

**HUNTINGDONSHIRE DISTRICT COUNCIL**

<b>Title/Subject Matter:</b>	Proposal for Use of External Grant Underspend
<b>Meeting/Date:</b>	Overview and Scrutiny Panel (Performance and Customers) – 14th June 2017 Cabinet – 22nd June 2017
<b>Executive Portfolio:</b>	Cllr Roger Harrison, Executive Member for Growth
<b>Report by:</b>	Sue Bedlow, Economic Development Manager
<b>Ward affected:</b>	Alconbury & The Stukeleys

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**Executive Summary:**

The purpose of this report is to seek Cabinet approval for the use of the retained element of a capital grant received from the Department for Communities and Local Government (DCLG) in 2014 as a loan facility and consider the proposed use of the income stream thus generated.

The Building Foundations for Growth (BFG) grant totalling £5m was awarded by DCLG in 2014 for the funding of demolition and remediation works at Alconbury Enterprise Zone (EZ) and HDC is the Accountable Body.

Retained underspend elements total £1,984,868. This amount must be used for a capital project and on the EZ as per the grant determination letter and it must also be used in compliance with State Aid regulation.

Having sought legal advice, the best of a limited number of options for the use of the funds is deemed to be as a loan facility in the first instance with the future use of returned capital to be considered as a small grants scheme.

**Recommendation(s):**

The Overview and Scrutiny Panel is invited to comment on the Cabinet recommendation below.

The Cabinet is

**RECOMMENDED**

To approve:

- the use of the £1,984,868 BFG underspend as a loan facility which complies with State Aid regulations; and
- recommends that Option 2 in paragraph 4.2 for the use of the revenue generated is followed as a budget proposal in the next budget round.

## 1. PURPOSE OF THE REPORT

- 1.1 To seek Cabinet approval for the proposed use of the retained element of a capital grant received from the Department for Communities and Local Government (DCLG) in 2014.

## 2. BACKGROUND

- 2.1 The Building Foundations for Growth (BFG) grant totalling £5m was awarded by DCLG in 2014 for the funding of demolition and remediation works at Alconbury Enterprise Zone (EZ) and HDC was appointed and still is the Accountable Body.
- 2.2 As the deadline for completing the grant agreement approached it became apparent that we would have to withhold some of the grant (equal to the uplift in land value) in order to ensure State Aid compliance. So we had a clause included in the grant determination letter to give HDC the discretion to use any claw back.
- 2.3 Significant savings were then also achieved on delivery of the works (completed in 2015) and the withheld amount totals £1,984,868. This amount must be used for a capital project and on the EZ as per the grant determination letter and it must also be used in compliance with State Aid regulation.

## 3. OPTIONS CONSIDERED FOR USE OF CAPITAL

- 3.1 We took legal advice on our options for State Aid compliant uses of the remaining funds and these are summarised below.

Option
1. Loans made available at predetermined European Union (EU) commercial rates for capital projects on the EZ
2. Investment aid for local infrastructures (business accommodation) under General Block Exemption Regulations (GBER) Article 56
3. German Incubator model
4. Grants to small and medium sized enterprises (SMEs) that meet certain State Aid compliant conditions

- 3.2 Discussions with Urban & Civic (U&C - owners and developers of the EZ) have determined that they would be unlikely to support either options 2 or 3 as they would view these as competition for their own commercial buildings. These options must therefore be ruled out as they are not deliverable without U&C consent.
- 3.3 Option 4, small grants would benefit smaller companies and would be of greater benefit as an incentive at a later phase of the EZ development. Currently it is the larger tenants that are being courted and small grants would be of little significance in terms of incentive. In addition, the administration of such a grant programme would be resource intensive and we could not recover this from the grant (as it is for capital expenditure).
- 3.4 Hence we propose to pursue Option 1. The benefit of this option is that it would generate an income stream which we could then use to fund resource and

activities to support the EZ development. It would still leave option 4 open to us 10 years hence at what is likely to be a more beneficial time to be offering smaller grants. Additionally, some of the revenue stream from the initial loan could be used to fund the administration of a small grant programme (see section 4 below).

- 3.5 We were first in discussions with the Welding Institute (TWI) during 2015/16 working up a proposal for a loan linked to a European Funding bid for a facility on the EZ but this EU bid did not proceed.
- 3.6 We have since had discussions with U&C themselves around the extension of this funding to them as a 10 year loan facility in order to accelerate the construction of Incubator 2. The U&C proposal is currently for a 10 year facility with drawdown starting in July, interest paid quarterly from Nov 2018, at 2.5% above EU reference rate for UK (currently 0.78%) giving a total of 3.28%.
- 3.7 The draft Loan Terms sheet is attached at Appendix 1. It is intended that legal costs be recovered from U&C and they have agreed.
- 3.8 The capital returned in 10 years' time would still be subject to the conditions of the grant determination letter. At this point in time we anticipate that the funds would be best distributed in the form of small grants as incentives for companies to locate on the EZ but this should be reviewed at an appropriate time closer to the date of the return of capital

#### **4. OPTIONS CONSIDERED FOR USE OF THE INTEREST REPAYMENTS**

- 4.1 We are currently seeking legal advice on any restrictions that would apply to the use of the interest income stream but at this point in time we believe there to be more flexibility on how this is used.
- 4.2 Assuming there are no legal restrictions on its use, the Options for use of the revenue stream generated, which is estimated to be c.£625K over the 10 year loan period, are:
  1. All of the revenue stream should be used towards the objective for which the grant was originally allocated, namely to support of delivery of 'growth priorities for the EZ'.
  2. Some of the income stream should be retained to cover the cost of administering any future grants programme (c. £40K). That £30k/year (£300K in total) is used to fund the business start-up programme, currently delivered for us by YTKO and for which insufficient budget is currently available to continue beyond 2017/18. This could be delivered with an EZ focus going forward. The remainder (c.£285K) is used to offset a large part of the cost of the extra marketing resource that has been approved for the ED team. As this extra resource is already included in the budget for this year this would in effect be a general receipt to the Council's funds.
  3. None of the income is used to support either the EZ or economic growth priorities but instead considered as a general receipt into Council funds.
- 4.3 It is considered right that at least part of the use of the interest payments should continue to observe the principle of support for economic development, and the EZ in particular, and Option 2 strikes this balance.

## **5. COMMENTS OF OVERVIEW & SCRUTINY**

- 5.1 The comments of the relevant Overview and Scrutiny Panel will be included in this section prior to its consideration by the Cabinet.

## **6. RISKS**

- 6.1 We could consider extending the funding as a loan to one of the larger companies looking to locate on the EZ but this would be much higher risk and benefit just one company whereas accelerating the construction of Incubator 2 would benefit several companies by providing accommodation for their growth.

## **7. LINK TO THE CORPORATE PLAN, STRATEGIC PRIORITIES AND / OR CORPORATE OBJECTIVES**

- 7.1 Accelerate business growth and investment by:
- promoting inward investment;
  - supporting new and growing businesses and promoting business success; and,
  - supporting the delivery of the Alconbury Enterprise Zone.

## **8. LEGAL IMPLICATIONS**

- 8.1 Legal advice is being sought through the 3C legal service framework agreement to advice on the loan negotiations and State Aid compliance.

## **9. RESOURCE IMPLICATIONS**

- 9.1 The resource implications are included in the main body of this report

## **10. REASONS FOR THE RECOMMENDED DECISIONS**

- 10.1 Given the restrictions on the use of the capital grant underspend its use as a loan facility is considered to be the best option in the first instance given that it provides a means of generating a revenue stream that would then be able to provide the resource to administer a small grant scheme at a later date without being an additional drain on HDC resource.
- 10.2 Whilst there may be no legal restrictions on how the income generated is used, it is considered right that the use of the money should continue to observe the principle of support for economic development, and the EZ in particular.
- 10.3 It is therefore recommended that Cabinet:
- approves the use of the £1,984,868 BFG underspend as a loan facility which complies with State Aid regulations
  - recommends that Option 2 in paragraph 4.2 for the use of the revenue generated is followed as a budget proposal in the next budget round.

## **11. LIST OF APPENDICES INCLUDED**

Appendix 1 – Urban&Civic Draft loan terms sheet

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