



north east combined authority

North East Leadership Board (Extraordinary Meeting)

Tuesday 17th February, 2015 at 2.15 pm

Meeting to be held at County Hall, Durham, DH1 5UL

www.northeastca.gov.uk

SUPPLEMENTAL AGENDA

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3. Growth Fund Update	1 - 10
Update on Growth Deal Funding Announcement and Investment Fund Projects	

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To All Members

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North East Combined Authority

Leadership Board

DATE: 17 February 2015

SUBJECT: Update on Growth Deal Funding Announcement and Investment Fund Projects

REPORT OF: Chief Finance Officer

1 EXECUTIVE SUMMARY

1.1 This report provides an update on the latest announcement on 29th January about additional growth deal funding for the North East of £40.6m; sets out the information received about the payment arrangements and the Government's funding requirements for growth deal funding in 2015/16; and outlines decisions about the use of £5.625m of the North East Investment Fund for four projects agreed by the LEP Board on 29th January and the procurement arrangements to progress the North East Growth Hub.

2 RECOMMENDATIONS

2.1 It is recommended that the Leadership Board –

- a) note the announcement of an additional £40.6m of Growth Deal Funding for the North East as set out in section 3 of this report:
- b) note the letter of 6th February setting out grant payment arrangements for 2015/16; the status of commitments for future years and the Funding Requirements;
- c) note the decisions about the use of £5.625m of the North East Investment Fund for four projects by the NELEP Board on 29 January, as set out in section 5 of this report, and authorise the Monitoring Officer in consultation with the Head of Paid Service and the Chief Finance Officer to enter into the relevant funding agreements to implement these decisions; and
- d) note the progress made to establish the North East Growth Hub, as reported to the NELEP Board in January and as set in section 6 of this report, and authorise the Monitoring Officer in consultation with the Head of Paid Service and Chief Finance Officer to enter into the relevant contractual arrangements.

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3 Growth Deal Announcement – Additional £40.6m Funding

3.1 On 29th January the Government announced an additional £1billion for Growth deals, which included an additional £40.6m for projects in the North East. This brings the total level of approved Growth Deal funding to £329.9m.

3.2 As part of the latest Growth Deal announcements the following projects were included in the growth deal –

- River Tyne Economic Development - a project to prevent and remedy on-going contamination (from historic sites) on the river Tyne to allow additional development.
- Sunderland Central Business District - creation of central business district/urban quarter to link city centre to river Wear.
- Newcastle Life Sciences Incubation Hub - lab and office space to support businesses in life sciences and related sectors.
- Northumberland College: Advance Manufacturing Centre. Upgrading the facilities at Northumberland College to improve skills levels and support economic growth.
- Merchant Park 2 - to provide support to investors and supply chain companies at the site adjacent to Hitachi Rail Europe
- Newcastle Gateway 24/7 Centre - new entry portal to the college to allow increased vocational resource workspace and provide a new library and learning centre.
- National Centre for Healthcare Photonics - creation of a facility for a national centre to develop and commercialise photonics based therapies.
- Sunderland Enterprise and Innovation Hub - the first 'Fab Lab' in the North East, incubation spaces and workshop, office and laboratory space.

3.3 In addition to the additional grant funding, the Government has given indicative approval to cheaper PWLB borrowing interest rates for two projects - the Dun Cow Quay project in Northumberland and South Shields Town Centre Regeneration programme.

4 Growth Deal Funding Arrangements and Requirements

4.1 A letter dated 6th February 2015 from Tom Walker, Director of the Cities and Local Growth Unit sets out Local Growth Fund grant payment arrangements for 2015/16, with substantial grant receipts due on 1 April 2015; status of commitments for future years funding for approved projects and the Government's funding requirements from the NELEP and NECA as the accountable body for the NELEP. A copy of the letter is attached at Appendix A.

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5 Investment Fund Decisions

5.1 On 29th January the NELEP Board agreed the allocation of £5,625,348 from the North East Investment Fund to four projects:-:

- The Blyth Hotel, Commissioners' Quay EZ - £1,384,000
- VANTEC 2 development - £1,072,000
- Swan Hunter EZ Infrastructure -£1,900,000
- West Jesmond SME Office development loan -£1,269,348

5.2 Further information about the projects is set out below and in a confidential report to the NELEP Board.

Commissioners Quay Hotel Blyth

As part of Commissioners Quay in Blyth, the contribution of a £1,384,000 towards a total project cost of £4,121,091 will help develop a 25,000 sq ft, 40 bed hotel, to create 30 FTE jobs and 70 construction jobs.

The funding is grant, with repayment to the NE Investment fund being made from Enterprise Zone Business Rate income.

Vantec2 Development – Sunderland

£1,072,090 support from NEIF is proposed to unlock £21.4million private sector investment and enable Vantec to create a new 40,500m² warehouse facility at Hillthorn Farm, Sunderland which is adjacent to the Low Carbon Vehicle Enterprise Zone sites 1 and 3. A conservative estimate of 120 new jobs by 2018 and 156 construction jobs is provided.

The funding is grant, with repayment to the NE Investment fund being made from Enterprise Zone Business Rate income.

DCLG have confirmed the application is state aid compliant but require appropriate conditions to be attached to the funding agreements to ensure such compliance is maintained. These will be included in the relevant agreements.

Swan Hunter Enterprise Zone - Wet Dock

The project further addresses the essential programme of infrastructure works required on the Swan Hunter EZ site. Works have already commenced on the wider programme of activity across the site. The developer is seeking £1.9m funding, prioritised for investment on abnormal costs to deliver the manufacturing units and advance works on the infilling of the wet berth area. The project will deliver 234 jobs and 113 construction jobs

The funding is repayable from business rate income from the enterprise zone.

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SME Office Development in West Jesmond

A loan facility of £1,269,348 is towards the cost of delivering a SME office development in West Jesmond. The building, with a gross internal floorspace of 2,363m², provides a net 1,815m² of new office accommodation. The project will potentially deliver 87 jobs. Following review of the funding package and due diligence, the opportunity exists to invest in the proposal and through refinance by the applicant within 18 months to swiftly return monies to the Fund.

- 5.3 In order to progress the projects the Leadership Board is recommended to authorise the Monitoring Officer to enter into relevant Funding Agreements in consultation with the Head of Paid Service and Chief Finance Officer to put in place the necessary contractual and payment arrangements.

6 North East Growth Hub - Procurement

- 6.1 The NELEP was awarded £500K in the Growth Deal last July for 2015/16 to set up a Growth Hub, following a submission by NELEP in June 2014. The details of the North East Growth Hub project have been reported to the NELEP Board through regular progress updates, with the last update in January 2015 providing details of the project.
- 6.2 Government will invest in the North East Growth Hub “to simplify and rationalise local and national business support services...”. The Hub will be the regional hub for business support and will form part of a national network of 39 Growth Hubs (one for each LEP area). The aim of the Growth Hub is to create a seamless customer experience for businesses which makes it easy for them to get the right support at the right time. Other ‘hubs’ and sources of business support will exist in the North East and will feed into, and out of, the North East Growth Hub. BIS expects delivery from April 2015 BIS is providing frameworks for elements of operation of all 39 Growth Hubs
- 6.3 The process of procuring a partner to deliver the Growth Hub has been undertaken by Sunderland City Council on behalf of the LEP and the successful tenderer is expected to be identified shortly. A contract with the successful tenderer must be entered into as soon as possible, to enable the Growth Hub to be operational as quickly as possible and no later than mid May 2015. Authority is now sought to enter into relevant contractual arrangements with the successful tenderer. The contract will be entered into on the basis of the funding letter of comfort given by Government, but will be conditional on receipt of funding and availability of funding in future years. The North East LEP is looking to prepare a Business Plan for the future sustainable operation of the Growth Hub beyond March 2016, commencing to build financial viability planning into Growth Hub operation early in 2015/16.

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7 Potential Impact on Objectives

7.1 The additional projects to be funded from the Growth Deal and the Investment fund will contribute to the delivery of the Policy Objectives of the Combined Authority including its Key Transport, Economic Development and Regeneration objectives and the delivery of the Strategic Economic Plan.

8 Finance and Other Resources

8.1 The financial and other resource are summarised in this report, where they are known. Detailed information about the breakdown and phasing of the £40.6m additional growth fund monies has not yet been confirmed and will be included in a future report.

9 Legal

9.1 The legal implications are set out in the main body of the report. The projects referred to section 5 of the report have been reviewed and assessed as being compliant with State Aid requirements.

9.2 The procurement of the partner for the delivery of the Growth Hub has been undertaken in accordance with the EU procurement regime, The Authority's financial interests will be protected pending the receipt of funding from central government for the Growth Hub, by entering into conditional contracts which are subject to receipt of such funding.

10 Other Considerations

10.1 Consultation/Community Engagement

. There are no specific consultation issues arising directly from this report.

10.2 Human Rights

There are no specific human rights issues arising directly from this report.

10.3 Equalities and Diversity

There are no specific issues arising directly from this report.

10.4 Risk Management

Risks associated with individual projects are assessment and managed or mitigated through the conditions and terms of any contractual arrangements that are put in place. There are no specific additional significant issues arising directly from this report.

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10.5 Crime and Disorder

There are no crime and disorder implications directly arising from this report.

10.6 Environment and Sustainability

There are no specific issues arising directly from this report.

11 Background Documents

Government Announcements and letters from Sir Bob Kerslake 30th January and Tim Walker on 6th February (attached at Appendix A). Confidential report to the LEP Board on 29th January 2015 about Investment Fund projects; and the update on the North East Growth Hub. NELEP Growth Hub bid June 2014.

12 Links to Plans in the Policy Framework

12.1 There are clear links to Transport and Economic Development policies.

13 Appendices

13.1 Appendix A – Letter from Tom Walker, Director, Cities and Local Growth Unit about Local Growth Fund

14 Contact Officers

14.1 Paul Woods, Chief Finance Officer, Paul.Woods@northtyneside.gov.uk, Tel: 07446936840

15 Sign off

- Head of Paid Service ✓
- Monitoring Officer ✓
- Chief Finance Officer ✓



Department for Communities and Local Government

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Treasurer
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6 February 2015

Dear Mr Woods,

Local Growth Fund

Following the agreement of the Growth Deal between North East LEP (“the LEP”) and Government I am writing to confirm the arrangements for Local Growth Fund grant payments to be made in 2015-16 by the Department for Communities and Local Government (“DCLG”) to North East Combined Authority (“the Authority”) as the accountable body for the LEP.

DCLG will release a Local Growth Fund capital grant payment of **£53.91m in a single instalment on the 1st April 2015**. This covers funding for projects that start in 2015-16 as set out in the Growth Deal. This figure also includes £12.9m of pre-allocated Local Growth Fund (known as the Local Transport Body allocation). Payments will be made under section 31 of the Local Government Act 2003.

Project ‘Tail’ Funding for 2015-16 project starts

As set out in the Growth Deal, 2015-16 project starts also come with a tail of future years’ funding where investment is needed over more than one year. For 2015-16 project starts the total associated tail funding to be paid to the Authority in future years is £75.4m (this figure is rounded to one decimal place).

This means that Government is committed to continuing to fund these projects in future years. If projects are not taken forward, for whatever reason, the LEP will not automatically be entitled to receive the associated tail funding. Whether or not the LEP is awarded the tail funding, for projects not taken forward, is subject to discussions with the Government.

Future Years Budget Profiles

The announcement of expanded Growth Deals on 29 January means that further conversations will be needed to finalise the overall annual Growth Deal budget profiles for 2016-17 onwards. These conversations will build on the recent discussions Government has been having with LEPs on annual profiles for the original Growth Deal.

Once these budgets have been finalised, in future years the annual grant letter and grant determination will reflect any changes to that year's overall budget as a result of spending performance in the previous year, and the discussions with Government on that performance.

Local Growth Funding paid by DfT

You should also note that DfT will continue to hold and manage two elements of the Local Growth Fund. Separate arrangements will apply to that funding, as follows:

1. Funding for specific schemes which are still subject to business case sign off by DfT: DfT will pay the grant directly to the accountable body under arrangements to be advised by them.
2. The approved tail of existing major schemes included in the pre-committed element of the Local Growth Fund: DfT will continue to pay this funding directly to the scheme promoter.

Funding Requirements

We expect that all funding paid pursuant to the Growth Deal, irrespective of whether paid by DCLG or DfT will fulfil the following requirements:

- 1) It will be used to support the Growth Deal agreed between the Government and the LEP and will be used to secure the outcomes set out in the Growth Deal.
- 2) It will be deployed solely in accordance with decisions made through a local assurance framework agreed between the LEP and the Authority as the accountable body. This framework must be consistent with the standards set out in the national assurance framework. In the case of specific schemes which are still subject to business case sign off by DfT, the DfT business case sign-off process may mean that the local assurance framework process is not required in full. This will be agreed on a scheme by scheme basis.
- 3) That you will track progress against agreed core metrics and outcomes, in line with the national monitoring and evaluation framework.

As set out in the Growth Deal, the Authority as the accountable body and the LEP will have the flexibility to manage the implementation of the Growth Deal in order to deliver the outcomes agreed. It is recognised that scheme spending profiles are not static and therefore the level of spending on any particular scheme in any particular year is for the LEP to manage. If the LEP wishes to make significant changes to projects that have been agreed as part of the Growth Deal, they should first discuss this with their LEP's Cities and Local Growth Unit relationship manager who will be able to advise on next steps.

The Authority is reminded that as the accountable body for the LEP it is responsible for ensuring that expenditure is spent in accordance with all applicable legal requirements. This includes, for example, state aid and public procurement law. The Authority is reminded that any development decisions for specific proposals must go through the normal planning process and be guided by local plans, taking into account all material considerations. The Authority will, of course, be subject to their normal internal and external audit controls.

The LEP and the Authority are also reminded of their responsibilities under the Public Sector Equality Duty as set out in Section 149 of the Equality Act 2010 and should have regard to these requirements when apportioning Local Growth funding.

Finally, as set out in the Growth Deal, the expectation is that the Authority and the LEP will comply with any current publicity requirements (including any branding guidelines) for Growth Deals.

Yours,

A handwritten signature in blue ink, appearing to read 'Tom Walker', is positioned above the printed name.

Tom Walker
Director, Cities and Local Growth Unit

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