anticipated the 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 if necessary.

In order to mitigate the financial liability upon the Council, further refinement of the Heads of Terms seeks to achieve the aim that the Council will be funder of last resort. In the event that the Council is required to step in as guarantor, Ocean Studios CIC have been agreed to provide security in the form of a legal charge against the 35 year lease of the building of which 25 years will be left at year 10. Ocean Studios lease the building from Urban Splash.

The directors of Ocean Studios have carried out extensive research to ensure the project is viable and robust. This has included research into the demand from artists and the local Stonehouse community. Liaising with the higher and further education institutions has also formed part of this demand analysis. In addition to this the directors have investigated other successful studio models nationally to ensure the delivery of Ocean Studios achieves the high level of success anticipated. Whilst the the business case appears robust, it is important that the Council recognises there is an element of risk associated with an investment on this nature.

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.

Ocean Studios wish to explore the opportunities to use the rates rebate and the new business rates retention scheme to help reduce their costs and therefore increase repayments on the GPF loan. The Council will need to consider this as against rates legislation at a later date, as a formal decision cannot be made on this matter until after occupation of the building.

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

1. Subject to a favourable outcome to both the ERDF and GPF applications, the Council agrees to act as guarantor for Ocean Studios CIC for repayment of the balance of the Trust's loan from the LEP outstanding to a maximum of £794,000 in accordance with an agreed Heads of Terms between Plymouth City Council and the Ocean Studios CIC which mitigates the potential financial impact upon the Council. Authority to agree the Heads of Terms to be delegated to the Director of Place.
2. Subject to a favourable outcome to both the ERDF and GPF applications, the Council agrees to make a capital contribution of £794,000 from the Investment Fund.

Reason – (1) The Heads of Terms will be further refined to mitigate the financial liability upon the Council and take account of comments made by officers.

(2) The money invested through the investment fund meets the key criteria of significant leverage, creating jobs, and a rental income from the vacation of a Council owned premises

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.

An initial application to the LEP for a Growing Places Fund loan of £1.65 million was rejected on the grounds that the return of investment was insufficient.

A subsequent offer from the LEP was to meet the shortfall of £1.588 million 50/50 with PCC's Investment Fund on condition that PCC act as guarantor at the 10 year stage (now subject of this report) or offer the whole amount with a pay back guarantee after 5 years. The latter was rejected in favour of the former.

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:

None

Sign off:

Fin	AF/Pla ceF EDC 1314 004.2 3.07.1 3	Leg	SC/I 6157	Mon Off	DV S 24/ 07/ 13	HR		Assets		IT		Strat Proc	
Originating SMT Member													
Has the Cabinet Member(s) agreed the contents of the report? Yes													

1.0 Background

- 1.1 The primary goal is to create jobs through halting the artistic exodus from Plymouth providing affordable artistic workspace that forms a creative hub, capable of attracting talent locally as well as from across the region. However, for some people, employment may be an unrealistic or a very distant aspiration and for those on recovery programmes, premature return to employment could set back the recovery. Therefore, in addition to job creation, Ocean Studios will through outreach programming aim to bring at least 10 people into economic activity who previously have been suffering from either substance or alcohol abuse. This in turn will generate an annual benefit in excess of £250,000 per annum.
- 1.2 This Urban Enterprise hub scheme has been conceived to create jobs for local people from a deprived ward and bring social, cultural and economic benefits. As well as the provision of specialist provision for artists in the form of a unique managed workspace, the integration of education and outreach programmes also ensures accessibility to all, offering local people, some with specific barriers, the opportunity to acquire skills in a range of art disciplines as a catalyst for them to seek work opportunities elsewhere.
- 1.3 The total cost of the project is £4.06 million with £1.978 million being applied for from ERDF, £0.794 million being applied for from Growing Places Fund, £0.794 million from the Investment Fund, £0.445 million from English Heritage, and £0.052 million from others.
- 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 Ocean Studios CIC 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 able to agree suitable contractual arrangements with the LEP for the guarantee.
- 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 Ocean Studios 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 and forms the basis of an application for gap funding. This forms the rationale for recommending a capital contribution of £0.794 million from the Investment Fund, explained in 2.4 below.
- 1.6 The Ocean Studios CIC 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 28th February and will be reported to the 16th September ERDF Competitiveness Operational Group meeting.
- 2.3 A GPF loan offer is expected to be made after the 23rd July LEP Board meeting after due diligence.
- 2.4 A full Capital Programme Business Case (CPBC) was submitted to the Capital Delivery Board on 19th July following meetings held between the Council and Ocean Studios. This provided information about the project details, and its request for a capital contribution from the Investment Fund on the basis that the project delivers:-
- Leverage of £3.27 million from other public sector funding
 - Creates 104 jobs, safeguards a further 40 jobs and will involve approximately 40 construction jobs
 - A rental income from a premises which artists will vacate and move into Ocean Studios

The CPBC also provided an update of material submitted in the ERDF and GPF applications, to inform the required contractual arrangements with the Council as guarantor and what the financial risks to the Council would be at the end of year 10, and how they 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 100% occupancy (assumption evidenced by actual demand) after first and second years at 85% and 95% occupancy. The return on investment highlights a limited level of financial risk to the Council at year 10. Performance against the business plan will be regularly monitored, and it has been agreed Ocean Studios CIC would formally assess whether the outstanding loan could be repaid from commercial borrowing from year 5 of the GPF loan term
- 2.6 Legal Services, Finance and Capital Strategy teams have been involved through the project development stages.

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

- 3.1 The Council has already shared draft Heads of Terms with Ocean Studios who believe they are reasonable and realistic. The Heads of Terms will be further refined in response to any terms of offer made by the Local Enterprise Partnership should a loan offer materialise. Plymouth City Council will prepare a legal charge, a deed of guarantee with the LEP (which together with the Heads of Terms document will be drafted to ensure the Council is the funder of last resort), and the loan arrangements after year 10 with Ocean Studios CIC.

4.0 **Heads of Terms**

- 4.1 The overarching requirement from the Council's perspective is that Ocean Studios must explore every opportunity to minimise the Council's liability in its proposed role to act as guarantor.
- 4.2 At the expiration of 5 years after the date of the LEP loan agreement, Ocean Studios CIC 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, Ocean Studios CIC 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, Ocean Studios CIC will repeat the process outlined in 4.2 at the end of years 6, 7, 8 and 9.
- 4.5 If these further assessments prove ineffective, the Council will undertake to provide funding (not exceeding £0.794 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 Council repay such outstanding borrowing to the LEP and Ocean Studios CIC will enter into a new loan agreement with the Council on the prevailing Public Works Loan Board Maturity Rate (PWLB), and on the same basis as in the Heads of terms, except that the loan period shall be an additional 15 years.
- 4.7 Ocean Studios CIC will also enter into a Legal charge for the benefit of the Council over the site and premises from completion of the guarantee agreement with the LEP. This charge may rank behind any charge imposed by any other external funder of the development works, such as the LEP.

5.0 Next steps

- 5.1 After a positive discussion at the 23rd July 2013 LEP Board meeting, a final unconditional offer letter is required from the LEP by 30th August to allow sufficient time for the appraisal work to be completed in connection with the ERDF grant application referred to in 5.2 below.
- 5.2 Following the 22nd July ERDF Competitiveness Operational Group meeting, a number of pre-appraisal issues need to be addressed in readiness for recommending a decision at 16th September ERDF Competitiveness Operational Group meeting which includes confirmation of match funding.
- 5.3 Contractual arrangements between the Council and Ocean Studios and the LEP to be finalised after successful outcomes to the ERDF and GPF applications.