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30 November 2015

Economic Scrutiny Committee

A meeting of the Economic Scrutiny Committee will be held on **Tuesday, 8 December 2015 at 10.00 am in Committee Room One, County Offices, Newland, Lincoln LN1 1YL** for the transaction of the business set out on the attached Agenda.

Yours sincerely

Tony McArdle
Chief Executive

Membership of the Economic Scrutiny Committee
(11 Members of the Council)

Councillors A Bridges (Chairman), C Pain (Vice-Chairman), B Adams, Mrs J Brockway, G J Ellis, N I Jackson, D McNally, Mrs E J Sneath, W S Webb, P Wood and L Wootten

ECONOMIC SCRUTINY COMMITTEE AGENDA
TUESDAY, 8 DECEMBER 2015

Democratic Services Officer Contact Details

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Please note: for more information about any of the following please contact the Democratic Services Officer responsible for servicing this meeting

- Business of the meeting
- Any special arrangements
- Copies of reports

Contact details set out above.

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Lincolnshire COUNTY COUNCIL
Working for a better future

ECONOMIC SCRUTINY COMMITTEE
20 OCTOBER 2015

PRESENT: COUNCILLOR A BRIDGES (CHAIRMAN)

Councillors C Pain (Vice-Chairman), B Adams, Mrs J Brockway, N I Jackson, D McNally, Mrs E J Sneath, W S Webb, P Wood, L Wootten and D C Morgan

Councillors: C J Davie, R G Davies, Mrs H N J Powell and S M Tweedale attended the meeting as observers

Officers in attendance:-

Andrea Brown (Democratic Services Officer), Liz Burnley (Technical Manager for Development North), Justin Brown (Commissioner for Economic Growth), Halina Davies (Growth Plan Project Manager, GLLEP), David Hickman (Environmental Services Team Leader (Strategy and Partnership), Phil Hughes (Strategic Planning Manager), Tracy Johnson (Senior Scrutiny Officer), Mary Powell (Commissioning Manager - Tourism), Paul Rusted (Infrastructure Commissioner) and Mark Welsh (Flood Risk and Development Manager)

35 APOLOGIES FOR ABSENCE/REPLACEMENT MEMBERS

An apology for absence was received from Councillor G J Ellis.

The Chief Executive reported that, under Local Government (Committee and Political Groups) Regulations 1990, he had appointed Councillor D C Morgan in place of Councillor G J Ellis for this meeting only.

Councillor W S Webb advised that he would have to leave the meeting no later than 12.30pm as he was expected at a civic engagement in his role as Chairman of the County Council.

36 DECLARATIONS OF COUNCILLORS' INTERESTS

There were no declarations of interest at this stage of the proceedings.

The Chairman proposed to take Item 4 – *Announcements by the Executive Councillor for Economic Development, Environment, Planning and Tourism*, before Item 3 – *Minutes of the meeting held on 8 September 2015* to allow Councillor C J Davie to leave the meeting due to another engagement.

RESOLVED

That item 4 – *Announcements by the Executive Councillor for Economic Development, Environment, Planning and Tourism* be considered before item 3 – *Minutes of the meeting held on 8 September 2015*.

37 ANNOUNCEMENTS BY THE EXECUTIVE COUNCILLOR FOR ECONOMIC DEVELOPMENT, ENVIRONMENT, PLANNING AND TOURISM

Councillor C J Davie, Executive Councillor for Economic Development, Environment, Planning and Tourism, was invited to update the Committee on recent events within the County.

1. A briefing was taking place, following which an announcement would be made regarding the closure of Tata Steel which would have huge implications for Scunthorpe. Over 3000 people commuted to North Lincolnshire, from Lincolnshire, each day and work had commenced to ensure that anyone faced with job loss would be supported in terms of reemployment. Despite the closure, North Lincolnshire would be supported as there remained a number of opportunities on the south bank of the Humber;
2. It was reported that Tesco were to, potentially, invest in a major distribution centre in Kent. The food industry in South Lincolnshire was important also so a case would continue to be made that it was the best in the country and, therefore, the relationship with the food industry and its strategic national importance would be prioritised;
3. The Coastal Observatory had passed a milestone which would increase tourism in the Chapel areas;
4. Despite winning the Royal Institute of Chartered Surveyors (RICS) East Midlands Regional Award for Building Conservation, Lincoln Castle Revealed was the highly commended runner up in the National Award for Building Conservation. It was an excellent achievement for the project and tribute was given to Mary Powell for her leadership of this project;
5. Visitors to Lincoln Castle continued to increase and latest figures confirmed that 191,000 had visited since the relaunch. It was anticipated that 200,000 visitors would be reached during the October half-term break;
6. Good progress had been made with the Devolution agenda for Greater Lincolnshire, with the focus being on economic growth. Making the deal would be the first step but the key would be to deliver on it. The bid included 28 government initiatives on skills and 23 on business support;
7. Since the formal treaty of friendship was signed with the Chinese Province of Hunan, business opportunities in education and agri-tech were emerging. International business relations were stressed as important and the authority must be prepared to earn their place in that market and so relationship building was crucial;
8. MIPIM UK forms part of the world's biggest property event and was to be held in London in October 2015. Councillor Davie would be hosting a dinner for 70 investors at the RAF Club in London which showed the confidence of these investors in Lincolnshire as a county;

9. It was announced that Elton John would hold a concert at Lincolnshire Showground on 10 June 2016 which was hoped to be a catalyst for other, equally successful artists to perform in Lincolnshire.

During discussion the following points were noted:-

- It was agreed that the county needed to be secure in terms of energy and food supply and, as part of national food security, need to be given that regard in that sector;
- Concern was noted that the loss of expertise and relying on overseas support and knowledge in sectors such as energy, given the electricity supply was already below safe levels, was also an issue for the British economy;
- It was possible that any money allocated through the Growth Deal to North Lincolnshire in respect of Scunthorpe could be accelerated and this would likely be given consideration by the Leader of North Lincolnshire Council.

The Chairman thanked Councillor Davie for the update and, on behalf of the Committee, congratulated Mary Powell for the success of Lincoln Castle Revealed.

38 MINUTES OF THE MEETING OF THE ECONOMIC SCRUTINY COMMITTEE HELD ON 8 SEPTEMBER 2015

RESOLVED

That the minutes of the Economic Scrutiny Committee meeting held on 8 September 2015 be confirmed and signed by the Chairman as a correct record.

39 ECONOMIC INFRASTRUCTURE COMMISSIONING STRATEGY

Consideration was given to a report from the Executive Director for Environment and Economy which provided information on the activity supporting the strategy which focussed on the management and maintenance of a high quality highway network and encouraged new investment by supporting business and work with the Greater Lincolnshire Local Enterprise Partnership (GLLEP).

Paul Rusted, Infrastructure Commissioner, introduced the report and explained that the Commissioning Strategy would facilitate growth and prosperity through the encouragement of investment and enhancement of the economic potential of the County. This would be achieved by:-

a. Commissioning and encouragement of a reliable and accessible transport service;
b. Management and maintenance of a high quality highway network;
c. Encouragement of new investment, including transport and economic development projects, by supporting business and working with the Greater Lincolnshire Local Enterprise Partnership (GLLEP) and other funding bodies;
d. Management of other assets such as farms, property and heritage sites to encourage prosperity.

Councillor R J Davies, Executive Councillor for Highways, Transport and IT, stressed that infrastructure was the key and feedback from businesses had compounded that view. Maintenance of the current infrastructure was also a key element although it was acknowledged that this was a national issue.

During discussion, the following points were noted:-

- Local Area Managers were available to help with any issues Parish Councils may have in their own areas;
- An improvement in repairing potholes had been noted following the implementation of a Pothole Policy. The contractors were informed of the potholes requiring repair and were given the responsibility to decide what would be the most cost effective route to do the repairs;
- The Pothole Policy also provided guidelines on prioritisation of location and depth with a deadline of a month to complete the repair;
- It was suggested that there was an imbalance in the use of Traffic Regulation Orders (TRO's) in some areas of the county which were having a negative impact on the local economy. Members were encouraged to contact Local Area Managers about specific issues of this nature;
- The Asset Management Strategy focussed on the highways network and improving the condition of the minor roads although the magnitude of this task was acknowledged;
- Further structural testing was undertaken to supplement the surface condition testing that was also carried out. This was to ensure that there was a comprehensive understanding of the overall condition of the highway network.

RESOLVED

That the report and comments be noted.

40 LCC'S ROLE IN PLANNING

Consideration was given to a presentation by Phil Hughes, Strategic Planning Manager, and Mark Welsh, Flood Risk and Development Manager, which provided a detailed account of the role of Lincolnshire County Council within the Planning process.

The first presentation, given by Phil Hughes, Strategic Planning Manager, covered the following areas:-

- Introduction (including Plan Making, Infrastructure and Funding, Development Management (Local), Nationally Significant Infrastructure Projects (National) and House Members Can Engage);
- Changes Since 2010 (including LEP, Devolution, Local Plans and Localism, NPFF, Deregulation and Public Spending);
- Plan Making (including Growth Agenda, LCC Minerals & Waste Plan, District Local Plans, LCC Statutory Partnerships, Financial and Officer Support to Districts, Duty to Cooperate and Central Government Policy Consultations);

- Infrastructure and Funding (including Infrastructure Delivery Plans (IDP), Community Infrastructure Levy (CIL), LCC Officer/Member Roles and County Coverage);
- Development Management (Local) (including Processing County Council, Minerals and Waste Planning Application, Monitor landfill and mineral sites, enforcement of minerals and waste planning conditions, respond to District planning applications and Planning Appeals);
- Nationally Significant Infrastructure Project (NSIP) (including New Planning Regime (Planning Act 2008), developments include energy, transport, water and waste (thresholds) and Triton Knoll OWF and Onshore Electrical System);
- NSIP Process Chart;
- Member Engagement

The second presentation was given by Mark Welsh, Flood Risk and Development Manager, and covered the following areas:-

- Introduction;
- Development Management (Flood Risk & Highways) and Floods & Water Structure;
- Statutory Consultees (Development Management Procedure Order);
- Statutory Role – Highway Authority and Lead Local Flood Authority;
- We Are A Consultee (highway authority) – explanation provided of the consultation process;
- Consider Impact and Facilitate Growth;
- Pre-application engagement;
- What is considered as a consultee (including Highway Authority: Capacity (NPPF, Safety and Sustainability) and Lead Local Flood Authority (local sources, EA previous role, flood risk to/from, safety, second consultations and SuDS for majors);
- SW Flooding;
- Formal Response to the LPA (to the point and short);
- Highways Authority Consultee (pre-applications, planning applications, S38 – road adoption, S106 – contributions and S278 – improvements);
- Construction and Adoption (duty, construction and adoption);
- S278 Highways Act 1980;
- Questions

The Chairman thanked officers for providing a detailed presentation and invited Members to ask questions. During discussion, the following points were noted:-

- During the presentation it was reported that one district council were not preparing a Community Infrastructure Levy (CIL) due to the land values in that particular area of the county. It was explained that these were decisions to be taken by Members within the district councils and a decision which would be taken after carrying out the necessary viability assessments;
- The district councils had an obligation to produce a local plan by 2017 but joint plans were expected from the seven district councils in Lincolnshire – three districts would provide a combined plan for Central Lincolnshire and two districts would provide a combined plan for South East Lincolnshire;

- Within new legislation, there had been a change in role for water companies. Drainage on highways was adopted by the Local Planning Authority but wider drainage was open to a number of mechanisms. It was hoped that Anglian Water would adopt those areas but, having sought advice from ROSPA, fencing would be required. Impact of this, on the surrounding area, was not permissible therefore the new development was required to contain that impact. Overland flows would also be a consideration;
- It was confirmed that in a known area of flooding an application would be recommended for refusal;
- Sustainability and impact on the network were both considerations for recommending refusal or approval of a planning application. Where there was a reluctance to provide a suitable bus route, the authority would usually recommend refusal;
- All roads must be built to adoptable standards even if adoption was not intended;
- It was advised that officers should not be engaging with members of the public on pending planning applications and all responses would be given to the planning authority or applicant. A development would be recommended for refusal should the land be susceptible to flooding;
- Comments on an application would only be provided to the planning authority or applicant if there was an issue with the proposal or if recommendation for refusal was to be made;
- The current road specification was ten years old and was currently being updated.

The Chairman thanked the Committee for their questions and asked that any further queries be directed to Officers via email after the meeting.

RESOLVED

That the presentation and comments made be noted.

41 TOURISM REVIEW

Consideration was given to a report of the Executive Director for Environment and Economy which detailed the progress of the tourism review including the tourism schemes led by the team. An explanation of the importance of the visitor economy and input from tourism businesses in the county was also included.

Mary Powell, Commissioning Manager (Tourism), introduced the report and requested Members' input as the review was in still in development.

During discussion, the following points were noted:-

- Frustration was noted regarding the number of information leaflets available in Town Information Centres about additional counties to Lincolnshire. Although acknowledged it was explained that these centres were obliged to stock brochures for all counties despite any potential detriment to the host county;

- Although investment in certain tourist attractions in the county was key to the success of tourism, it was agreed that, on occasion, there was a need to lead with the story of the moment. For example, Lincoln Castle had been pertinent to the county in 2015 due to the £22m restoration and the 800th anniversary of Magna Carta which had resulted in more promotion internationally than it had received previously. The success of Lincoln Castle Revealed had proved that this investment had been worthwhile;
- Income to the Castle had far exceeded that anticipated but work was ongoing to ensure that visitor numbers continued in to 2016/17;
- An application for a large 'installation attraction' at Lincoln Castle had been made for 2016 and the outcome was imminent;
- Concern was noted that visitors were unable to reach Lincoln, via rail, on Sundays before late afternoon which limited visits to attractions. Consideration was being given to this issue;
- Although the Barons' Trail had been a huge success, it had been a novelty for the city. Forthcoming events were being planned, including other novelty items, which would attract more visitors to Lincolnshire.

The Chairman requested volunteers to form an informal working group to assist officers in taking forward the Tourism Review and that this group should meet several times before bringing a final version back to the Committee.

Councillors Mrs J Brockway, B Adams and the Chairman, A Bridges, agreed to form the working group.

RESOLVED

1. That the report be noted;
2. That an informal working group, as agreed above, be established.

At 12.25pm, Councillors W S Webb and Mrs H N J Powell left the meeting and did not return.

42 GREATER LINCOLNSHIRE LOCAL ENTERPRISE PARTNERSHIP/SINGLE LOCAL GROWTH FUND - SIX MONTHLY PERFORMANCE REPORT

Consideration was given to a report from the Executive Director for Environment and Economy which provided an update on progress with the Greater Lincolnshire Local Enterprise Partnership (GLLEP) Growth Deal Programme and Invest and Grow Fund.

Halina Davies, Growth Plan Project Manager, introduced the report and invited the Committee to comment on the progress being made on the Growth Deal Programme for Greater Lincolnshire.

During discussion, the following point was noted:-

- Responsibility for the programme was split between the GLLEP and the county council, as the accountable body. As noted on page 37 of the report, £26.4m must be spent as there was a strong risk that any unspent money would have to be returned. There may be a requirement to move money between projects to ensure their success and this was done in conjunction with the County Treasurer to ensure that any movement adhered to the relevant guidelines. Although funding for one project may be used on another, this would not be lost to that project and would be available once the project required it.

RESOLVED

That the report be noted.

43 STRATEGIC ECONOMIC PLAN - REFRESH

Consideration was given to a report from the Executive Director for Environment and Economy which provided the Committee with information about the process and content of the Greater Lincolnshire Strategic Economic Plan refresh.

Justin Brown, Commissioner for Economic Growth, introduced the report stressing the importance of the Strategic Economic Plan. A number of events would be taking place, in relation to the plan, to which members were encouraged to attend and, if possible, invite at least one other person to attend with them. A list of these events would be circulated following the meeting.

On Friday 23 October 2015, the LEP Business Live Event was to be held at the Lincolnshire Showground. This event was scheduled to start at 10.00am and would give an opportunity to engage with Board Members.

There were no comments or questions from the Committee.

RESOLVED

That the report be noted.

44 GREATER LINCOLNSHIRE LOCAL ENTERPRISE PARTNERSHIP COASTAL VISION AND WATER MANAGEMENT PLAN

Consideration was given to a report of the Executive Director for Environment and Economy which outlined recent initiatives led by the Greater Lincolnshire Local Enterprise Partnership to develop a clear set of objectives for Lincolnshire's coastal areas and to establish a Water Management Plan.

David Hickman, Environmental Services Team Leader, introduced the report and invited the Committee to ask any questions.

During discussion, the following points were noted:-

- Although a draw for visitors it was acknowledged that Nature Reserves were not the same type of attraction as, for example, Butlins and were visited by people with different needs so it was key to find a balance between the two to ensure the success of the coastal strip;
- It was agreed that major opportunities for the coast were being considered to join up the whole coast therefore close working with partners within the environmental sector were ongoing to ensure this was successful;
- The flood risk on the coast and the visitor economy could be dealt with together. Geographically, 40% of the county was at, or below, sea level and the LEP was considering this as activities in that area were available due to the nature of them. In order to promote Lincolnshire's coastal economy, the ability to sustain those areas was essential;
- Coastal defences had been funded by Government due to the scale and potential economic damage to the county should they breach. For every pound of capital funding, some element of local funding would be needed to match this. The Boston Barrier was the last to be wholly funded by Government;
- Methods for funding of the coastal defence scheme depended on a number of factors, including people and property with economy a consideration but not a priority despite being a key consideration for Lincolnshire. In order to unlock growth across Lincolnshire, Government would have to be persuaded that protection of the area and, in particular, coastal defence, was essential;
- Plans were being finalised to bid for approximately £5m funding for projects in the Skegness and Wrangle areas.

RESOLVED

1. That the report and comments be noted; and
2. That an update to the Committee be scheduled in February 2016.

45 <u>ECONOMIC SCRUTINY COMMITTEE WORK PROGRAMME 2015/16</u>

Consideration was given to a report of the Director Responsible for Democratic Services which provided the Committee with an opportunity to consider its work programme for the coming year.

Tracy Johnson, Senior Scrutiny Officer, introduced the report and confirmed that a Financial Workshop for the Committee would be held on the afternoon of 8 December 2015, following the Committee meeting. The workshop would be held in the Council Chamber.

Following discussion, it was suggested that the following additions be made to the Work Programme:-

- Greater Lincolnshire Local Enterprise Partnership (GLLEP) Coastal Vision and Water Management Plan – Update (February 2016)
- Mablethorpe Development (TBC)
- Skills Position (TBC)

RESOLVED

> That the Economic Scrutiny Committee Work Programme, with the amendments noted above, be approved.

The meeting closed at 1.00 pm

Lincolnshire COUNTY COUNCIL
Working for a better future

Report Reference:
Policy and Scrutiny

Open Report on behalf of Richard Wills, Executive Director of Environment and Economy

Report to:	**Economic Scrutiny Committee**
Date:	**08 December 2015**
Subject:	**Agreement to participate in a pan-county financial instrument which provides finance to businesses**

Summary:

This report invites the Economic Scrutiny Committee to consider a report on the agreement to participate in a pan-county financial instrument which provides finance to businesses which is due to be considered by the Executive Councillor for Economic Development, Environment, Planning and Tourism on 8 January 2016. The views of the Scrutiny Committee will be reported to the Executive Councillor as part of his consideration of this item.

Actions Required:

(1) To consider the attached report and to determine whether the Committee supports the recommendation(s) to the Executive Councillor for Economic Development, Environment, Planning and Tourism as set out in the report.

(2) To agree any additional comments to be passed to the Executive Councillor for Economic Development, Environment, Planning and Tourism in relation to this item.

1. Background

The Executive Councillor for Economic Development, Environment, Planning and Tourism is due to consider a report on the agreement to participate in a pan-county financial instrument which provides finance to businesses. The full report to the Executive Councillor is attached at Appendix 1 to this report.

2. Conclusion

Following consideration of the attached report, the Committee is requested to consider whether it supports the recommendation(s) in the report and whether it wishes to make any additional comments to the Executive Councillor. The Committee's views will be reported to the Executive Councillor.

3. Consultation

a) Policy Proofing Actions Required

Not applicable

4. Appendices

These are listed below and attached at the back of the report.	
Appendix A	Report and Appendices to the Executive Councillor for Economic Development, Environment, Planning and Tourism on agreement to participate in a pan-county financial instrument which provides finance to businesses

5. Background Papers

No background papers within Section 100D of the Local Government Act 1972 were used in the preparation of this report.

This report was written by Justin Brown, who can be contacted on 01522 550630 or Justin.Brown@lincolnshire.gov.uk.

Report Reference:
Executive/Executive Councillor

Open Report on behalf of Executive Director for Environment and Economy

Report to:	**Councillor Colin Davie, Executive Councillor for Economic Development, Environment Planning and Tourism**
Date:	**08 January 2015**
Subject:	**Agreement to participate in a pan-county financial instrument which provides finance to businesses**
Decision Reference:	
Key decision?	**Yes**

Summary:

This report concerns the council participating - in its economic development role and in its role as an accountable body for the Greater Lincolnshire Local Enterprise Partnership-in a pan-Midlands financial fund. This financial fund, through a variety of financial instruments will create several types of finance for businesses which will help them grow. Access to finance is commonly reported as a barrier to local business growth.

Recommendation(s):

That the Executive Councillor agrees:

i) Agrees in principle to enter into a pan-Midlands financial fund using funding from the legacy of the East Midlands Development Agency as Lincolnshire's contribution for providing finance to businesses across the East and South-East Midlands and West Midlands LEP areas.

ii) Delegates to the Executive Director for Environment and Economy in consultation with the Executive Councillor for Economic Development, Environment, Planning and Tourism the authority to determine and approve the governance arrangements for the establishment, management and distribution of the fund and to determine the terms and approve the entering into any contractual or other legal documentation necessary to create the fund, secure the financial support distributed from the fund and otherwise bring the decision into effect.

Alternatives Considered:

1. Do not support the development of a financial fund
2. Establish a financial fund which is only applicable to Lincolnshire businesses

Reasons for Recommendation:

By entering into a pan-Midlands financial instrument, the county council will (i) address a clear need for business growth, and (ii) be able to use funding from the legacy of the East Midlands Development Agency and will be able to access European funding which will increase the size of budget substantially.

Further rationale for the recommendation and reasons for not recommending the alternatives is set out on Appendix A

1. Background

One third of Lincolnshire businesses cite a lack of access to capital as a constraint on their business growth. Private sources (banks, venture capital, etc) will provide some funding, and models such as crowd funding are starting to emerge.

However, there are still substantial gaps both in terms of the level of risk that some financial bodies are prepared to take, and in the size of finance that they will make available.

This has been a challenge that LCC has sought to address for a number of years, including detailed investigation of the issue in an Economic Scrutiny task and finish group and in correspondence with government ministers.

The East Midlands Development Agency, which was closed 5 years ago, had created a suite of financial instruments. When EMDA was closed, government agreed that any repaid loans from these financial instruments would be held in a "legacy" account which could only be used to support further finance for businesses.

Government have encouraged LEPs to take the lead in the programming of this funding, and county council staff have done this on behalf of the LEP –partly because of the staff's role in supporting the LEP to commission activity and partly because the county council is the LEP's accountable body.

By combining the amount of the legacy funding that is allocated to Lincolnshire with that of other LEPs, EU funding can be levered which in turn could create a financial instrument of £100m across the East and West Midlands. It is likely that the government will encourage a scheme of this nature because it fits their "Midlands Engine" ambitions.

The only funding that would come from Lincolnshire to that budget is the EMDA legacy funding; the fund will have no direct cash input from LCC or other partners.

LCC will need to promote the financial instrument effectively, through partnerships and through mechanisms such as County News or the Lincolnshire Growth Hub (business advice support service). If the financial instrument is managed and promoted successfully, then Lincolnshire businesses stand to be able to attract significant amounts of finance to support their plans for growth and productivity.

However, if LCC does not take a proactive role then the funding will be allocated to businesses from outside of the county. Whilst no direct local cash would have been lost in this scenario, it will be seen as a missed opportunity.

Establishing a financial fund is complex, and the region's LEPs have commissioned Blue Sky Consulting –a business with direct experience of managing financial instruments- to assist with the design. Their detailed advice is attached at Appendix A to this report.

The decision sought in this Report is for approval in principle to pursue a pan-Midlands approach. Further work will then continue to establish the structure of the fund (e.g whether there will be sub-funds), the mechanisms for establishing the fund (e.g accountable body or company structures), decision-making over the use of the funds (to include how local economic priorities are reflected) and the suite of legal instruments and other documents necessary to protect the fund in the course of carrying out its activities.

It is proposed that these matters be delegated to the Executive Director for Economy and Environment.

Legal issues will be addressed during the course of this development including ensuring that the setting up of the fund and its activities are State Aid compliant and procurement rules are adhered to in the commissioning of third party involvement in the establishment or management of the fund.

In addition to the economic outcomes of the financial fund, there are a number of matters to which the Executive Councillor must have due regard in reaching his decision.

Equality Act 2010

The Council's duty under the Equality Act 2010 needs to be taken into account by the Executive Councillor when coming to a decision.

The Council must, in the exercise of its functions, have due regard to the need to:

(1) Eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010;

(2) Advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;

(3) Foster good relations between persons who share a relevant protected characteristic and persons who do not share it: Equality Act 2010 section 149(1). The relevant protected characteristics are age; disability; gender reassignment; pregnancy and maternity; race; religion or belief; sex; sexual orientation: section 149(7).

Having due regard to the need to advance equality of opportunity involves having due regard, in particular, to the need to:

(1) Remove or minimise disadvantages suffered by persons who share a relevant protected characteristic that are connected to that characteristic;

(2) Take steps to meet the needs of persons who share a relevant protected characteristic that are different from the needs of persons who do not share it;

(3) Encourage persons who share a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low.

The steps involved in meeting the needs of disabled persons that are different from the needs of persons who are not disabled include, in particular, steps to take account of disabled persons' disabilities.

Having due regard to the need to foster good relations between persons who share a relevant protected characteristic and persons who do not share it involves having due regard, in particular, to the need to tackle prejudice, and promote understanding.

Compliance with the duties in this section may involve treating some persons more favourably than others.

A reference to conduct that is prohibited by or under this Act includes a reference to:

(a) A breach of an equality clause or rule
(b) A breach of a non-discrimination rule

It is important that the Executive Councillor is aware of the special duties the Council owes to persons who have a protected characteristic as the duty cannot be delegated and must be discharged by the Executive Councillor. The duty applies to all decisions taken by public bodies including policy decisions and decisions on individual cases and includes this decision.

To discharge the statutory duty the Executive Councillor must analyse all the relevant material with the specific statutory obligations in mind. If a risk of adverse impact is identified consideration must be given to measures to avoid that impact as part of the decision making process.

It is not considered that this decision in itself carries with it any potential for differential impact on people with a protected characteristic. Close attention will be given to the Council's public sector equality duty as further decision-making develops in relation to the project.

Child Poverty Strategy

The Council is under a duty in the exercise of its functions to have regard to its Child Poverty Strategy. Child poverty is one of the key risk factors that can negatively influence a child's life chances. Children that live in poverty are at greater risk of social exclusion which, in turn, can lead to poor outcomes for the individual and for society as a whole.

Whilst there is no immediate impact on Child Poverty from this limited initial funding decision the potential impact on the Lincolnshire economy from a scheme such as that proposed is considerable and would significantly improve the economic wellbeing of the area and with it the potential for the Council to address the issues set out within its Child Poverty Strategy.

Joint Strategic Needs Assessment (JSNA) and Joint Health and Wellbeing Strategy (JHWS)

Similarly, the economic consequences of a successful scheme would have a positive impact in dealing with many of the issues highlighted in the JSNA and the JHWS.

2. Conclusion

Participating in a financial fund of this nature will provide Lincolnshire businesses with the opportunity to access substantial finance for growth, at no direct cost to LCC. LCC will need to be an active commissioner of the financial fund so that it meets Lincolnshire business needs and so that it is effectively promoted at Lincolnshire business.

3. Legal Comments:

The Council has the power to adopt the recommendation.

Legal advice will be required in the course of development of arrangements for the proposed fund to ensure that it is compliant including with State Aid requirements. The matters that the Executive Councillor must have regard to in reaching a decision are dealt with in the body of the Report.

The decision is consistent with the Policy Framework and within the remit of the Executive Councillor if it is within the budget.

4. Resource Comments:

Accepting the recommendation in this report should not have any financial implications for Council budgets and the Council is not currently the custodian of any cash that will be contributed to this fund. This is also true for the future development of the management and governance of this fund.

5. Consultation

a) Has Local Member Been Consulted?

n/a

b) Has Executive Councillor Been Consulted?

Yes

c) Scrutiny Comments

The decision will be considered by the Economic Scrutiny Committee on 8th December 2015 and the comments of the Committee will be reported to the Executive Councillor.

d) Policy Proofing Actions Required

n/a

6. Appendices

These are listed below and attached at the back of the report	
Appendix A	ERDF Fund & Fund update

7. Background Papers

No background papers within Section 100D of the Local Government Act 1972 were used in the preparation of this report.

This report was written by Justin Brown, who can be contacted on 01522 550630 or Justin.Brown@lincolnshire.gov.uk.

European Union
European Structural
and Investment Funds

Agenda Item 7

Annex A

Blue Sky
Accountancy • Corporate Finance • Due Diligence

E & SE Midlands LEPs Access to Finance Steering Group

Financial Instruments Options Analysis

1. Introduction

The LEPs in the E & SE Midlands have agreed to work together, with DCLG and the British Business Bank on a number of options designed to overcome SME obstacles to growth caused by lack of access to finance.

An Ex-Ante Market Assessment by European Investment Bank has demonstrated clear evidence of demand for small and larger business loans, early stage venture capital and funding for growth. Their findings were supported by a survey of businesses in 2014 and of professional intermediaries in 2015.

A steering group formed from representatives of each LEP has commissioned Blue Sky to:

- Consider key strategic drivers and imperatives that are common to the LEPs in the region and how they are developing a joint responses for access to finance;
- Clarify the major focal points of demand to help define what a fund might look like; and,
- Collate a summary of options to simplify communication with their Boards and respective ESIF Committees in order to secure commitment and facilitate decision making.

In identifying options that may be taken forward, the Steering Group has asked that those that have been determined to be unviable should be identified so that, for the time being, they may be eliminated from further consideration. By doing so, the Steering Group hopes to focus attention on only those viable options that can quickly be developed to a point that LEPs may consider them in detail.

GLLEP is working collaboratively with other Local Enterprise Partnerships (LEPs) in the East and South-East Midlands, as well as stakeholders such as the British Business Bank and DCLG, to develop a new fund-of-funds in the region. This recognises that access to finance remains a constraint to business formation, development and growth. The LEPs have already invested in research and analysis of market failure for SME finance in the region. However, the Block 1 ex-ante assessment indicated that further work was necessary to pinpoint the areas in which investment in Financial Instruments (FIs) was justified.

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Blue Sky Corporate Finance has recently been commissioned to support the LEPs with this work, which is being funded by the British Business Bank through a £100k contribution from the former RDA legacy funds.

SME surveys provide useful data but given that just 25% of SMEs seek finance at any single point in time, it can be difficult to identify a sample that have had recent enough experience upon which to base any objective conclusions. Among those that do seek finance, they may be hampered by a lack of experience and the financial competence necessary to reassure funders. The objectivity of responses may also be affected by the outturn of any search for finance – those SMEs that were declined, may naturally become disaffected by the process, which in turn may indeed influence when and whether they re-enter the finance market in the future.

Therefore, the LEPs have undertaken a qualitative survey of business intermediaries that have both live contacts in regional SME markets and an oversight of prevailing business conditions and this survey will help to test and confirm the conclusions of the earlier research and analysis and the Block 1 ex-ante assessment. In turn, this will support the construction of a sound Investment Strategy. The approach of using such a survey in other regions has made a strong positive impact and is highly cost effective, as it has brought evidence to the table rather than just assertions from stakeholders.

The survey and earlier research and analysis will support an analysis of the options for implementation, range of products to be supported, including the type of investment intervention (debt, equity, mezzanine and / or loan guarantees), the case for and against sectorally focussed funds, optimum fund sizes, any geographical (LEP) focus and the evidence supporting the likely outcomes of these options. Outcomes will be considered in terms of both economic deliverables and likely financial returns. The various option approaches will also be tested with the European Investment Fund (EIF) informally and in real terms before an optimum approach, including possible operating models and structures, is recommended. The recommendation will also seek to deal with LEP specific priorities and how these are best served by the proposed model and structure, the scope for local partnership leadership to be involved in the development, management and monitoring of the performance of the proposed structure, and how LEP targets will be set, measured and monitored.

This recommendation will be incorporated into a market assessment report to be delivered by Blue Sky Corporate Finance by 31 October 2015.

The report itself will lead on to the development of an Investment Strategy which will not only match the Block 1 ex-ante assessment proposals against LEP investment priorities but also define a workable business plan (with assumptions), which can deliver the different needs identified by the LEPs and other stakeholders, such as the British Business Bank and DCLG. The Investment Strategy will be subject to consultation with these stakeholders before being submitted to the EIF as part of the Block 2 ex-ante assessment.

The Investment Strategy is due to be delivered by mid-November 2015.

In parallel with the Block 2 ex-ante assessment that will be carried out by the EIF, a detailed business plan and financial model will, then, be developed which satisfies LEP investment priorities and the objectives of the other stakeholders, as well as making a substantial impact on growing SMEs in the

East and South-East Midlands. The plan and model will also take into account the implications of compliance with State Aid, COCOF, the FCA and other regulations and regulatory bodies.

An agreed detailed business plan and financial model is due to be delivered by Blue Sky Corporate Finance by 31 January 2016, in order to enable any fund procurement process to commence by 31 March 2015

2. Conclusions

There are a number of implications that the LEPs should consider in taking this project forward:

1. There is clear and present need for interventions to support SME access to finance. National schemes such as those managed by the British Business Bank and grant schemes from Innovate UK present a partial solution but there is a weight of evidence that a substantial gap in the market remains for microloans, small business loans (including mezzanine), early stage venture capital and expansion finance for more established businesses;

2. A fund of funds requires scale in value, strategic scope and geographic coverage to be worthwhile;

3. The East and South-East Midlands LEPs cannot support a JEREMIE-type fund of funds on their own. A joint approach with the West Midlands LEPs does extend an opportunity to participate in a larger fund with sufficient scale to interest the EIB but early consideration must be given to how 'local' strategic and operational objectives may be recognised, delivered and integrated within a regional business support infrastructure.

4. The current ESIF allocations set aside are thought to be sufficient to enable engagement in a pan-Midlands fund of funds (this will be tested by detailed financial modelling), using ex-RDA legacies to support set-up and operating costs. Any material reduction in allocations may have a direct impact on viability and deliverability.

5. Other options to support local or limited 'single' funds may be viable but do not offer anything like the opportunity presented by a fund of funds.

3. Recommendation

It is recommended that:

1. Discussions should continue to work on options with the West Midlands LEPs to determine the basic principles of agreement by which a pan-Midlands JEREMIE-type fund of funds may operate;

2. Based upon local research of business needs, the East and South-East Midlands LEPs should proceed to draft and agree an Investment Strategy as a participant in a pan-Midlands fund of funds instrument that may be submitted to the EIB to complete the Block 2 Ex-Ante Assessment; and,

3. The current ESIF indicative allocations should be maintained. All other options should be placed on hold for the time being until the potential for a pan-Midlands fund is understood.

4. Strategic drivers and shared challenges

Each of the LEPs has agreed in principle to collaborate on the development of a region-wide fund of funds type programme.

The 'in-principle' budget allocations at each LEP are set out in the following table and are drawn from ESIF Strategies compiled in 2013.

	Indicative ESIF Allocation (£m)
Derby, Derbyshire, Nottingham & Nottinghamshire (D2N2)	£11.75
Greater Lincolnshire (GLLEP)	£5.00
Leicester & Leicestershire (LLEP)	£6.00
Northamptonshire (NEP)	£4.00
South East Midlands (SEMLEP)	£6.70
Total	**£33.45m**

This course of action is supported by successive reports that identify access to finance as a significant inhibitor of business start-up, development and growth. Research to support this view has been assembled from national, regional and local data, is summarised elsewhere in this paper.

The E and SE Midlands LEPs share many common strategic economic drivers and a number of strategic economic priorities.

Those drivers include:

- A strong and shared interest in stimulating enterprise, growth and innovation. The LEPs wish to support business growth especially in higher value-added businesses that may be at an early-stage of development or more established and able to respond quickly by creating new commercial opportunities and sustainable jobs;
- An interest in the delivery of a results-driven, comprehensive business development strategy, anchored on a network of Growth Hubs that will enlist contributions from partners at national, regional and local level and from public and private sectors;
- A joint response to an invitation from Government to take strategic leadership for the recycling of legacies that remain from ex-RDA investment funds; and,
- A desire to support sectors that are either important to current economies or have the potential to become so in the future. Many sector priorities are common to two or more of the five LEPs represented on the Steering Group which further supports a joint approach. The overlap of sector interests is represented in a diagram below.

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Matrix of E & SE Midland priority sectors.	D2N2	Leicester & Leics	Grtr Lincs	Northampton	SEMLEP
Manufacturing, technology and Innovation Engineering, transport equipment, aerospace, agri-tech, automotive, motor sport, food and drink, textiles, life sciences/health and care, renewables, low carbon goods & services	•	•	•	•	•
Creative and digital content	•	•	•	•	•
Visitor economy, rural economy, tourism & hospitality	•	•	•	•	•
Transport, ports and logistics	•	•	•	•	•
Professional and financial services		•			
Construction	•				

In summary, the E & SE Midlands LEPs share the same strategic drivers and economic priorities, have identified access to finance as a significant inhibitor of business start-up, development and growth, and agreed a joint, collaborative approach to access to finance.

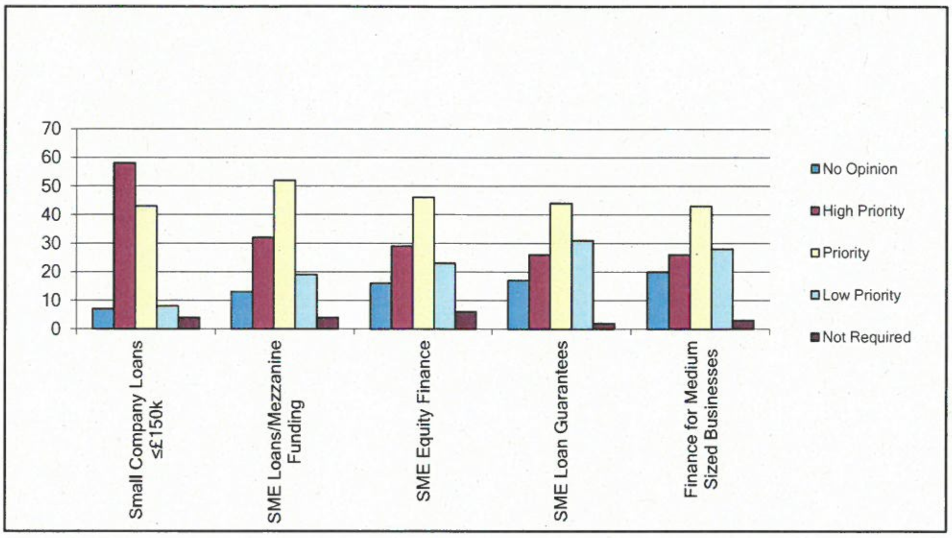
5. Demand

Access to finance remains a constraint to business formation, development and growth. Local reports commissioned by the LEPs in the East and South-East Midlands support this view.

The recent Mazars LLP business survey and report on SME access to finance (published in late 2013) concluded that around 26% of the region's SMEs considered the scarcity of funding to be a barrier to growth. This is equivalent to around 56,800 individual businesses in the region at any one time.

The Block 1 Ex-Ante Assessment (carried out by the European Investment Bank (EIB)/Regeneris and published in January 2015) on SME access to finance in the East and South-East Midlands concluded that there "*...was likely to be un-met demand for finance across the market...*", a view that was supported by a survey of intermediaries undertaken by Blue Sky Corporate Finance in September 2015.

As part of this survey, intermediaries were asked whether regional public sector interventions were required in a number of financial areas. The majority of intermediaries identified these areas as either a high priority or a priority.



6. Microloans

For microloans, the market gap is focussed on lending of between £20k and £100k. The Block 1 Ex-Ante Assessment estimates that an unmet demand exists in the region of *"...£4m and £70m per annum..."* respectively (based upon only 10% of demand being viable for support, if provision had been available).

The intermediary survey noted high prioritisation to be given to interventions to support lending up to £150k for start-up, growth and development.

There is evidence that this unmet need continues to persist and research notes that smaller businesses that are more likely to use finance at this level have been disproportionately affected by the departure of the banks from this market.

The region has also benefitted less than might be expected from the British Business Bank's (BBB) Start-Up Loan Scheme.

In terms of defining the potential of a new financial instrument, there has been comparatively little public sector provision, other than the on-going Enterprise Loans East Midlands initiative, but the report suggests that take-up might be comparable to that of funds serving similar areas in the West Midlands and Yorkshire and the Humber. The latter is known to have lent around £4m per annum in this category (and the former at least this amount).

7. Early Stage Venture Capital

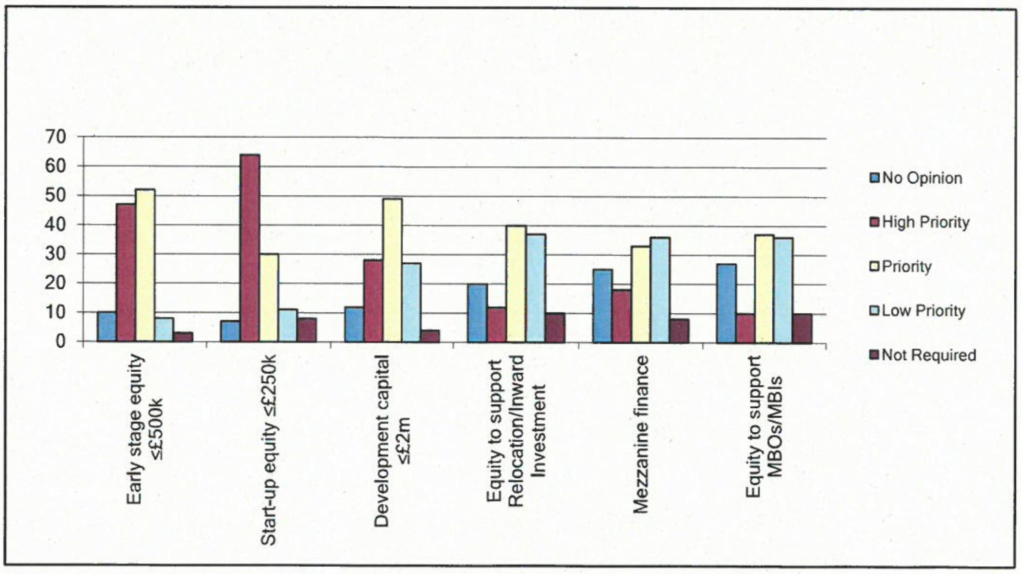
The Block 1 Ex-Ante Assessment struggled to isolate a quantified level of unmet demand for early stage venture capital but suggested that such demand was likely due to the lack of provision. This type of finance is well known to stimulate markets elsewhere and to be very effective in attracting mobile early-stage propositions. Put simply, demand for early stage venture capital tends to materialise only when there is finance on offer of the right type and at the right time but can be a powerful attractant and stimulant to value-added, high growth businesses.

Nationally, there is ample evidence of demand for pre-commercialisation and early stage venture capital for first round funding up to £500k. This range of equity investment continues to struggle to attract private equity investors and regional public sector backed funds that have offered finance in this category, in comparable areas in the North of England and elsewhere, have shown early signs of success in supporting indigenous businesses and attracting ventures from elsewhere. Schemes of this kind appear to benefit from coordinated efforts between providers of incubation space, university technology transfer offices, business angel networks and other forms of business support, including investment readiness.

Some national funds do operate in this space such as the Business Angel Co-Investment Fund and the Enterprise Capital Funds, both funded and managed by the British Business Bank. The extent to which these schemes deliver impact in the region in proportion to its share of the national SME headcount is anecdotally thought to be less than might be hoped. Previous research has noted that businesses in the southernmost part of the region may benefit from their proximity to finance markets and intermediaries in London and the 'Research Triangle' with Oxford and Cambridge.

A market consultation by EMB Group has suggested that there is a demand for proof-of-concept funding that would support university spin-outs and may co-invest alongside business angels and grant schemes such as those offered by Innovate UK.

In the Blue Sky Corporate Finance survey of intermediaries in September 2015, over 90% of those who expressed an opinion rated early-stage venture capital as a high priority or priority.

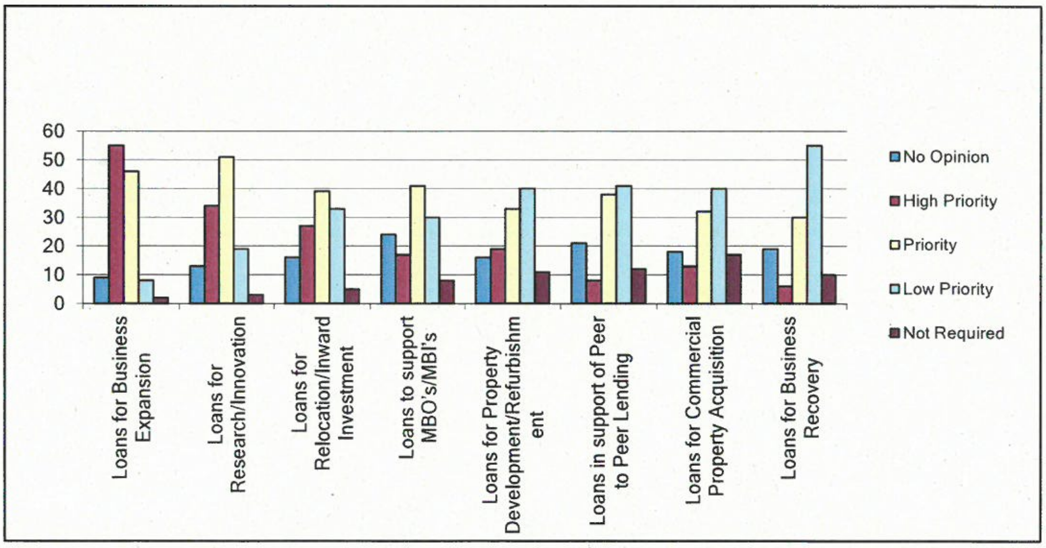


8. Debt for Growing, Established SMEs

The Block 1 Ex-Ante Assessment emphasised a particular opportunity for debt finance in the range between £80k and £300k with the most acute need around £200k. Assuming that around 10% of unmet demand was viable, the report suggested that demand is likely to be *"...in the region of £40m per year over and above any public sector provision from national and regional sources."*

This need is most acute in this category from manufacturing firms that are recovering business confidence after the impact of the banking sector's withdrawal from small business lending and credit facilities.

The Mazars LLP report suggested that around 26% of SMEs struggle to secure lending to support growth proposals. The regional survey of intermediaries indicated that over 78% of respondents prioritised the use of a new loan/mezzanine funding instruments for business growth. Encouragingly this survey outcome also suggests a high level of awareness of mezzanine finance among intermediaries and how it may be used to fund larger, riskier deals through a debt instrument. Chief among benefits for recipients are the retention by them of shareholdings, control and that funds operating mezzanine lending, generate returns from a combination of predictable loan repayments and redemption premiums rather than the need to realise uplifts on the sale of shares. In the same survey, 80% and 60% respectively of respondents supported its use for research and innovation and/or MBO/MBIs (both being purposes that may well be permissible under the current programme rules).



9. Expansion Equity for Established SMEs

The Block 1 Ex-Ante Assessment found little historic, publicly-funded regional activity in this part of the market. It was noted that there had been significantly lower levels of investment in this region than the English average with a further, acute drop between 2007 and 2013.

The widely reported equity gap of up to £5m was confirmed in the region with current unmet demand estimated to be in the region of *"...£10m per annum over and above that provided by private and public sector funded schemes."*

The Block 1 Ex-Ante Assessment also noted the same aversion to the use of equity finance amongst SMEs exists in the region as it does in comparable regions.

In summary, findings have identified a number of areas of un-met market demand for finance, most notably: microloans up to £150k; early stage venture capital; debt for growing, established SMEs; expansion equity for established SMEs.

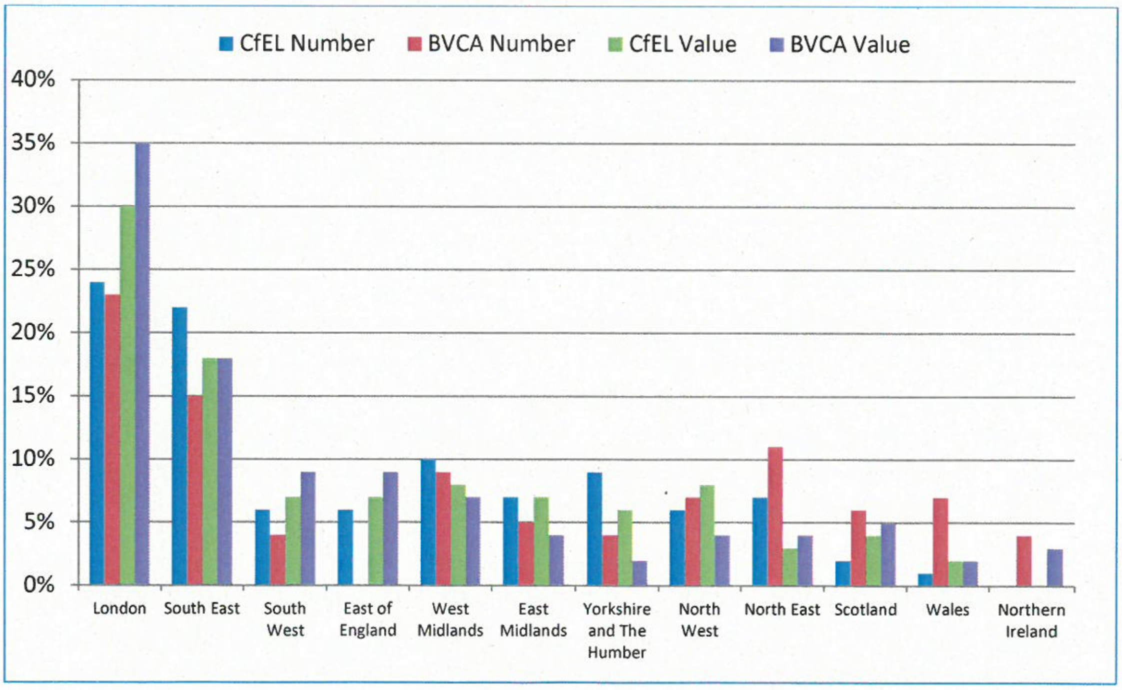
10. Additionality to National Schemes

There is a significant number of national access to finance initiatives and it is important that any regional strategy avoids duplicating/conflicting with these.

Most national schemes are managed or have the oversight of the British Business Bank (BBB) and include:

- Start-Up Loan Scheme
- Enterprise Finance Guarantee Scheme
- Angel Co-Investment Fund
- The Investment Programme
- Enterprise Capital Fund (and Catalyst Fund)

The diagram below provides a (2013) regional analysis across the range of British Business Bank activity (British Business Bank represented by its former name, Capital for Enterprise or CfEL).



The only UK public sector backed loan guarantee scheme is the Enterprise Finance Guarantee Scheme (EFGS) operated by providing a guarantee to debt providers against a proportion of their portfolio in order to increase the extent to which those providers may extend loans to businesses that lack collateral that may be otherwise applied as security. Recent reports suggest that take-up of EFGS has been comparatively strong in the region.

Against that however, performance of the British Business Bank's Investment Programme, which aims to attract new entrants to the debt finance market by providing matching capital for on-lending, is operating in the region at just 60% of the English average.

The Start-Up Loan Scheme, set up in 2012 to provide small loans to start-ups and very early stage businesses, has lent on average around £2.3m per year in the region which is equivalent to £28 per SME and just less than half of the English average.

In compiling the Block 1 Ex-Ante Assessment, consultants Regeneris took available national provision into account when it reported that there was significant and persistent market failure for finance across all categories of debt and equity.

11. Existing Local Provision

An exercise has also been undertaken to determine existing public sector provision across the East and South-East Midlands. With the exception of Enterprise Loans East Midlands, a small microloans fund, and Invest to Grow, a grant and loan fund supported by the Regional Growth Fund (RGF), there is limited provision across the region. A number of grant schemes supported either under the Growing Places Fund or RGF are coming to an end or will end by March 2017. Again, with the exception of the Derby Enterprise Growth Fund and Nottingham Investment Fund in the D2N2 LEP area, there are no other significant debt or equity instruments. Therefore, duplication of existing provision is not considered to be an issue.

In summary, the identified areas of un-met market demand for finance are not being met by national access to finance initiatives or existing local provision.

12. LEP ESIF Allocations

DCLG has asked LEPs to review ESIF Strategies and allocations for projects that have not yet been approved. This review, which must be presented back to DCLG in November 2015, will take into account ESIF grant awards that may already have been distributed elsewhere in programmes and where allowances need to be made for new priorities that have materialised since 2013. It will also take into account the need to reconcile a devaluation in programme values across the board of more than 20%, caused by a fluctuation of the Euro/Sterling exchange rate.

This is a critical issue for any LEP considering an investment in a fund of funds type programme. Firstly, any investment instrument must have sufficient scale in order to be financially viable and deliver strategic impact. It is generally considered, from experience, that any single instrument (excluding those for microloans) must have a starting value of c. £20m-£25m in order to satisfy these requirements.

The European Investment Bank's lending criteria (should this be the option for 'match' preferred by the LEPs) stipulates that they will only consider proposals for a total fund value of greater than £100m, assuming that £50m of ESIF grant (and legacies from previous funds where they exist) are used to leverage their support on a 1:1 matched basis.

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The EIB has also made clear that its loans may not be used to support development and running costs of these new funds. The British Business Bank has indicated that legacy funding from investments made by the former East Midlands Development Agency (*emda*) may be made available to support the set-up and/or running costs of a collaborative project covering the region. Legacy funding of between £3m and £9m has been estimated to be available, subject to investment performance.

It follows that LEPs wishing to deliver meaningful impact across a range of interventions, utilising support from the EIB within a fund of funds instrument are required to assemble at least £50m from their ESIF allocations. The present allocation is insufficient to allow the E & SE Midlands LEPs to present a case to EIB on their own. Further reductions will only serve to worsen the situation.

In summary, retention of the current ESIF allocations is crucial in ensuring a meaningful impact across a range of interventions.

13. Collaboration with the West Midlands LEPs

Early discussions have taken place with the six LEPs in the West Midlands which are proposing a fund of funds instrument in their region of £125m to be applied across six sub-funds designed to support debt, equity and mezzanine finance.

Such a potential collaboration has the added logic of fitting within the framework of the 'Midlands Engine' dialogue.

In-principle agreement has been reached between the two regions on an ongoing dialogue concerning the potential joint development of a pan-Midlands fund. This option presents many advantages. Chief among them is the potential for the E & SE Midlands LEPs to participate in a JEREMIE type fund-of-funds structure with the EIB matching the £33.45m funding on a 1:1 basis. This option would also help both regions save on establishment and management costs.

This option is one of five that are explored in this paper.

The details of a pan-Midlands fund are still to be defined but some potential defining principles have already been set out:

- A joint top-company structure would be established that would allow the engagement of both LEP regions with fund design, governance, management and delivery; and,
- There should be separately agreed investment strategies for each of the two regions and they should set the operating principles for activity based upon local market conditions, demand and the LEPs' strategic objectives.

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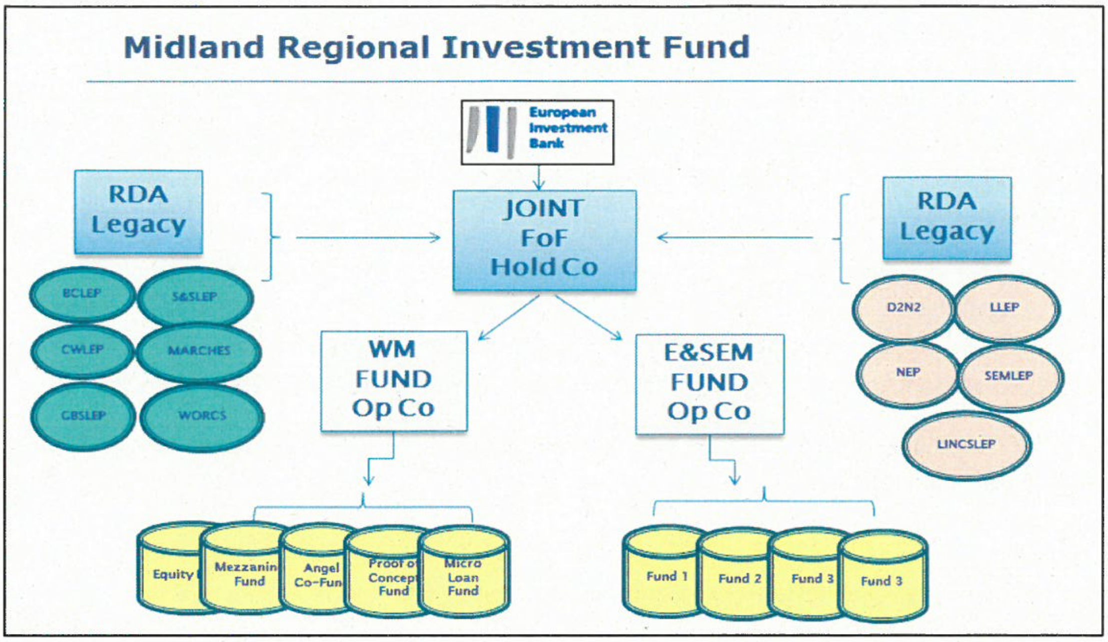

14. Collaboration with the Yorkshire & Humber LEPs

Another sub-regional collaboration option might include the possibility of a joint fund-of-funds (along the lines of that proposed under the Midlands Engine discussions) with the 4 LEPs comprising the Yorkshire & Humber region.

It is known that the 4 LEPs concerned (Sheffield City Region, Leeds City Region, York, North Yorks & East Riding and Humber) are presently collaborating on a JEREMIE style fund-of-funds type programme. Indeed, the Steering Group that has been established to develop the Y&H programme has agreed to share its provisional investment strategy with its E & SE Midlands counterparts.

There is already some history of regional collaboration on economic development with South Sheffield and North East Derbyshire.

Most of the arguments 'on favour' of the option a potential collaboration with the West Midlands region would apply equally to this Y&H collaboration option.

The principle arguments 'against' this option could be summarised as follows:-

- There is no comparable 'political imperative' along the lines of the ongoing 'Midlands Engine' debate
- No meaningful discussions between the key stakeholders on this option have yet taken place. As a consequence this option is likely to take valuable time that is not readily available.
- The Y&H region has a pre-existing JEREMIE fund operational in the region and therefore the key stakeholders might seek to jealously preserve the legacy that this fund is expected to yield.

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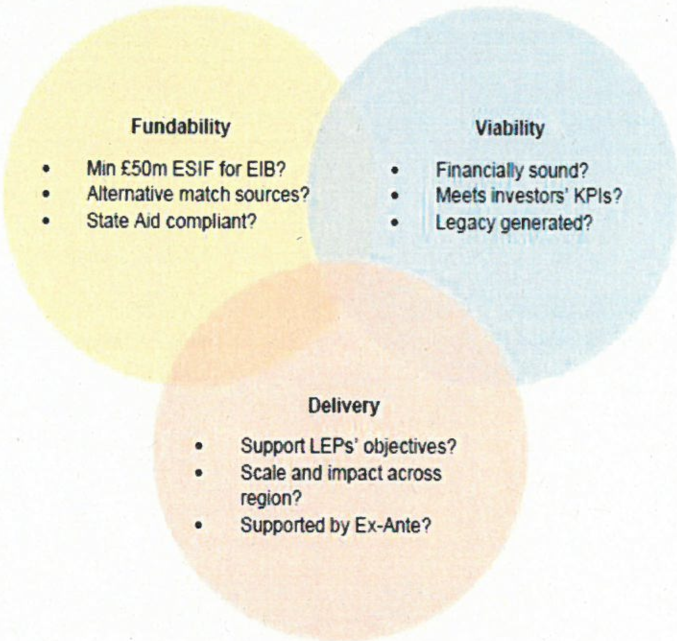
15. Options Review

Besides a 'do-nothing' option, six options have been identified:

- **Option 1**: A JEREMIE-type financial instrument for E & SE Midlands LEP areas only, using EIB loan as match;
- **Option 2**: A JEREMIE-type financial instrument in collaboration with West Midlands LEPs, using EIB loan as match;
- **Option 3**: A JEREMIE-type financial instrument in collaboration with the Yorkshire & Humber LEPs. Using EIB loan as match;
- **Option 4**: A JEREMIE-type financial instrument for E & SE Midlands LEP areas only, without EIB borrowing;
- **Option 5**: A Single Regional Loan Fund for E & SE Midlands LEP areas only; and,
- **Option 6**: One or more separate LEP-level financial instruments.

For this exercise, options have been set out in a matrix that compares each option against three key primary success factors that are believed to be fundamental to any new financial instrument. They are Fundability, Viability and Delivery represented by the following diagram.



<u>In summary, to be successful, any new financial instrument must be able to secure match funding not only at a sufficient level to enable it to be viable but also from a source that will enable delivery that meets the regions' objectives.</u>

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Option	Key features	Success factor	Assessment	Elimination status
Option 1: A JEREMIE-type financial instrument for E & SE Midlands LEP areas only, using EIB loan as match.	Conventional JEREMIE type fund focussed on E & SE Midlands, uses legacies and ERDF to match 1:1 co-financed investment from EIB.	**Fundability**	£33.45m ESIF allocation insufficient to attract EIB co-finance.	**ELIMINATE OPTION** EIB fundability is a terminally limiting factor.
		Viability		
		Delivery		
Option 2: A JEREMIE-type financial instrument in collaboration with West Midlands LEPs, using EIB loan as match.	JEREMIE type fund where some or all aspects of management and back-office is shared with West Midlands, operating under separate fund manager arrangements and E & SE Midlands level investment strategy.	**Fundability**	Combined EIB funding agreement would allow minimum EIB £50m to be reached.	PROCEED Requires agreement on representation/governance, geography/sectoral delivery targets. Consider in-area investment readiness and market making activity.
		Viability	Larger scale offers efficiency savings and market impact. RDA legacy useable to support costs.	
		Delivery	Investment strategies required to establish operating principles across fund - **targets, sectors, dealflow, etc… And EIB** loan repayments may dictate final delivery strategy. Also represents a substantial liability (a potential joint and several	
Option 3: A JEREMIE-type financial instrument in collaboration with Yorkshire & Humber LEPs, using EIB loan as match.	JEREMIE type fund where some or all aspects of management and back-office is shared with Yorkshire & Humber, operating under separate fund manager arrangements and E & SE Midlands level investment strategy.	**Fundability**	Combined EIB funding agreement would allow minimum EIB £50m to be reached.	**SECOND LEVEL OPTION** - could be made viable but will take valuable time to explore and properly assess. Might be an option that is held in reserve in case problems are encountered with the preferred option.
		Viability	Larger scale offers efficiency savings and market impact. RDA legacy useable to support costs.	
		Delivery	No meaningful discussions have yet taken place. We have no view of the Y&H appetite for this option. No work has yet been done on the alignment of interests. There is no 'political momentum' that is comparable to the 'Midlands Engine' discussion. This option is 'theoretically viable but will take valuable time to flesh out.	
Option 4a: A JEREMIE-type financial instrument for E&SE Midlands LEP areas only, without EIB borrowing.	Conventional JEREMIE type fund focussed on E & SE Midlands as option 1. With no EIB, match as a grant from another source	**Fundability**	Would require a grant of at least £47m-£50m. Presently, no grant schemes able to provide match.	**ELIMINATE OPTION** No grant schemes available presently - fundability is a terminally limiting factor.
		Viability		
		Delivery		
Option 4b: Conventional JEREMIE type fund focussed on E & SE Midlands as option 1. With no EIB, match must be sourced as a loan or investment from commercial provider.	Conventional JEREMIE type fund focussed on E & SE Midlands as option 1. With no EIB, match sourced as commercial loan/investment.	**Fundability**	Commercial loan must be pari-passu, procured/market tested. RDA legacies insufficient to meet match requirement.	**SECOND LEVEL OPTION** - could be made viable but only partially able to deliver LEPs strategic A2F objectives and does not support early stage or equity markets.
		Viability	Commercial investor if willing to support, may limit activity to 'safer' secured debt and away from early stage and longer term dealflow.	
		Delivery	Commercial provider may **influence/undermine LEPs' investment** policy. Does not deliver Block 1 market demand.	

Option 4c: A JEREMIE-type financial instrument for E & SE Midlands LEP areas only, without EIB borrowing.	Conventional JEREMIE type fund focussed on E & SE Midlands as option 1. With no EIB, match sourced as deal-level co-investment.	**Fundability**	Some types of funding are signifacntly more difficult to leverage than others, especially at pari passu terms - early stage lending, equity and early stage VC. RDA legacies insufficient to meet match requirement.	**SECOND LEVEL OPTION – could be** made viable but only partially able to deliver LEPs strategic A2F objectives and may not support early stage or equity markets.
		Viability	Co-investment funds are challenging and require fund managers that are adept at packaging and leveraging deals. If the fund manager provides leverage, may create difficulties in event that they are replaced.	
		Delivery	Commercial provider may influence/undermine LEPs' investment policy. Does not deliver full range Block 1 market demand.	
Option 5: A Single Regional Loan Fund for E & SE Midlands LEP areas only.	Fund likely to offer debt only to a 'safer' portfolio against which a commercial lender would co-invest or co-finance. Similar in effect to option 3b.	**Fundability**	Commercial loan must be pari-passu, procured/market tested.	**SECOND LEVEL OPTION – could be** made viable but only partially able to deliver LEPs strategic A2F objectives and does not support early stage or equity markets.
		Viability	Commercial investor if willing to support, may limit activity to 'safer' secured debt and away from early stage and longer term dealflow.	
		Delivery	Commercial provider may influence/undermine LEPs' investment policy. Does not deliver Block 1 market demand.	
Option 6: One or more separate LEP level financial instruments.	Could comprise a number of funds, each operating at a sub-regional level.	**Fundability**	Commercial funders for smaller funds may be difficult to find on pari-passu terms. No obvious grant schemes for match.	**SECOND LEVEL OPTION – could be** made viable but only partially able to deliver LEPs strategic A2F objectives and may not support early stage or equity markets.
		Viability	Viability is questionable for funds of less than £25m. Options may be limited to 'safer' secured debt only.	
		Delivery	Commercial provider may influence/undermine LEPs' investment policy. Does not deliver Block 1 market demand.	

In summary, any new financial instrument for the East and South-East Midlands will have the greatest likelihood of success if it is part of a pan-regional arrangement.

16. Conclusions

There are a number of implications that the LEPs should consider in taking this project forward:

6. There is clear and present need for interventions to support SME access to finance. National schemes such as those managed by the British Business Bank and grant schemes from Innovate UK present a partial solution but there is a weight of evidence that a substantial gap in the market remains for microloans, small business loans (including mezzanine), early stage venture capital and expansion finance for more established businesses;

7. A fund of funds requires scale in value, strategic scope and geographic coverage to be worthwhile;

8. The East and South-East Midlands LEPs cannot support a JEREMIE-type fund of funds on their own. A joint approach with the West Midlands LEPs does extend an opportunity to participate in a larger fund with sufficient scale to interest the EIB but early consideration must be given to how 'local' strategic and operational objectives may be recognised, delivered and integrated within a regional business support infrastructure.

9. The current ESIF allocations set aside are thought to be sufficient to enable engagement in a pan-Midlands fund of funds (this will be tested by detailed financial modelling), using ex-RDA legacies to support set-up and operating costs. Any material reduction in allocations may have a direct impact on viability and deliverability.

10. Other options to support local or limited 'single' funds may be viable but do not offer anything like the opportunity presented by a fund of funds.

17. Recommendation

It is recommended that:

4. Discussions should continue to work on options with the West Midlands LEPs to determine the basic principles of agreement by which a pan-Midlands JEREMIE-type fund of funds may operate;

5. Based upon local research of business needs, the East and South-East Midlands LEPs should proceed to draft and agree an Investment Strategy as a participant in a pan-Midlands fund of funds instrument that may be submitted to the EIB to complete the Block 2 Ex-Ante Assessment; and,

6. The current ESIF allocations should be maintained. All other options should be placed on hold for the time being until the potential for a pan-Midlands fund is understood.

Lincolnshire COUNTY COUNCIL
Working for a better future

Policy and Scrutiny

Open Report on behalf of Richard Wills, Executive Director for Environment and Economy

Report to:	**Economic Scrutiny Committee**
Date:	**08 December 2015**
Subject:	**Quarter 2 Performance report**

Summary:

This report provides members with an update on performance against the council's four economic development indicators.

Performance against three of the indicators is good, and although performance against one of the indicators was poor when Quarter 2 ended (30^{th} September 2015) there has been substantial progress since then.

The latest quarterly economic assessment for Lincolnshire is also attached, which shows a mixed picture when it comes to the confidence of local businesses.

Actions Required:

It is recommended that members:

i) Note the good progress made during Quarter 2 on three of the four indicators;

ii) Note the substantial progress made so far during Quarter 3 on the fourth indicator - external funding attracted;

iii) Support schemes that meet the aims of facilitating business growth and developing skills in light of the continuing positvie trends in the quarterly economic survey.

1. Background

Performance against indicators: There are four economic development indicators in the Council Business Plan, which are shown in Appendix A. The intended outcome for the council is jobs created. The indicators are:

- Jobs created and safeguarded
- Businesses supported by the Council

- Qualifications achieved by adults
- Amount of external funding attracted to Lincolnshire

A detailed description of progress is set out below.

Appendix B is a breakdown of customer satisfaction information.

Jobs created and safeguarded:

690 achieved against a target of 380.

We helped major manufacturing businesses and SMEs to create jobs, and these are recorded in the actual figure for this quarter. In addition, our surveys show that employers continue to expect to create vacancies and therefore we are not only ahead of our Quarter 2 target but forecast to exceed our year-end target.

Businesses supported by the Council

525 against a target of 350.

The business support schemes that we operate continue to be successful and we are assisting an average of more than 80 businesses per month. On that basis we are forecasting that we will support approximately 1000 businesses during the 2015/16 financial year. We also help to create platforms to help businesses grow, such as the Visit Lincolnshire website, but are not directly counting these businesses as we have not commissioned direct assistance to them; however, it is not unreasonable to assume that LCC's work assists a further 2000+ businesses each year.

Qualifications achieved by adults

796 against a target of 805.

We continue to deliver training and learning to around 8000 people per year. Because of the nature of the training, just over 10% will receive a formal qualification (many others receive parts of qualifications which help them to gain employment) and we remain on track to achieve our target of 902.

Amount of external funding attracted to Lincolnshire

£0 against a target of £48.8m.

The delays in processing the bids that Lincolnshire County Council has made continue, and therefore we have still not received formal contracts from government. However, contract negotiations are continuing in a positive vein and we anticipate that roughly £34m of contracts will have been signed by the end of Quarter 3.

Given the difference between the target and actual progress, it is important to give members an update on progress since Quarter 2 ended. The table below shows how the annual indicator of £54.8m is made up, and the progress that has been made against each scheme. £33.4m has now been levered in, £4.9m of bids have been made, and £14.8m of schemes are in negotiation.

Scheme	**Value**	**Progress**
EU Leader programme	£6.5m	£7m has been awarded by DEFRA
EU growth fund	£6.0m	Extended broadband bid of £1,500,000 approved in principle with final outcome to be known Jan 2016 Business Growth Hub bids of £2,600,000 approved in principle with final outcome to be known Jan 2016 Technical Assistance bid of £800,000 made on 30th October with final outcome to be known March 2016
Single Local Growth Fund	£27.5m	£26.4m has been attracted from government
Growth deal round II	£14.8m	Contracts now being negotiated

Members will see that there has been substantial progress since the end of Quarter 2, with £33.4m of funding now secure. A further £14.8m is being worked on.

This leaves a gap of £1.7m. However, the team are now working with Environment Agency on flood/water management projects totalling £5m, and with agricultural businesses on rural tourism schemes totalling £0.8m.

Therefore it is likely that the target will be achieved, but the timing of the target will depend upon the ability of government officials to approve the projects in a timely fashion.

Economic context: The results of the latest Quarterly Economic Survey were published in early October. The summary of the survey is attached to this report at Appendix C.

The main findings of the survey were:

- The overall established positive trend of local business continues in Quarter 3 of 2015
- Domestic demand remains key to Lincolnshire's economic growth and business confidence with businesses reporting a 7% improvement in sales and markets in the last three months.

- Retail sales are enjoying a sustained period of year-on-year growth, as the volume of retail sales in August 2015 is estimated to have increased by 3.7% compared with July 2015.
- However, in comparison to the domestic market, overseas and sales orders have fallen for the first time since reporting began in 2009.

The need for support to help companies to win new business – both through national or export market growth and through innovation/improved productivity - therefore remains strong.

Similarly, the need to help businesses to train and employ staff in light of their growth remains strong.

The council's economic development unit is focused on these activities.

2. Conclusion

Performance remains strong, and some of the delays that have affected progress have been overcome.

3. Consultation

a) Policy Proofing Actions Required

n/a

4. Appendices

These are listed below and attached at the back of the report	
Appendix A	Performance Indicators
Appendix B	Customer Satisfaction
Appendix C	Quarterly Economic Survey

5. Background Papers

No background papers within Section 100D of the Local Government Act 1972 were used in the preparation of this report.

This report was written by Justin Brown, who can be contacted on 01522 550630 or Justin.Brown@lincolnshire.gov.uk.

Lincolnshire COUNTY COUNCIL
Working for a better future

Businesses are supported to grow

Businesses are supported to grow
Sustaining and growing the business and economy

The purpose of this commissioning strategy is for businesses in our most important sectors to be developed, to encourage investment in Lincolnshire and help to train people so that there is a skilled workforce to whom businesses can offer quality jobs.

Outcome

Jobs created as a result of the Council's support

Measure

Jobs created and safeguarded

Number of jobs created and safeguarded as a result of the Council's support.

Achieved

See the Data

690

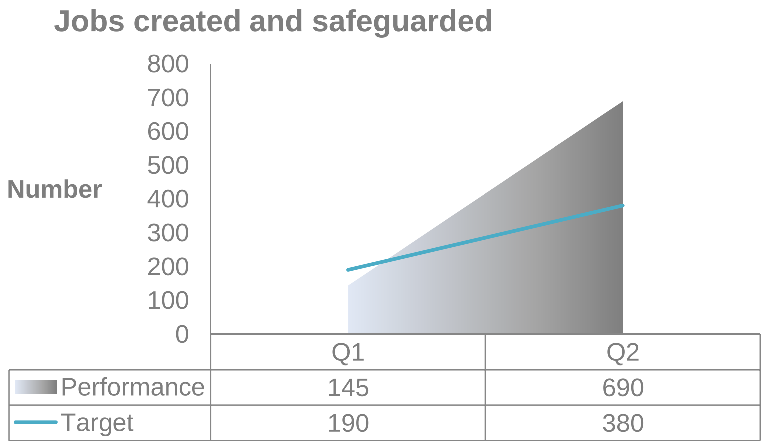
Number

Quarter 2 September 2015

380

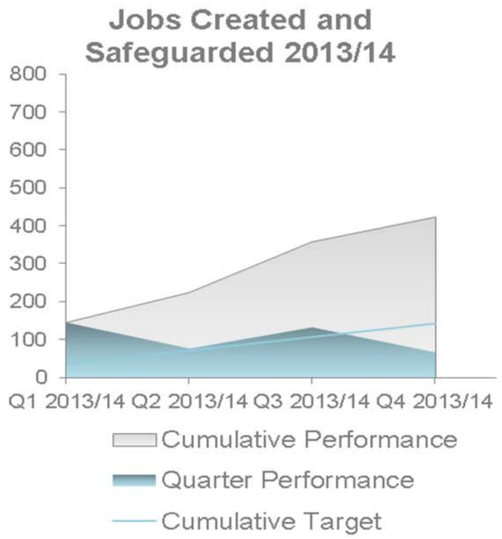
Number

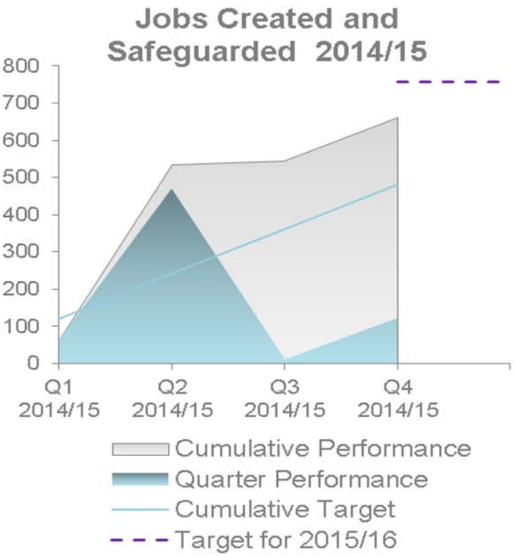
Target for September 2015



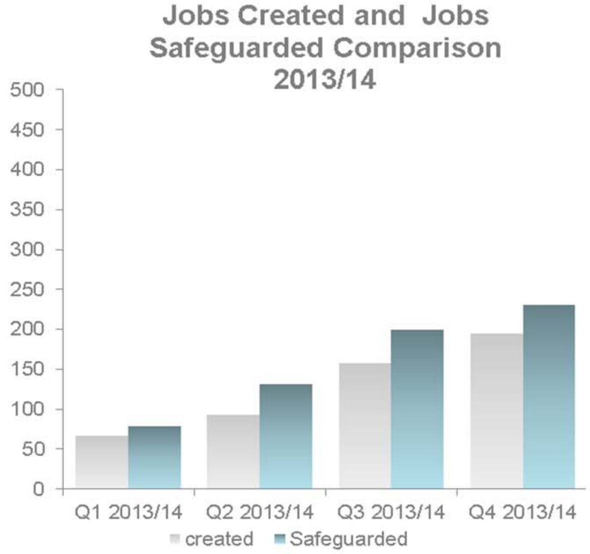
We helped major manufacturing businesses and SMEs to create jobs, and these are recorded in the actual figure for this quarter. In addition, our surveys show that employers continue to expect to create vacancies and therefore we are not only ahead of our quarter 2 target but forecast to exceed our year end target.

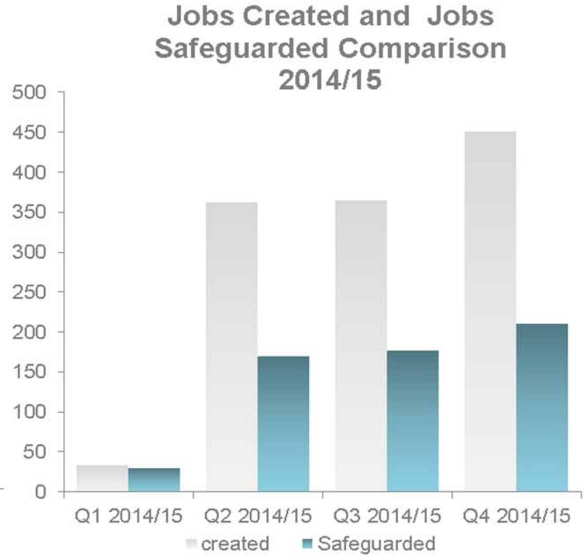
Further details





Measure Name	Jobs created and safeguarded								
	2013-14				2014-15				
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Target for 15/16
Quarter Performance	146	78	134	68	63	470	9	119	
Cumulative Performance	146	224	358	426	63	533	542	661	
Cumulative Target	36	72	108	142	121	242	363	482	758





Measure Name	Jobs created and safeguarded								
	2013-14				2014-15				
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Target for 15/16
Created (cumulative)	67	93	158	195	33	363	365	451	
Safeguarded (Cumulative)	79	131	200	231	30	170	177	210	

About the target

The council commissions a series of programmes which help business leaders to grow their business. This includes the building of business sites and premises for selling or renting to businesses which are growing. We do this in order to create jobs in the county, and the jobs are counted in this target.

About the target range

About benchmarking

This measure is local to Lincolnshire and therefore is not benchmarked against any other area.

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Businesses are supported to grow

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Sustaining and growing the business and economy

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Outcome

Jobs created as a result of the Council's support

Measure

Businesses supported by the Council

Achieved

See the Data

525

Number

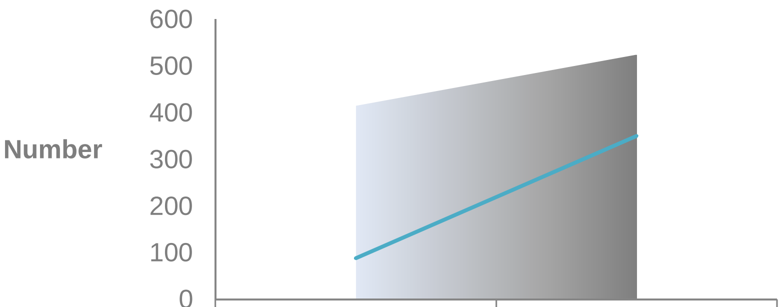
Quarter 2 September 2015

350

Number

Target for September 2015

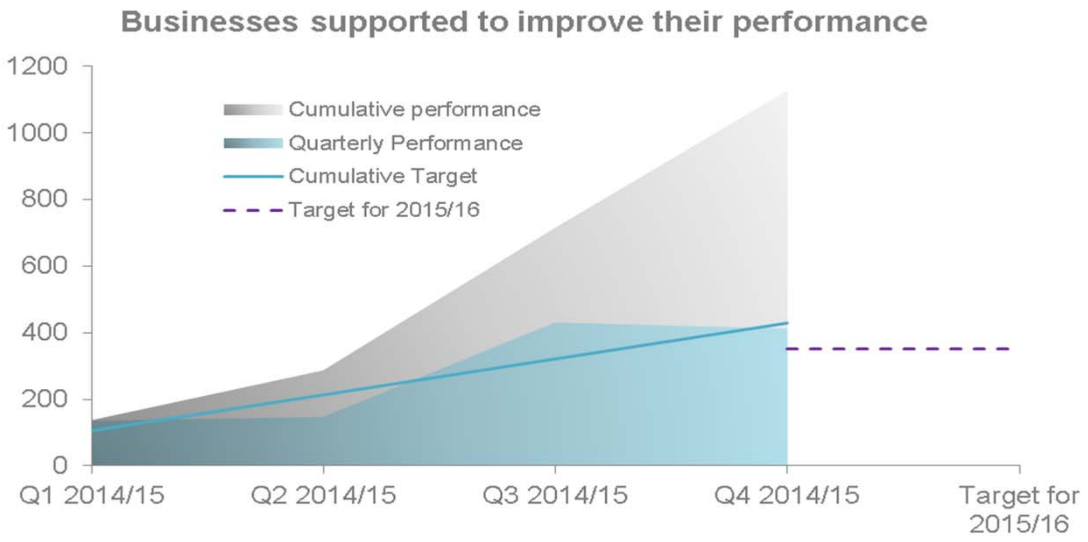
Businesses supported by the Council



	Q1	Q2
Performance	415	525
Target	88	350

The business support schemes that we operate continue to be successful and we are assisting an average of more than 80 businesses per month. On that basis we are forecasting that we will support approximately 1000 businesses during the 2015/16 financial year. We also help to create platforms to help businesses grow, such as the Visit Lincolnshire website, but are not directly counting these businesses as we have not commissioned direct assistance to them; however, it is not unreasonable to assume that LCC's work assists a further 2000+ businesses each year.

Further details



Measure Name	Businesses supported by the Council								
	2013-14				2014-15				
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Target for 15/16
Quarterly Performance					137	149	429	412	
Cumulative performance				894	137	286	715	1127	
Cumulative Target				407	107	215	322	429	350

About the target

About the target range

About benchmarking

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Outcome

Jobs created as a result of the Council's support

Measure

Qualifications achieved by adults

Number of qualifications achieved (Skills programmes, vocational training programmes, adult and community learning) through programme support by the council.

Achieved

See the Data

796

Number

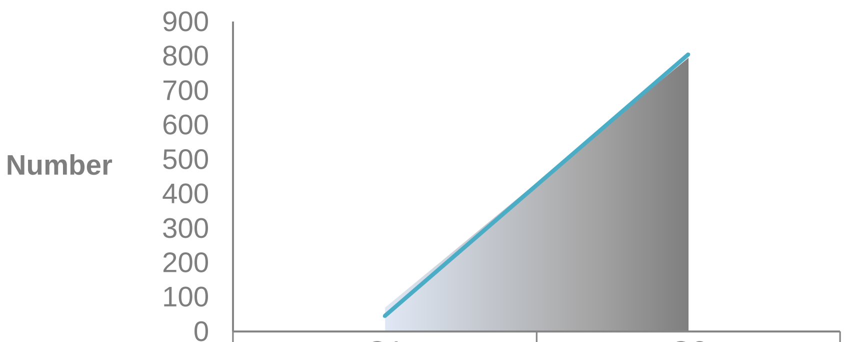
Quarter 2 September 2015

805

Number

Target for September 2015

Qualifications achieved by adults



	Q1	Q2
Performance	71	796
Target	45	805

We continue to deliver training and learning to around 8000 people per year. Because of the nature of the training, just over 10% will receive a formal qualification (many others receive parts of qualifications which help them to gain employment) and we remain on track to achieve our target of 902.

Further details

About the target

The council commissions a series of training schemes which help individuals to gain skills. These training schemes are focused on the skills that employers need. Employers can understand an individual's skills level by the qualification that they hold, hence the reason that we count the number of qualifications achieved.

About the target range

About benchmarking

This measure is local to Lincolnshire and therefore is not benchmarked against any other area.

Lincolnshire COUNTY COUNCIL
Working for a better future

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Outcome

Jobs created as a result of the Council's support

Measure

Amount of external funding attracted to Lincolnshire

Amount of external funding attracted to Lincolnshire (including Greater Lincolnshire Local Enterprise Partnership and European Union funding programmes) by the council.

Not achieved

See the Data

0

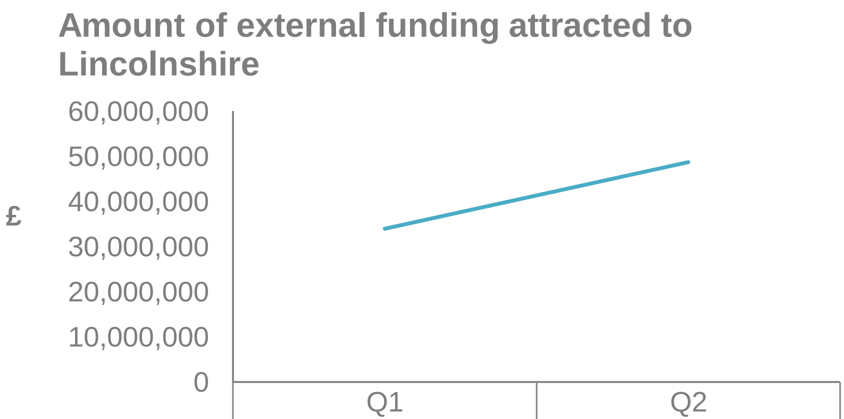
£

Quarter 2 September 2015

48,800,000

£

Target for September 2015



	Q1	Q2
Performance	0	0
Target	34000000	48800000

The delays in processing the bids that Lincolnshire County Council has made continue, and therefore we have still not received formal contracts from government. However, contract negotiations are continuing in a positive vein and we anticipate that roughly £34m of contracts will have been signed by the end of Q3.

Further details

About the target

The annual target of £54.8 million is made up of the following:
European Union Growth Programme £6 million;
European Union Leader Programme £6.5 million;
Single Local Growth Fund £27.5 million;
Growth Deal II £14.8 million.

About the target range

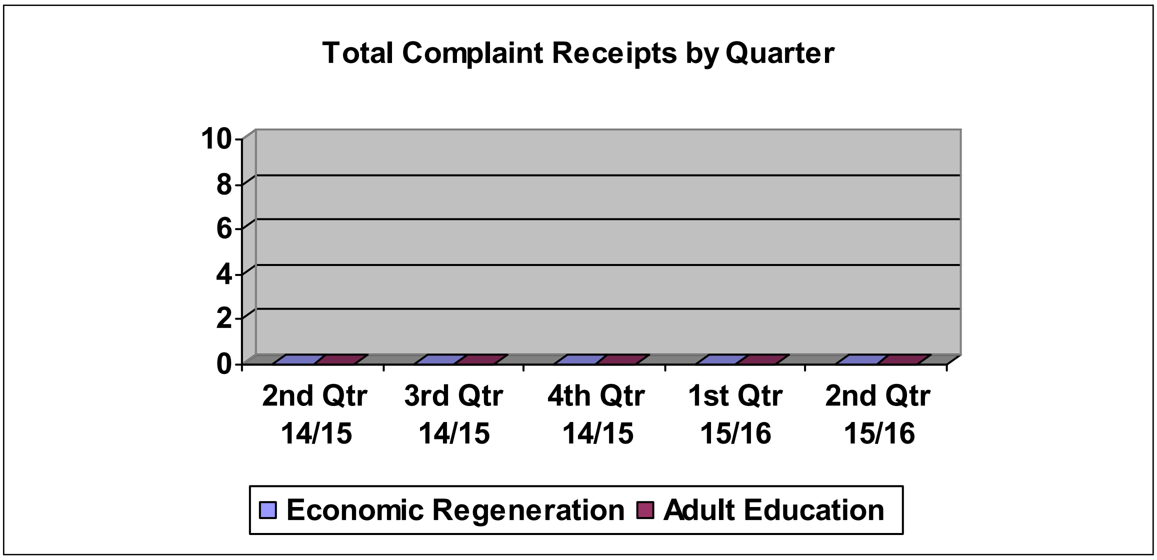
About benchmarking

This measure is local to Lincolnshire and therefore is not benchmarked against any other area.

APPENDIX B

Customer Satisfaction Information – Scrutiny Committees

Economic Scrutiny Committee		
Date Range for Report	1st July – 30th September 2015 (1st April – 30th June 2015)	
Total number of complaints received across all LCC service area.	149 (105)* individual school complaints not included	
Total number of complaints relating to <u>Economic Scrutiny Committee</u>	0 (0)	
Total number of compliments relating to <u>Economic Scrutiny Committee</u>	0 (0)	
Total Service Area Complaints	Economic Regeneration	0 (0)
	Adult Education	0 (0)
Service Area Economic Regeneration Complaint Reasons	Disability	0 (0)
	Disagree with Policy	0 (0)
	Disagree with Procedure	0 (0)
Service Area Compliments	Adult Education	0 (0)
	Economic Regeneration	0 (0)
How many LCC Corporate complaints have not been resolved within service standard	8 (8)	
Number of complaints referred to Ombudsman	12 (7)	



Summary

LCC Overview of Complaints
The total number of LCC complaints received for this Quarter (Q2) shows a 42% increase on the previous Quarter (Q1). When comparing this Quarter with Q2 2014/15, there is a 3% increase, when 145 complaints were received.

Economic Regeneration Complaints
Economic Regeneration received no complaints this Quarter.

Adult Education Complaints
Adult Education received no complaints this Quarter.

Compliments

Economic Regeneration received no compliments this Quarter.

Adult Education received no compliments this Quarter.

Ombudsman Complaints
In Quarter 2 of 2015/16, 12 LCC complaints were registered with the Ombudsman. Economic Regeneration and Adult Education received no complaints which have been considered by the Ombudsman.

Oct 2015

LRO Lincolnshire Economic Briefing

www.research-lincs.org.uk

Headlines

National

Economic growth improves to 0.7 per cent (Q2 2015)

Manufacturing output down but services output remains strong and stable

Inflation falls back to 0.0 per cent in August

Local

Employment rate currently 74.6 per cent, above the national rate (72.6 per cent)

Overall unemployment continues to fall, with long term unemployment now below the national average

Quarterly Economic Survey Snapshot – Q3

Headlines

Domestic demand remains strong

Businesses reporting increased domestic sales and orders at all-time high

High levels of confidence in increases in turnover and profitability remain

Workforce

	Last 3 months Q2 15	Last 3 months Q3 15	Next 3 months Q2 15	Next 3 months Q3 15
(%) Increase	22	22	28	19
(%) Stay the Same	68	66	55	71
(%) Decrease	7	8	8	6

Sales and Markets
Last 3 Months

	Domestic Sales Q2 15	Domestic Sales Q3 15	Domestic Orders Q2 15	Domestic Orders Q3 15	Overseas Sales Q2 15	Overseas Sales Q3 15	Overseas Orders Q2 15	Overseas Orders Q3 15
(%) Improved	38	41	37	34	33	19	29	8
(%) Stayed the Same	43	42	37	51	44	56	54	65
(%) Worsened	14	12	16	11	22	26	17	27

Performance
Next 12 Months

	Profitability Q2 15	Profitability Q3 15	Turnover Q2 15	Turnover Q3 15
(%) Increase	47	55	56	60
(%) Stay the Same	33	27	25	27
(%) Decrease	20	15	20	12

Headlines

Net balance of exporting businesses is negative for the first time in the history of the Lincolnshire QES

Large increase in businesses stating their workforce will remain the same over the next three months

Lincolnshire Chamber of Commerce – The Ultimate Business Network

University of Lincoln

Lincolnshire County Council – Working for a better future

Domestic Demand Key As Pressure on Exports Grows

Domestic demand is key to current UK economic growth and confidence according to the latest findings from the Lincolnshire Quarterly Economic Survey (QES).

Businesses reporting increased domestic sales and orders are at an all-time high, and show no obvious signs of abating.

However, when we look at overseas sales and orders, then the net balance of exporting businesses is negative for the first time in the history of the Lincolnshire QES. This essentially means that **more exporting businesses are reporting decreases in both sales and orders than those reporting increases**. These results are primarily being driven by the Manufacturing sector, but the Service sector is not immune to this either.

These findings are also backed by the fact the Lincolnshire Chamber of Commerce have experienced a sizable year on year fall in request for documentation to support exports.

It is fair to say then that export markets are under a fair bit of pressure at present. We stated last quarter that the Pounds continued and increasing strength was one of the factors in this. Since then the Pound has dropped slightly against the Euro (now £1=1.37 Euro) but is still high relative to historic rates. Europe is our biggest trading partner, both nationally and locally. As to whether things will improve for exporters on this front depends very much on foreign exchange markets views of whether Greece will stay in the Euro. On a more positive note, growth in the Eurozone was recently revised upwards to 0.4 per cent for the period April to June 2015, but this is still below the UK's latest growth rate (0.7 per cent). It also lags the UK in its recovery with fairly stagnant growth in the last few years.

Perhaps unsurprisingly the workforce of those responding to the survey has remained largely unchanged. There has also been a large increase (16 percentage points) in **businesses stating that their workforce will remain the same over the next three months.**

Despite all of this local businesses appear to be quite bullish about the future **with high levels of confidence that turnover and profitability will increase over the next year.**

Exports and exports markets are going to be the short to medium term challenge for many businesses, whilst increasing exports forms an integral part of the government's plan to increase productivity. There is support available, and opportunities for growth, with UKTIs Export week in November, and the recent signing of a historical agreement between Lincolnshire and Chinese province of Hunan, see page 4 for more information.

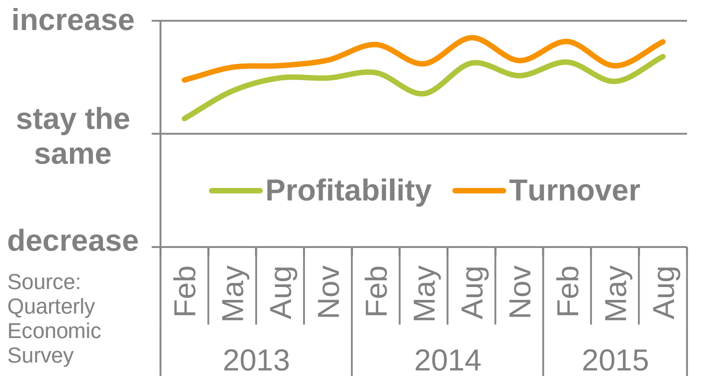
Previous Quarter (Q2) Comparison with National Results

The net balance of companies that say:	Manufacturing		Services	
	Lincolnshire	UK	Lincolnshire	UK
Their UK sales increased	↓	↓	↑	↓
Their UK orders increased	↓	↓	↑	↑
Their export sales increased	↓	↓	↑	↓
Their export orders increased	↓	↓	↑	↑
They expect turnover to improve*	↓	↓	↓	↑
They expect their workforce to increase**	↓	↓	↑	↑

*in the next 12 months **in the next three months

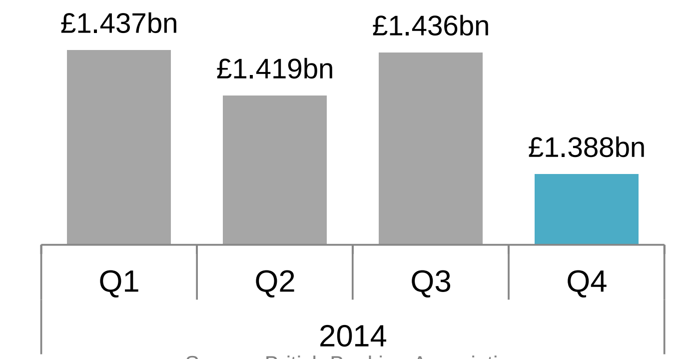
National and Local Economic Indicators

Expected Change Over the Next 12 Months



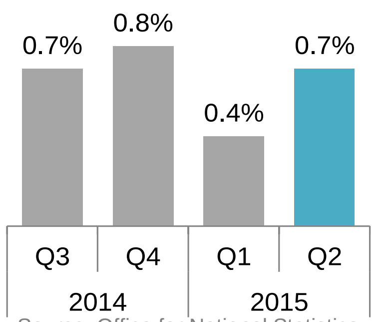
Source: Quarterly Economic Survey

Bank Lending to Lincolnshire SMEs



Source: British Banking Association

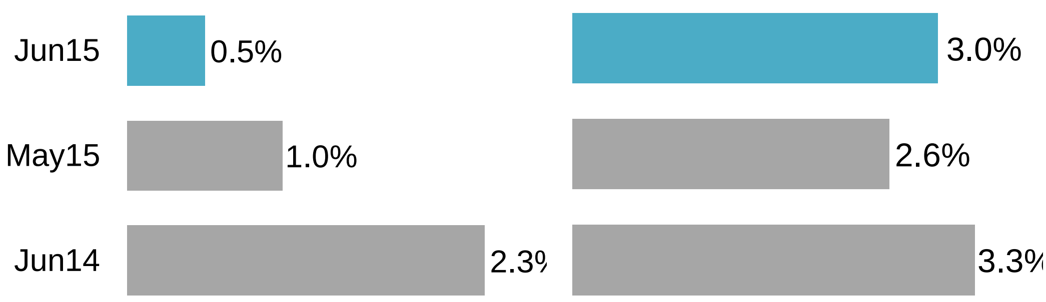
UK Quarterly Change in GDP



Source: Office for National Statistics

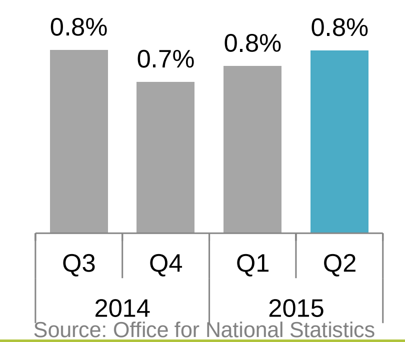
Manufacturing Output / Services Output

(% change, latest 3 months on same 3 months a year ago)



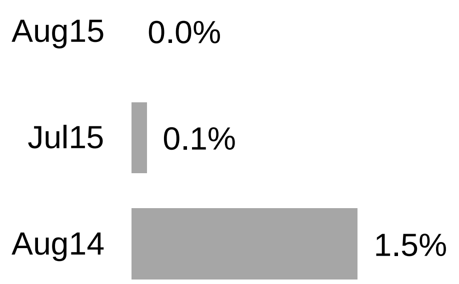
Source: Office for National Statistics

UK Quarterly Change in Consumer Spending



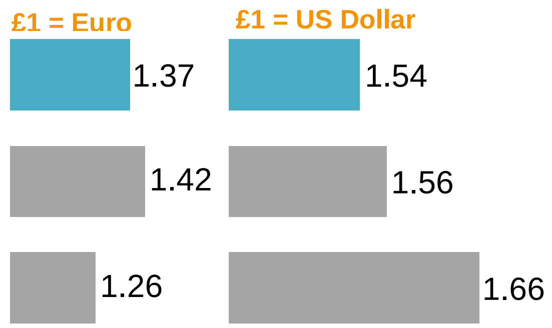
Source: Office for National Statistics

Inflation – UK Monthly Change in Consumer Price Index (CPI)



Source: Office for National Statistics

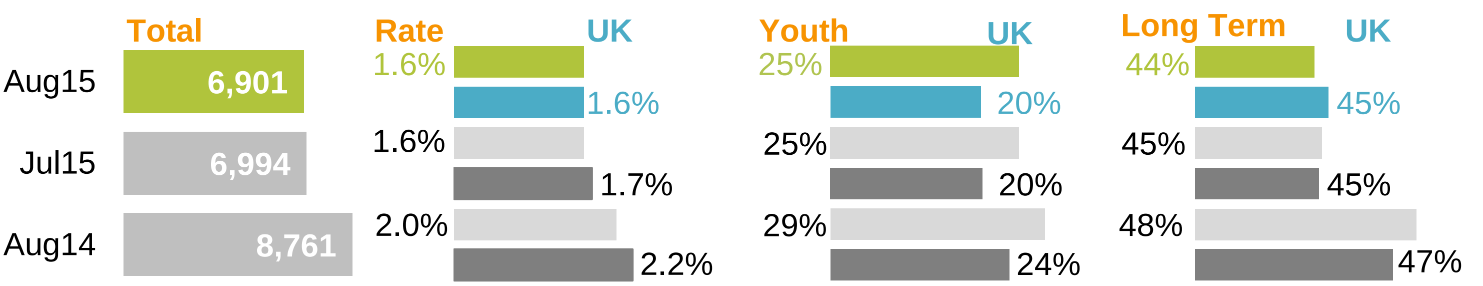
Exchange Rates



Source: xe.com

Unemployment in Lincolnshire

Job Seekers Allowance Claimant Count and Rates, Aug 2015



All claimants aged 16-64

All claimants aged 16-24 as a % of total claimants

All claimants aged 16-64 claiming for 6 months or more as a % of total claimants

Source: Office for National Statistics

UKTI Export Week

UK Trade & Investment will be holding its next Export Week from the 9th-13th November. Across the week there will be a varied series of events all over the UK, aimed at businesses to either start their export journey or increase their international business. These events include seminars, workshops and briefings to provide practical advice on doing businesses overseas. To find out more about the support on offer and events in our region visit http://www.exportweek.ukti.gov.uk/full/

Chinese Trade Agreement

The county council has signed a declaration of friendship and economic co-operation with a booming Chinese province - a move that promises increased prosperity for both regions.

A delegation from Hunan, one of China's fastest-growing provinces, has been in the county for two days. The visit aims to foster mutual understanding, friendship and co-operation between the two regions, with a formal declaration signed to promote common prosperity and development.

Want to know more about Lincolnshire businesses involvement in international trade? Download our recent exporting research report at http://www.research-lincs.org.uk/UI/Documents/Exporting-2015.pdf

Cllr Colin Davie, Executive Member for Economic Development, said:

"The delegation has been very impressed with what they've seen and I believe this is the beginning of a long and prosperous relationship between our two areas."

"China has become one of the largest and most important export markets in the world, and many county firms already have ties there."

Some of the sectors that are earmarked for future collaboration are agriculture, engineering, adult social care, culture and education.

Useful Contacts

Business Lincolnshire - *The local website linking you to schemes and services to help you start or grow your business:* www.businesslincolnshire.com www.gov.uk

Lincolnshire & Rutland Employment and Skills Board - *Giving employers opportunities to lead and influence local training provision to have access to skills needed to grow their business.* www.lincsrutlandesb.com tel: 01522 550545 email:clare.hughes@lincolnshire.gov.uk

Greater Lincolnshire Local Enterprise Partnership - *Supporting business in the region; aiming to improve infrastructure and conditions for doing business from the Humber to the Wash.* www.greaterlincolnshirelep.co.uk email:GLLEPsecretariat@lincolnshire.gov.uk

Jobcentre Plus - *Providing services that support people of working age from welfare into work, helping employers fill their vacancies* www.gov.uk/jobs-jobsearch www.gov.uk/advertise-job

Select Lincolnshire - *Raising the profile of Lincolnshire, promoting and attracting investment into the county, signposting to local produce within the County and promoting food and drink across the UK.* www.selectlincolnshire.com tel: 01522 550618 email: select@lincolnshire.gov.uk

Lincolnshire Chamber of Commerce
A membership organisation providing business - support advice and benefits. www.lincs-chamber.co.uk tel: 01522 523333 email: enquiries@lincs-chamber.co.uk

Trading Standards business advice
Giving support and encouragement to businesses by giving advice and information to help them get it right first time. www.lincolnshire.gov.uk tel: 01522 782341 email: TradingStandards@lincolnshire.gov.uk

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Lincolnshire COUNTY COUNCIL
Working for a better future

Report Reference:
Policy and Scrutiny

Open Report on behalf of Executive Director For Environment And Economy

Report to:	**Economic Scrutiny Committee**
Date:	**08 December 2015**
Subject:	**Delivering Further Regeneration Along The Lincoln East West Link**

Summary:

This report sets out the findings of a recent study to examining the feasibility of developing residual plots along the new Lincoln East West Link.

The report identifies those parcels of land in the ownership of Lincolnshire County Council that are physically capable of development and assesses the form of development that is most likely to be viable from a perspective of planning, regeneration and finance.

Actions Required:

The Economic Scrutiny Committee is asked to note the report and support officers in seeking potential sources of grant funding.

1. Background

The construction of the Lincoln East West Link (EWL) road will facilitate and provide impetus for the regeneration of the area of Lincoln between St Mary's Street and Portland Street. Indeed plans are already emerging for a Public Transport Hub adjacent to the station, pedestrianisation of the lower High Street and a hotel on the site of the former Quantum House.

When Highway construction is completed midway through 2016, Lincolnshire County Council (LCC) will be left holding five land parcels alongside the road, of which three are considered developable. Two of the three plots could be brought forward immediately, whilst the third will be required to provide temporary car parking for rail users until completion of the new Transport Hub in approximately 2019.

Plan 1 appended to this report will help members identify the plots in question. The plots marked 2 and 3 are those which can be developed as soon as the EWL is complete.

Consultants Urbandelivery have been employed to investigate the forms of development that would be appropriate for the two plots (from a perspective of compliance with planning policy, market demand and economic regeneration benefit) and provide advice on the most financially viable option(s).

In fulfilling their commission Urbandelivery have consulted extensively with the City of Lincoln Council and sought evidence of demand from local agents Pygott and Crone.

Development options considered include: Freehold Residential, Affordable Housing, Private Rented, Live-work, Student Accommodation, Extra-care and Health, Retail, Leisure, Industrial and Office. Full analysis of each option is detailed in the Urbandelivery report attached at Appendix B.

In summary the report concludes that the form of development most appropriate for the two plots is office use (with potentially one of the undevelopable plots used as supporting car parking provision). This use provides the best fit with existing planning and economic development policies and based on the assessment by Pygott and Crone has the strongest market demand.

Urbandelivery has worked with contractors Wilmott Dixon to provide an estimate of the costs associated with developing the two plots for office uses at maximum permissible density.

The suggested project cost to develop plot 2 is **£4.18m** (assuming land is input at nil cost) and would provide 22,585sqft of office space.

The cost to develop plot 3 is stated as **£3.07m** (assuming land input at nil cost) and would provide 14,461 sqft of office space with café space at ground floor level totalling an additional 2,915 sqft.

The report suggests that with current market values / rental levels in central Lincoln, none of the examined uses are likely to be financially attractive to the private sector market. Office use however is the form of development where values are projected to see the greatest increase in the future and where grant support towards development costs are most likely to be available.

The consultants have indicated that with 50% grant support through a programme such as Growth Deal the development of plot 2 over a 30 year period would deliver a surplus of £39,138 per year and an IRR of 6.36%. For plot 3, the figures are £45,659 per annum and 7.69%.

Further commentary provided by Urbandelivery highlights that even with 50% grant support the levels of return being offered by the developments are unlikely to attract private sector developers who will have more profitable options available to them elsewhere in the country. It has been suggested that to make the development options attractive to the private sector Lincolnshire County Council could take a 25 year headlease on the properties thereby using the strength of LCC's "covenant" to reduce the developer's risk (and required yield). This approach would however transfer the risk to Lincolnshire County Council who would need to be confident of covering its headlease rent through income derived from subletting.

An alternative approach would be for LCC to explore acting as developer, using grant to support 50% of the development costs and then borrowing the balance of the development costs from either the PWLB or GLLEP Invest and Grow fund. The income surplus from either or both developments is calculated to be sufficient to cover loan repayments and interest (particularly if a discounted interest rate can be achieved).

Expected economic outputs from the development of plot 2 are 111 net additional jobs, whilst the development of plot 3 would bring 68 net jobs.

2. Conclusion

Completion of the EWL will create development potential on two plots of land alongside the road, owned by LCC.

The development of office space on these plots would fit within the existing policy context and would meet occupier demand.

Unfortunately market values and desired levels of investment return within the development industry are unlikely to make these plots an attractive proposition to the private sector /developer / investor even if supported with grant funding.

Options available to LCC are:

1. Do nothing and accept that there will be ongoing maintenance obligations on LCC to keep these prominent development sites tidy and secure.

2. Promote the sites to a private sector developer by securing grant to meet some of the likely development costs and agreeing to take a headlease on some or all of the office space provided. It should be noted that this approach will commit LCC to sizeable rent payments over an extended period which would eat into revenue resources if the spaces cannot be sublet to occupiers.

3. Act as developer using grant and PWLB or GLLEP loan funding. It should be noted that the risks with this approach are focused upon the ability to generate sufficient rent income from occupiers to cover loan repayments and interest charges.

It should be noted that in regard to options 2 and 3 the approach could be applied to just one plot or both. If one plot were to be selected for intervention then it should be noted that plot 3 is cheaper to develop, but has a level of return closer to that which the private sector investor would be seeking. Plot 2 will create more floorspace and generally has greater economic development outputs.

Both developments will result in an increase in the local business rates base and assuming a business rate retention scheme is put in place will help generate funds for the local authorities.

It is proposed as the next step that (subject to support from the Economic Scrutiny Committee) officers should seek to determine the likely availability of grant.

3. Consultation

a) Policy Proofing Actions Required

n/a

4. Appendices

These are listed below and attached at the back of the report	
Appendix A	Plan 1 - Plot Location Drawing
Appendix B	Initial Viability And Business Case For Development On Kesteven Street - Report By Urbandelivery
Appendix C	Visuals

5. Background Papers

No background papers within Section 100D of the Local Government Act 1972 were used in the preparation of this report.

This report was written by Paul Wheatley, who can be contacted on 01522 550600 or Paul.Wheatley@lincolnshire.gov.uk.

PLAN 1

LOCATION PLAN OF PROPOSED DEVELOPMENT SITES

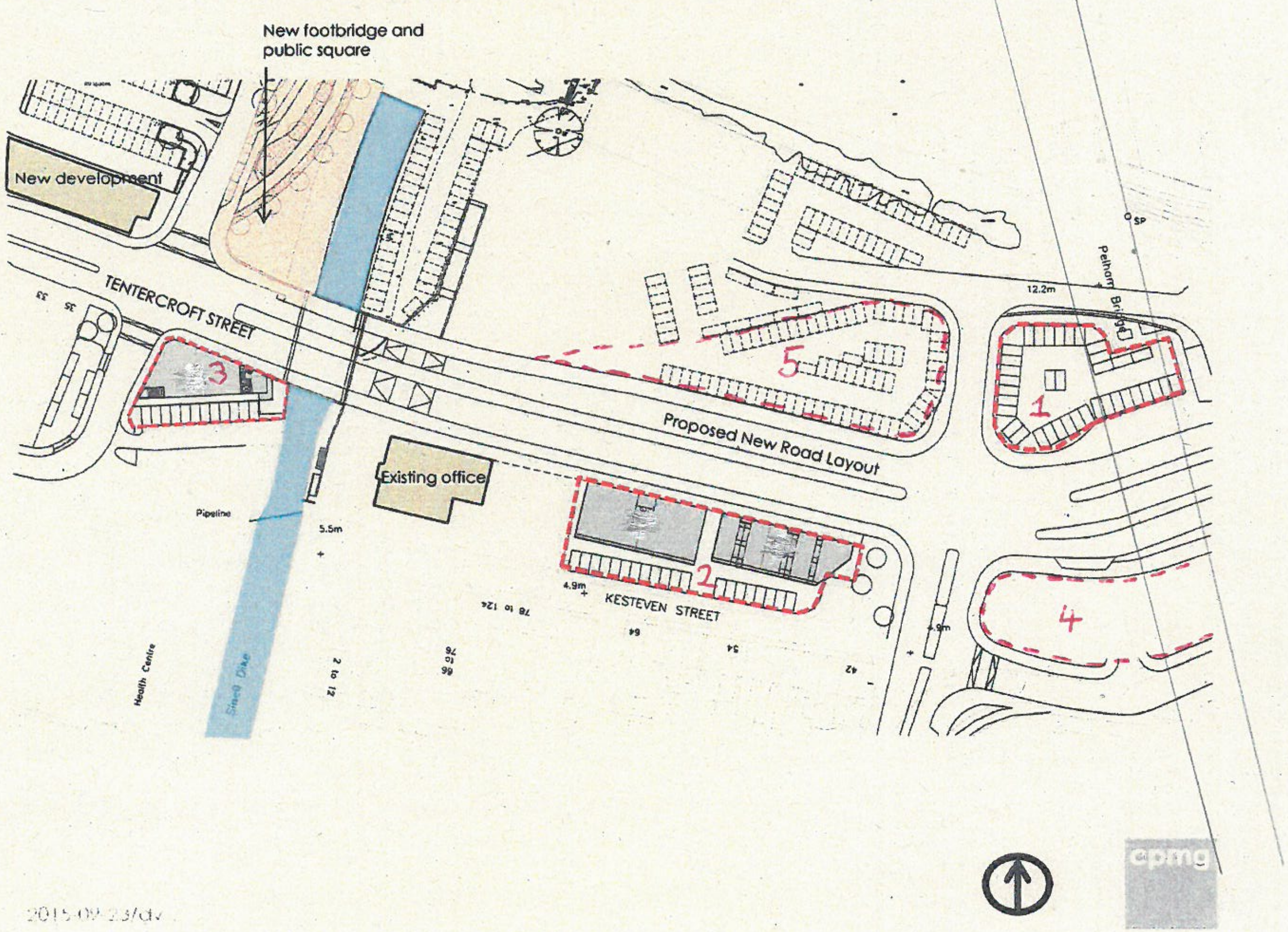

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Figure [illegible] Plan

Initial Desktop [illegible] Report for the former Coal Yard Kesteven Street [illegible]

Initial viability and business case for development on Kesteven Street

Lincolnshire County Council & Willmott Dixon
November 2015

urbandelivery

Contents

1 Introduction

Background to commission

1.1 After the completion of the East-West route through Lincoln City Centre, Lincolnshire County Council (LCC) will have development plots in their ownership adjoining the new route. The new route is being 'development future proofed' through the inclusion of utilities infrastructure. With growing optimism in the national and local economy the time would appear to be right to investigate development of these sites.

1.2 Ideas about what goes on those plots is still at an early stage but with office development seen by LCC as the preferred choice in order to promote economic growth. Part of this commission will be to sense check if office development would be the optimal use on these sites.

1.3 LCC stated at the outset of this commission it is open to exploring different delivery and funding structures. This commission considers which structure would be most appropriate if LCC were to instigate development.

Purpose of the report

1.4 This report covers the First Phase of feasibility work. The report is an initial exploration of development opportunities on Kesteven Street; providing a recommendation on type of development, viability and delivery routes.

1.5 As part of this report we have undertaken the following tasks:

- We have reviewed existing policy, strategy documents, previous viability studies and proposals for developments adjoining the site (Notably the East-West road link and the transport hub). This is summarised in **Section 2.**
- We have completed desk based property market research and completed consultations with several stakeholders to begin to understand the demand for commercial and residential property in Lincoln. Through this analysis we have filtered possible end uses and provided recommendations on the types of uses that may be viable. This is summarised in **Section 3**.
- CPMG architects have completed an assessment of the physical potential of the site, including consultation with Lincoln City as the Planning Authority. CPMG has completed indicative designs showing the form and massing of development for 3 options. This is summarised in **Section 4.**
- We have completed an options appraisal on delivery routes and made recommendations on which would be most beneficial to LCC. This is summarised in **Section 5.**

- We have completed initial financial appraisals of Options for development in **Section 6** and undertaken a sensitivity analysis of the results in **Section 7**.
- We have provided a concise summary of our analysis and the recommended next steps in **Section 8**.

Further work required

1.6 The reader should note that this first phase of work is an initial exploration only. It should not be relied upon with regards committing to any form of development. Further work will be required ahead of development taking place. For instance:

- Further work in evidencing demand
- Full legal due diligence on the land ownerships
- Technical due diligence on planning aspects, flood risk, geo-physical, habitat, utilities etc
- Detailed design work and resulting cost estimates
- Legal due diligence with regards state –aid and procurement of the investment structures proposed

Further information

1.7 If you require further information on this report please contact Anthony Everitt, contact details below.

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2 Background information and Development assumptions

Introduction

2.1 This section provides more background information that has informed the design feasibility work and financial appraisals later in the report.

Route of the road and development plots available

2.2 Figure 1 highlights the route of the new East-West road along Tentercroft Street and the development plots available. There are three parcels of land identified as available for development.

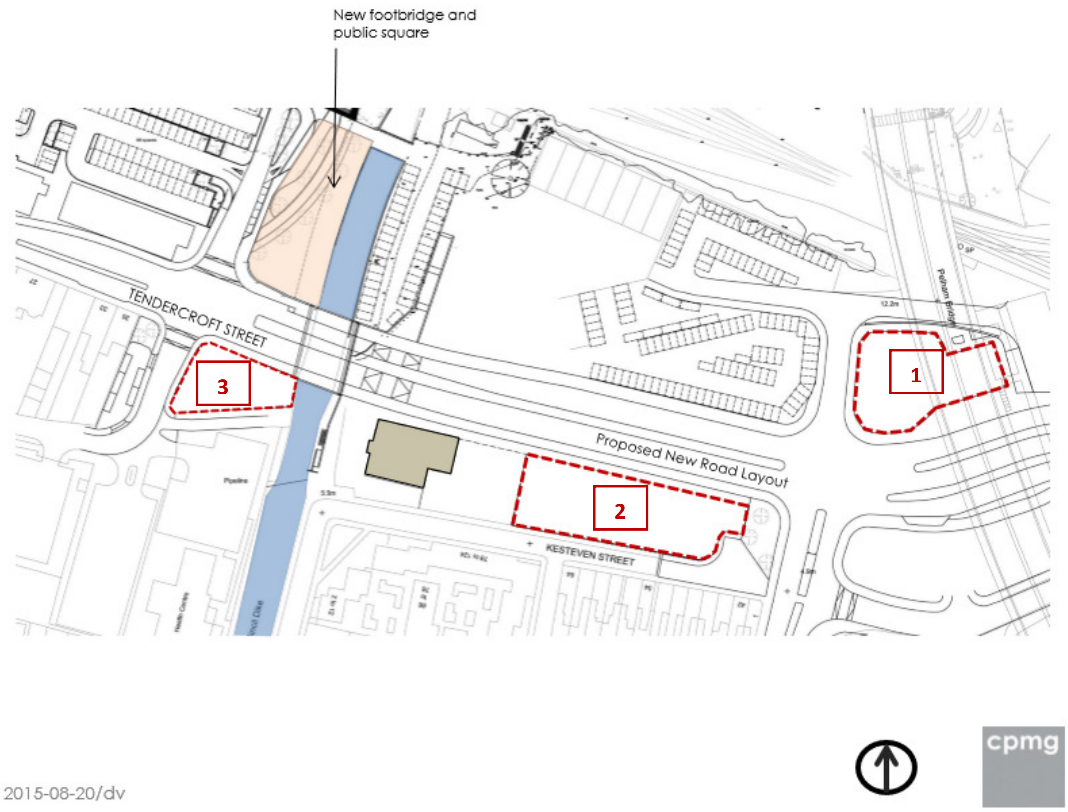
2.3 The sites are along the new East-West route, within close proximity (to the South of the railway station) of the public transport interchange being constructed. The area is on the periphery of the city centre but will grow in prominence once the East-West link and public transport interchange are completed.

2.4 **Plot 1** – is the easterly most plot and is in the shadows of the Pelham Bridge fly-over. The plot due to highways easements would not allow development. However the plot is included in this feasibility study as it could provide car parking to service the development on the other plots, specifically Plot 2.

2.5 **Plot 2** – Is to the East of the existing Wyvern House office building owned and operated by LCC. To the immediate north will be the new East-West route. Across Tentercroft Street to the North is the old Coal Yard which is earmarked for development but with no firm plans established. South of the site is Kesteven Street which is bordered by traditional terraced housing. The residential area to the South of the site is one of the most deprived areas in Lincoln. The ambition has long been for renewal / regeneration of the residential area but there are no developed plans at the time of this report. Plot 2 is the most substantial of the plots.

2.6 **Plot 3** – Is to the west of Sincil Dyke and bordered by Tentercroft Street to the North as part of the new East-West route, a day nursery across a small access road to the West and the car park for the local health facility to the South. Facing the site across the other side of Tentercroft Street will be the new pedestrian footbridge to the railway station and a public square. There is an aspiration for major development to take place on the Tentercroft Street surface level car park opposite but no plans are yet formalised.

Figure 1 – Sites considered for development



Physical constraints and development assumptions

2.7 As this is an early stage feasibility study much of the technical due diligence on the barriers for development has not taken place. In order to complete this early stage report we have made the following assumptions:

- All land is in the ownership of LCC and development is unfettered by easements, covenants or any other land ownership issues (with the exception of the known easements on Plot 1).
- There are no abnormal ground conditions, although owing to the predominant ground conditions across Lincoln City a piling foundation solution is assumed for any development.
- It is assumed there are no flood related barriers to development owing to the precedent set by the Wyvern House development. It is acknowledged however the proximity of Sincil Dyke and the development will require a flood risk analysis at the next stage of feasibility.

- It is assumed there are no other utility or sewer related impediments to growth. We have been advised that utility infrastructure will be put in place at the same time as the road to facilitate future development of these plots.

Planning policy and planning considerations

2.8 While the Local Development Framework is being prepared, the Local Plan will continue to be the main planning document for Lincoln. Once the Local Development Framework is adopted it will replace the Local Plan. The Local Plan earmarks this site as part of the larger Tentercroft Street/Kesteven Street area and states that planning permission will be granted for:

'development providing a substantial amount of housing, as part of a mixed-use development including small shops (Class A1), and/or food and drink outlets (Class A3), and/or business units (Class B1); Alternatively, planning permission will be granted for a major leisure development (Class D2), either alone or in association with any of the above uses.'

2.9 The Kesteven Street site is a small part of this wider site so our interpretation is that any of the above uses would be acceptable on the site but it is unlikely the Kesteven sites could provide a mix of all of the above.

2.10 Urban Delivery and CPMG met with Lincoln City Council's Planning Manager as part of this work. Key outcomes of that discussion are below:

- A social housing scheme in that location would not be desirable
- A residential only scheme owing to the pending wide and busy road that will be developed would not be desirable (certainly not at ground level), although residential could form part of the development mix
- Office development would be preferred, but other suggested uses could be considered
- Retail trade counters should not be considered as they would not be an aspirational development for this key gateway site and traffic/parking would be an issue
- The gateway location to the city centre means the design must be strong / aspirational. It has a job to do in marketing Lincoln
- Reasonable sized massing to provide prominence would be desirable, but designed to be sympathetic to residential uses on Kesteven Street.
- Any development would benefit from active frontages
- A substantial tower would be unacceptable owing to the views of the Cathedral
- Given how close the scheme is to the public transport interchange and the city centre, car parking would not be a requirement from a planning perspective

3 Potential uses

Introduction

3.1 It was clear early in the project that from an economic development and planning perspective there was a clear preference for an office development. Despite this we did explore other uses and quickly agreed that an office development on these sites would be the most appropriate use. This Section provides the rationale that for this conclusion.

Owner occupier residential development

3.2 In our preliminary discussion with LCC officers it was considered that residential should not be a predominant use but that it could form part of the development mix. LCC officers thought residential should be considered if it facilitated (cross-subsidised) commercial development.

3.3 The views of the cathedral and castle from the upper floors of development would put a premium value on residential development. However the site would still be on the periphery of the city centre and adjacent to a low-value housing estate. We did strongly consider the use of residential as part of the development mix and developed an option with a residential block on the Western Plot (Plot 3). When we looked at the costs and values associated with residential development we concluded that a residential development cannot guaranteed a significant subsidy for the commercial development. This Option and development value is explored in Appendix 1.

3.4 It is conceivable that a developer would pay a positive land value if he assumed he could deliver the scheme at lower costs than we have modelled and he speculated on a continuing rising market. LCC could therefore market Plot 3 and seek to sell to a developer (this remains a valid option open to the Council).

3.5 Given the aspiration from LCC is for the East-West link to unlock economic development, in consultation with LCC officers it was agreed residential should be discounted as an option owing to it not facilitating the commercial development.

3.6 ***Recommendation*** –discounted

Affordable Housing

3.7 The area south of Kesteven Street is already dominated by social / affordable housing and officer's conclusions were that these sites should not be a target location to develop further affordable housing. The provision of affordable housing would not facilitate commercial development and could even lessen occupier demand should office accommodation be promoted in this area.

3.8 ***Recommendation*** – discounted

Student housing

3.9 There is a high-level of student accommodation in Lincoln and a view was expressed as to whether the city would reach saturation point with the pipe-line of development already established.

3.10 There is a clear ability to compete with other private student accommodation providers through provision in this area, if it is delivered at the right price and quality. The close proximity to the city centre, public transport and because it is within walking distance to University of Lincoln would make this a suitable location. The demand and rental values would likely make this use commercially viable and return a positive land value (although we have not carried out any appraisals).

3.11 By providing this use on LCC land it would compete with the private market elsewhere, it would not stimulate economic development and it would preclude safeguarding the site for future commercial development. For these reasons in consultation with LCC officers this options was discounted.

3.12 ***Recommendation*** – discounted

Private rented sector housing

3.13 In looking at all residential tenures we did consider the merits of looking at bespoke accommodation targeting the private rented sector. In nearly all circumstances the sales values required to make PRS commercially attractive to institutional investors need to be lower than the presiding market values. We therefore concluded that if the viability for the market-sale scheme (see Appendix 1) was only marginal it is unlikely a PRS scheme could be made to work.

3.14 ***Recommendation*** – discounted

Live-work accommodation

3.15 As there was an appetite for office accommodation and residential as part of a mix of uses we did look at the concept of live-work accommodation. We considered the possibility of providing terraced offices with their own front door with living accommodation at the upper floors.

3.16 CPMG completed early stage ideas about what this may look like (see Appendix 4). The design of this accommodation, in the aesthetics of the urban form, was viewed very positively in discussion with both City Council planners and the LCC client team.

3.17 The idea was discounted for the following reasons:

- There is little known demand for the product and the attractiveness to commercial investors would be lessened versus traditional offices.

- The scheme would be dependent on grant funding (as demonstrated in Appendix 2) yet the number of jobs it would create would be significantly lower than a traditional office building. The scheme would be less competitive in bidding for grant funding.

3.18 Despite the live-work concept being discounted on viability grounds the concept of terraced office accommodation was taken forward as a variant to diversify the type of offices that could be offered.

3.19 ***Recommendation*** – Discounted

Extra-care housing

3.20 Extra-care housing and other types of retirement living developments are in great need and city-centre locations are becoming more popular across the country. LCC and other stakeholders may well want to consider these sorts of uses for other city centre development opportunities. For the Kesteven Street development however it was felt that not promoting the site for economic development uses would be an opportunity missed. Extra-care may be considered but only if commercial development could not be delivered.

3.21 **Recommendation** – discounted

Office development

3.22 Office development was the clear preference of both Lincoln City Council's economic development and planning officers and the LCC client team. The location of the site is viewed favourably for office development owing to its city centre gateway position and proximity to the new transport interchange. The delivery of Wyvern House has set a precedent for office development on the East-West route.

3.23 The nature of the sites we have looked at means that office development could be built in blocks and phased or alternatively brought forward together. The quantum of development brought forward as a first phase is a key decision LCC will need to make and the options appraisals undertaken in this report should help inform that decision.

3.24 At this early stage we have undertaken a preliminary examination of demand. We strongly recommend that a more detailed demand analysis is undertaken at the next stage of feasibility work. A summary of the findings to date is explored below.

3.25 Wyvern house is well occupied and anecdotal evidence suggests the space is in high demand.

3.26 Tenants in Wyvern House are increasingly demanding more intensively managed space. Managed work space normally requires a critical mass of 20,000 sqft+ for the delivery of managed office services to be financially viable. The delivery of more office space adjacent to Wyvern House has the potential to offer the critical mass so that managed office services could be offered across the buildings.

3.27 Other publicly owned managed workspace across the city is very well occupied (Greetwell Place Phase 1 is 95% occupied, the Terrace is 100% occupied). These levels of occupancy for managed workspace, from our experience in other cities, is exceptionally high and would indicate that there is not enough supply (all be it this requires further investigation).

3.28 Anecdotally Officers talk about professional service firms having located out of Lincoln City Centre wanting to return. In discussions with both Lincolnshire Business Growth officers and some potential end occupiers there is clear demand from larger professional services to have a Lincoln base as they try to get a foot-hold in the Greater Lincolnshire market. Firms with known demand include: Willmott Dixon, Gleeds, CPMG, Morgan Tucker, BFP Consulting, Rizk McCabe, Crouch Perry Wilkes. It is conceivable that this demand could result in significant parts of a new office building being pre-let in advance of LCC starting the main construction work. This demand should be explored further.

3.29 Whilst the location may be attractive to a HQ office building car parking could be an issue. The fact that a development would require grant funding also makes timing of development complicated, as a HQ occupier would require a bespoke building and that could not be built speculatively. Coinciding capturing a HQ requirement with the timing of a successful grant application would be highly improbable. There is also state-aid related complications with using grant to build offices for a defined, large end user. We would not recommend that LCC waits for a HQ requirement if it wants to move forward development within reasonable timescales.

3.30 We discussed the commercialisation and innovation park strategies with the University of Lincoln. The conclusion was the target market for the University would be for spin-out companies, companies with large R&D activities and companies aligned to and affiliated with the specialisms of the University. A more general office development should therefore not compete with what the University is trying to achieve. It will be important for LCC to continue the clear distinction of what they would be offering on Kesteven Street and not duplicate any of the University's activities. We are confident this could be achieved.

3.31 It is not straightforward to assess the development values you would put to new office buildings in this location owing to the lack of comparable developments. However premium rents do not appear to exceed £140 per sqm in Lincoln and yields (ranging from 7%-10%) reflect the secondary nature of Lincoln as an office location. At this rental value and yield it would be impossible to make a traditional commercial development viable without grant subsidy. This is demonstrated in Appendix 2. Whilst we would expect growth in these premium rental levels as the market rises and good quality modern stock is delivered it is still unlikely for some considerable time for rents to increase and yields to contract enough to make speculative multi-tenanted developer led commercial offices viable.

3.32 Despite an office scheme requiring grant our initial discussion with both LCC officers and GL LEP suggest there is a reasonable chance this could be obtained (See Section 5).

3.33 LCC Officers based on their experience of Wyvern House and other locations in the city would expect new office developments on Kesteven Street to achieve a maximum rent of c.£135 per sqm. We would consider this to be a cautious expectation and we would expect rental values to grow between now and the completion of the building owing to the transformation of the East-West route, the completion of the public interchange and the continued growth of the national and local economy. We would expect this location and the quality of the new space delivered to attract a premium rental level. Despite this we have adopted a basic rental value of £135 per sqm in subsequent appraisals in order to be cautious at this stage rather than presenting an optimistic scenario.

3.34 In summary we believe there is likely to be strong demand for offices in this location. We would advise that LCC looks at the whole of the South Kesteven sites, including the existing Wyvern House, as a campus of offices. LCC should look at providing a series of blocks which cater for diverse needs (spanning from start-ups, serviced office space, own front door office space and expansion space for growing companies or units to cater for larger firms requiring satellite offices). The quantity and specification for this space should be informed by a more detailed assessment of market demand at the next stage of feasibility.

3.35 **Recommendation** – Commercial offices, funded with an element of grant, is recommended as the predominant use in any development.

Public sector uses

3.36 In our discussion with LCC officers we ruled out the need for public sector uses on the site (police, fire, schools, GP surgeries etc).

3.37 We discussed the possible demand for office accommodation from LCC itself and this was discounted owing to their long-term desire for a more concentrated campus of accommodation in Lincoln. The timing, with the devolution agenda making the future of what Local Authorities will look like going forward uncertain, would also prohibit LCC committing to any major new office building at this time.

3.38 We discussed possible demand with the University and the conclusion was that it does not currently have a need for student accommodation, academic buildings or commercial premises in the Kesteven Street location. Towards the end of this commission we were however informed that the University had made known the possibility of requiring c.1,000 sqm of office accommodation for back-of-house functions. This possible demand should be explored further and could be instrumental in removing some of the demand risks from LCC should it move forward office development.

3.39 **Recommendations** – office development could cater for public sector need and the needs of the University of Lincoln should be explored further.

Retail

3.40 The site is close to the town centre, although officers at LCC and Lincoln City expressed views that the site would be too peripheral for high-street retail to be considered. Due to the access issues larger format retail was also discounted (supermarkets, bulky-good stores, trade-counters etc).

3.41 With the growing prominence of the East West route, pedestrian link to the train station and proximity to residential and commercial uses we did considered it appropriate that a smaller format convenience or A3 café use should be considered as part of the development mix. The rental values and yields would preclude this being a value generating use to close the viability gap but it would add diversity, active frontages, generate footfall and add local amenities to enhance an office development.

3.42 **Recommendation** – Small convenience or A3 store could form part of a development mix, but would be ancillary to main uses.

Leisure

3.43 Big box leisure uses would not be appropriate for the site owing to highways and site constraints. The location owing to its proximity to the station and city centre could accommodate a smaller budget gym which are becoming more popular nationally. This could form part of a development mix.

3.44 There are merits of the site for a small budget hotel. We are advised that the aspiration is to include a hotel as part of any development on the Tentercroft Street car park. For this reason we did not investigate the possibility further on the Kesteven Street sites.

3.45 **Recommended** – a small leisure use in the form of a budget gym could be considered as part of a development mix. This should be investigated further with regards market demand.

Industrial units

3.46 There is strong demand for industrial units with strong take up at Council owned stock. There was a clear steer provided by the City's Planning Officer that industrial units would not be an appropriate use on this site. We questioned whether trade-counter uses would be acceptable and a view was expressed that the bulky design would not create an attractive gateway and the highways implications may be prohibitive.

3.47 **Recommendation** – discounted

Summary

3.48 The result of the above analysis is that development on Kesteven Street should be predominantly offices with the possibility of A3, small retail offering some active frontages.

4 Physical form of development

Introduction

4.1 Based on the aspirations of LCC to generate economic development and the analysis in Section 3, CPMG architects has completed some indicative proposals for the scale and massing of office development on Kesteven Street. This Section shows these initial ideas. It includes:

- Option 1 - An Option for an office block development on the Eastern site (Plot 2).
- Option 2 – A variant option for office development on the eastern site (Plot 2) including a terrace of offices and a smaller traditional block
- Option 3 – A development of offices above A3 uses at ground floor on the western site (Plot 3).

4.2 Very early stage artists impressions can be found in Appendix 3.

4.3 CPMG produced options for a live-work scheme on the eastern site and a residential and A3 scheme on the western site. Both schemes were rejected on grounds of viability and not delivering the aspired economic development outputs (as discussed in Section 3). These can be seen in Appendix 1 and Appendix 4.

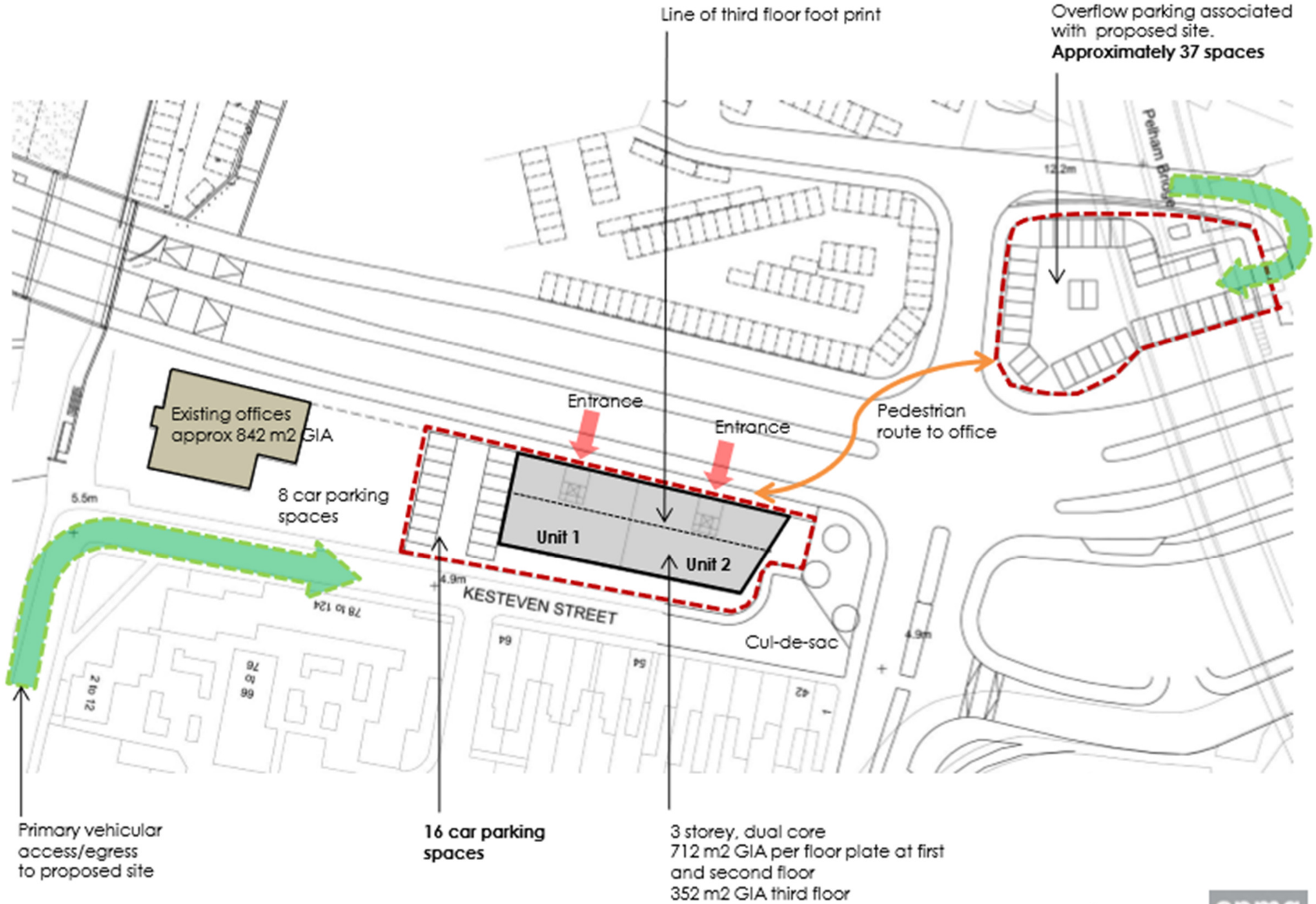
Option 1

4.4 CPMG has demonstrated that Plot 2 could accommodate a 3 storey building of c.1,776 sqm GIA. Key design features of their initial concept designs are:

- The site is not easily accessed and this could reduce demand from professional service firms. Although the very close proximity of public transport, city centre car parking, and prominent frontages may compensate for this.
- Car parking is delivered by providing 16 visitor and disabled spaces adjacent to the building in a traditional office car parking layout. The land under Pelham Bridge is used to provide a further 37 spaces which it is anticipated could be used for staff.
- The block could be split into two, with two entrances which would allow for greater subdivision.
- The third storey offers an opportunity for meeting space / premium office space with attractive views across with city.
- It is assumed the building should not exceed 3 storeys owing to the proximity to housing.
- The entrance is on the new East-West route.
- The building is close to the roadside to create a prominent and attractive new addition to the city centre gateway.

Option 1

– 2 No of Office units, 3 storey, double core,



Total of 888 m2 GIA per office unit.

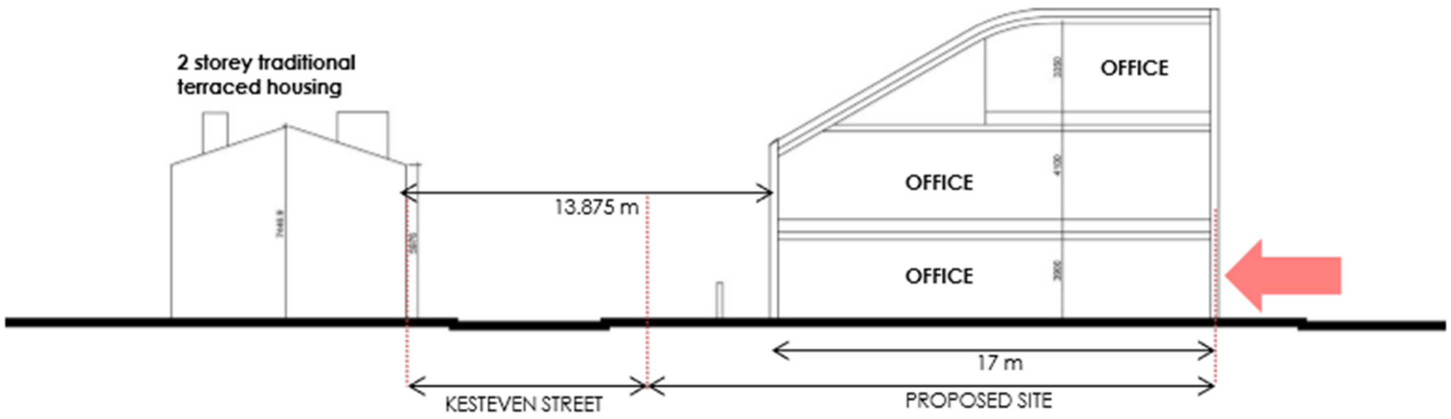
Allowable Car parking based on Planning guidance of 1 space/ 30m2 GIA
Total GIA 1776m2= 59 spaces

2015-09-02/dv

cpmg

Option 1

KESTEVEN ST SITE: SECTIONS



Option 2

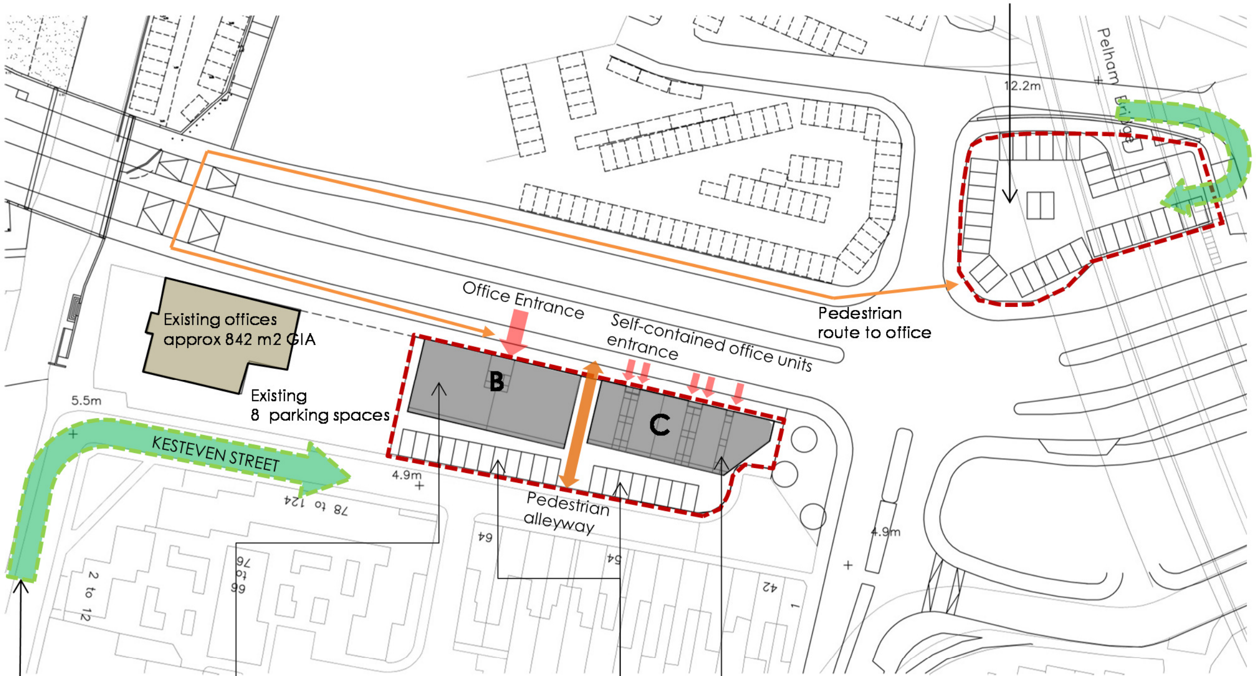
4.5 Option 2 shows what a variant office scheme would look like if it included terraced offices and a smaller traditional block. The design demonstrates that both an office block of 1,185 sqm GIA and terraced offices totalling 914 sqm GIA could be delivered on the site. Key design features of this are:

- Car Parking on site (20 spaces) is provided through spaces accessed directly off the highway on Kesteven Street. Whilst this is an acceptable form of parking for housing development it is not standard for offices. This solution will require dialogue with highway officers to judge whether it would be appropriate.
- 37 car parking spaces are assumed on the site under Pelham Bridge.
- The terraces and offices are delivered as two separate blocks with pedestrians able to walk between the two blocks.
- Entrances are on to the new East-West route.
- Each terraced unit has its own front door and is over 3 storeys.
- Both blocks offer the potential of attractive views on the upper floors across the city.
- The terraced units would offer something distinct from the existing office stock in Lincoln, they would however be less efficient in terms of usable space.

Option 2

KESTEVEN ST SITE – 5No Self-contained office units, 3 storey . 6 Office Units, 3 storey.
Overall GIA 2099m2 (22593sq ft)

Overflow parking associated with proposed site.
Approximately 37 spaces



Primary vehicular access/egress to proposed site

3 storey single core office units.
395m2 GIA(4252 sq ft) per floor plate

GIA Total
1185 m2 (12755sqft)

Building B
12 car parking spaces

Building C
8 car parking spaces

5 No of 3 storey self-contained office units.
Ground Floor office units area – 58 m2 GIA(624sq ft)/unit
Total – 290 m2
First Floor – self contained office units
62 m2 GIA (667qft)/unit
Total – 312m2
Second Floor –self contained office units
62 m2 GIA (667qft)/unit
Total – 312m2
GIA Total 914 m2 (9838sqft)

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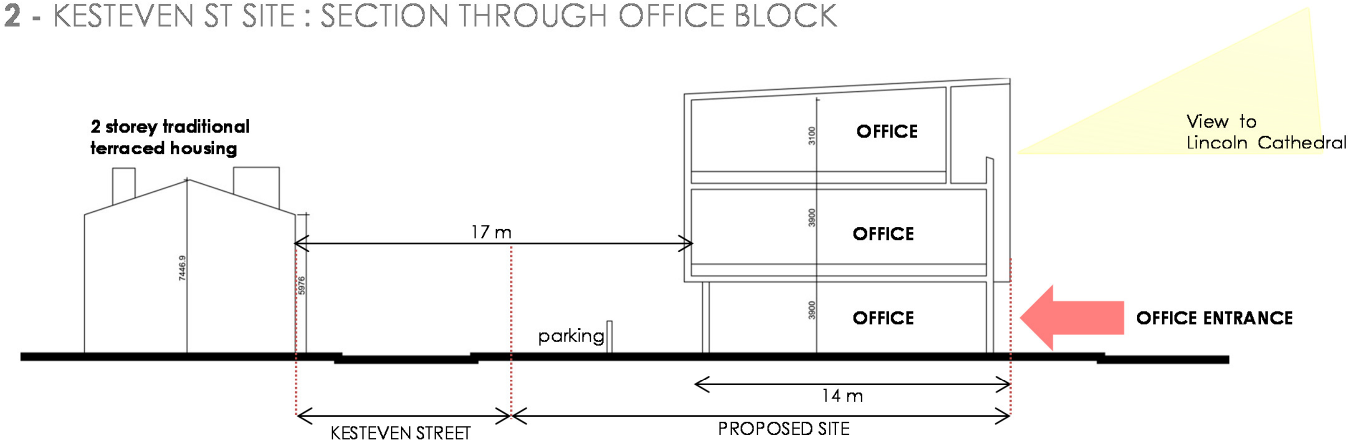
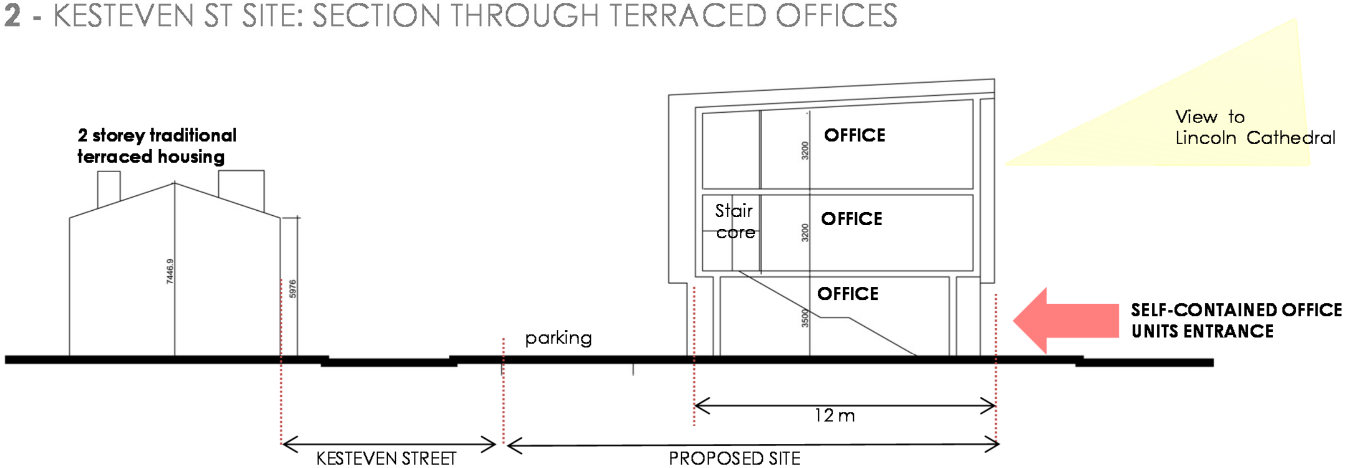
Option 2 - KESTEVEN ST SITE : SECTION THROUGH OFFICE BLOCK



Option 2 - KESTEVEN ST SITE: SECTION THROUGH TERRACED OFFICES



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Option 3

4.6 Option 3 demonstrates how a block of 271 sqm GIA retail space at ground floor and 1,344 sqm GIA of offices could be accommodated on the site.

4.7 The architect's opinion of the Western Block is that the site has real potential to make a positive impact on the street-scape. The building is the focal point of the new pedestrian route away from the station, will be highly visible from the station and over the new foot bridge and is in front of the new public space created to the north of Tentercroft Street.

4.8 The prominence of this space requires something special to make a statement about both Lincoln as a city but also the immediate area of transition associated with the new East-West route.

4.9 Key features of the proposed design include:

- 12 car parking spaces delivered on site. The offices will have access to public car parking across the road on Tentercroft Street and is directly opposite the new transport interchange so it was felt the lack of parking would not deter demand (although this requires further testing).
- The core/access of the building is located at either end of the block allowing flexibility as to how the retail space on the ground floor is subdivided.
- The building is consciously pushing the boundaries on height, at 5 storeys, to ensure the new building creates a landmark.
- The height of the building offers spectacular views across the city from the upper floors.
- An entrance at the eastern end of the building allows the new offices to relate to the existing Wyvern House.
- An outdoor seating area is included adjacent to Sincil Dyke to complement potential A3 uses.

Summary

4.10 This initial design work is only exploratory and much more detailed research will be required on the demand, physical constraints and viability to inform the final designs. The final design solutions are therefore likely to alter from those presented in this report. These initial designs do however demonstrate the potential of the sites to accommodate attractive office buildings that will make an attractive gateway to the city centre.

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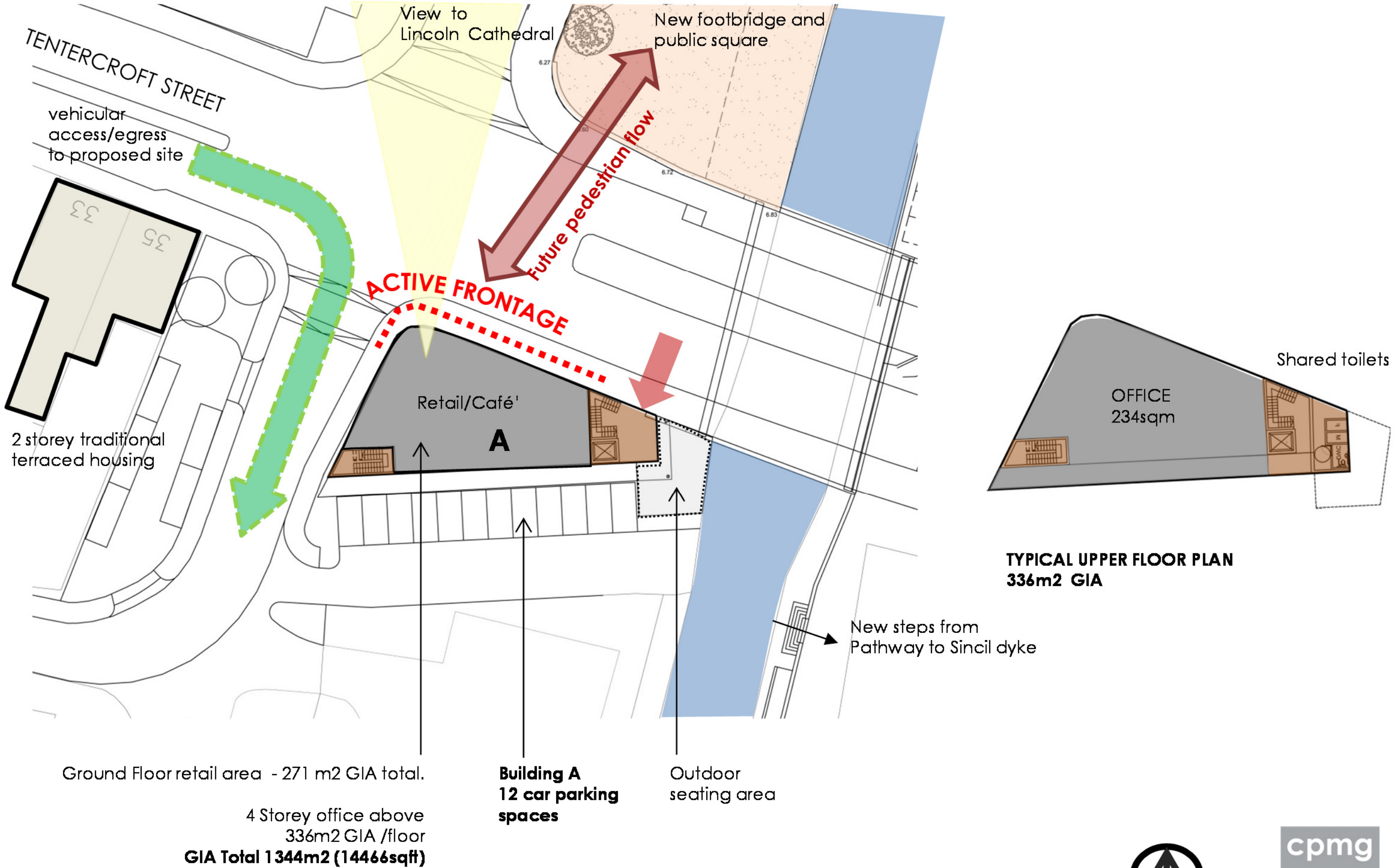
Option 3

TENTERCROFT ST SITE: Retail space at ground floor, 4 storey of office units above
GIA overall – 1615m2 (17384 sqft)



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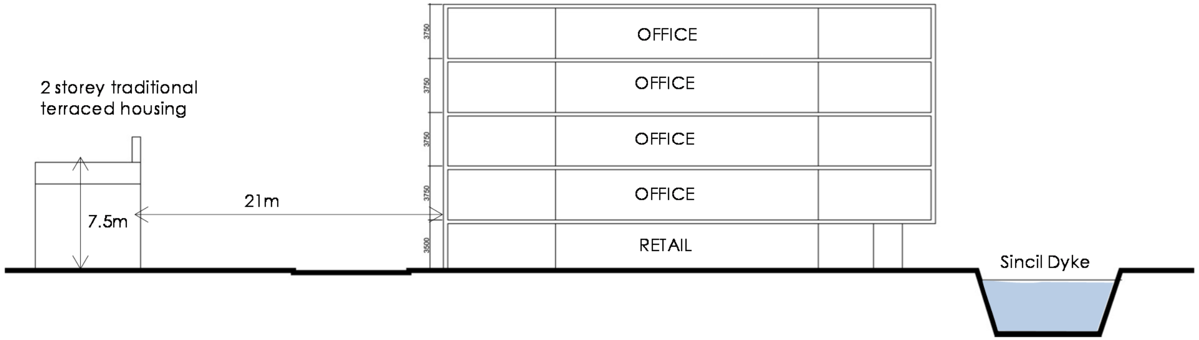
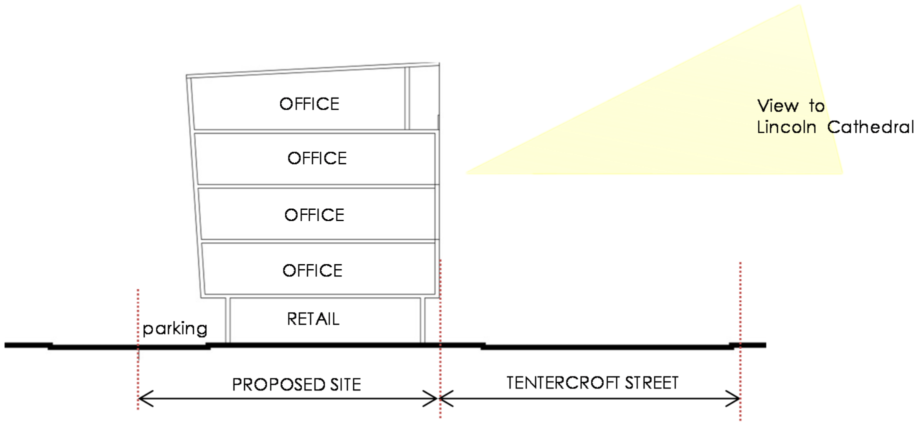
Option 3
SECTIONS THROUGH BUILDING





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5 Delivery structure options

Introduction

5.1 This Section looks at the delivery structures available. The delivery structure proposed, via consultation with the LCC officer team, is for LCC to directly develop the sites using a mixture of grant and PWLB funding and to retain ownership of the buildings once completed. This will require grant funding to be obtained for a scheme to be viable, we therefore provide a brief commentary about grant funding at the end of this Section.

5.2 In order to move forward the project in the timescales required for a grant application (an expression of interest for Growth Deal Round 3 could be required within this calendar year) we suggest using Willmott Dixon under the SCAPE Framework offers a sensible mechanism of doing this, we expand on this at the end of the section.

Option 1 - No public sector intervention – sell the site and leave it to the market

5.3 LCC could put a design brief together and even achieve planning permission for office development on Kesteven Street before marketing the sites for sale. The development appraisals we have undertaken (see Appendix 2) demonstrate that a viable development would not exist without grant. The appraisals also demonstrate that even with 50% of costs covered by grant there is still unlikely to be a speculative development that a private sector developer would move forward with.

5.4 **Recommendation** – we recommend this option is rejected on the basis of being unviable

Option 2 - LCC develop out sites using Grant

5.5 This Option would see LCC developing out the sites themselves, retaining ownership and managing the buildings. LCC would fund the development through a mixture of grant funding and PWLB borrowing (see Section 6 for more information on PWLB borrowing).

5.6 Through a process of elimination we suggest this as a suitable delivery structure. Section 6 demonstrates that a strong business case could be built for securing the grant and for LCC investing through PWLB into the scheme. Financially this performs better than Option 3, is simplified versus the Ortus structure (Option4) and other Options are unlikely to be viable.

5.7 **Recommendation** – selected as viable option

Option 3 - Private sector delivery using grant and LCC take a headlease

5.8 Under this Option a developer would deliver the buildings and most likely sell them on as investments. The developer would have 50% of the delivery costs paid for by grant and secure LCC as headlessee which will make the investment more attractive to investors.

5.9 Under this Option LCC would reduce the investment yield of the final building through entering into a long-leasehold. This lease to be most impactful would need to be 20 years+. This would lower the yield from 8%+ down to circa 5.5%.

5.10 Under this Option, LCC through the headlease, would still carry all demand risk on the building yet they would not have any long-term financial interest (residual value) in the building.

5.11 This could be an attractive option to LCC if there were reasons it did not want to incur the debt of the project themselves, however discussions with LCC Officers suggest this is not the case.

5.12 This option would take longer to deliver owing to the need to procure the developer, who then in turn would need to procure a contractor. It is unlikely this structure would be ready to submit a grant application this year.

5.13 ***Recommendation*** – discounted owing to lengthened timescales of delivery and lower financial performance relative to Option 2

Option 4 - Ortus funding solution

5.14 This Option would see LCC contract via SCAPE to deliver the buildings but the costs of delivery would be paid for by a consortium of private investors who would acquire a long-leasehold of the building. LCC would then enter into a [20 year] sub-lease guaranteeing index linked fixed rental payment to the investors. LCC would manage the building and sub-let to occupiers. It would be anticipated that the rental income LCC receive would exceed the rental payments it would owe investors, subject to good levels of occupancy.

5.15 The cost of delivery funding would be made up of one third equity provided by the investors and two thirds debt lent by LCC. The interest charged by LCC on the loan to the investors would provide a margin above LCC's cost of borrowing. The rental payments made by LCC under the lease would be cheaper than LCC funding the project through Prudential borrowing for the first few years but this benefit erodes each year and reverses before half way through the lease term.

5.16 Under this Option LCC would have an option to buy the building back from the investors after 5 years at a level which is slightly less than the investors paid for the delivery costs. The investors would be prepared to do this due to their ability to benefit from the capital allowances associated with the construction of the building.

5.17 For projects of significant scale and with equipment and fittings that attract enhanced capital allowances the savings of the Ortus structure can be substantial to the Local Authority versus a structure like Option 2. Through indicative financial modelling we would anticipate the overall savings assuming LCC did re-purchase the building in Year 5 (as measured by the reduction in prudential borrowing) to be circa £200,000 to LCC after all fees are paid. If this option was chosen more detailed modelling would be required.

5.18 **Recommendation** – this structure is more complex than the simplified Option 2. It would require additional legal and due diligence work. In discussions with LCC Officers a preference was expressed to move forward assuming the more traditional delivery routes (Option 2). Although we would advise that the Ortus financial model is updated as the project evolves in case the benefits of the Ortus structure grow.

Grant

5.19 All viable delivery options considered would require grant funding. As part of this study we did consult with the Greater Lincolnshire LEP about the possibility of attracting grant funding into a scheme on Kesteven Street. The conclusions of this consultation are below:

- A new bidding round for a Growth Deal Round 3 is anticipated after the Chancellor's Autumn statement (due on November 25th 2015), this is likely to be the next opportunity to secure grant funding.
- It could be the case that there are few deliverable projects in the GL LEP area that would bid in this round. The GL LEP would therefore welcome applications from schemes such as Kesteven Street.
- A bid would need to be in excess of £1m.

5.20 In discussions with officers and other stakeholders we have also concluded the following with regards attracting grant funding:

- In speaking to stakeholders in Lincoln we did not feel there would be opposition to any Growth Deal bid for offices on Kesteven Street, although we would recommend on-going dialogue as the project evolves to avoid any conflicts arising.

- LCC in recent history have a strong success rate in Growth Deal bids.

- LCC do not know of many competing bids and do not expect the GL LEP area to be heavily oversubscribed.

- We are advised by LCC officers that it is standard for grant to cover 50% of the development costs for projects like those on Kesteven Street. LCC suggested we should assume 50% grant in any financial appraisals. If there are generous revenue surpluses owing to the level of grant being proposed then LCC could consider offering a revenue sharing mechanism to the GL LEP. This should be discuss with the GL LEP during the next stage of work.

5.21 Our own observations based on our previous experience and the above consultations are as follows:

- There is a strong possibility of a Kesteven bid for Growth Deal funding being successful.
    - The project would deliver strong economic outputs and be pivotal in the transformation of a key gateway to Lincoln City Centre (see the Economic Impact Assessments in Section 6).

    - The alignment with the GL LEP's Strategic Economic Plan could be demonstrated.
    - LCC could demonstrate deliverability because they control the land, the road works have made the sites 'development ready' and LCC has access to finance themselves.
- A critical element of succeeding in a grant application will be demonstrating demand for space. Whilst this report indicates there is likely to be demand, at the next stage this will need documenting in more detail.
- To succeed in a Growth Deal bid, which could be required in this calendar year, LCC will need to create momentum and progress swiftly with the next stages of the project (these tasks are outlined in Section 8).

SCAPE Framework

5.22 As outlined above the success of this project will be driven by the ability to attract grant to the project. Attracting grant to the project through the anticipated Growth Deal Round 3 will be dependent on undertaking several tasks immediately which will need a professional team in place.

5.23 Through the SCAPE Framework, LCC would be able to access the supply chain of Willmott Dixon and Willmott Dixon has advised that they could have a full design team mobilised within 2 weeks if instructed by LCC. Conventional procurement routes would not be able to achieve this.

5.24 The SCAPE Framework also provides greater cost certainty for the Authority at an earlier stage in the project.

5.25 The SCAPE Framework will reduce the overall delivery timescales through eliminating the need to procure via OJEU the design team and the principal contractor role.

5.26 Under SCAPE Willmott Dixon are still required to seek 3 quotes for all major work packages ensuring LCC will receive a competitive price. Willmott Dixon's own fees are set by SCAPE and have already been subject to a competitive process.

5.27 It is for these reasons that we would suggest contracting with Willmott Dixon offers a sensible mechanism of building early momentum in this project and demonstrating deliverability to the grant funders.

Summary

5.28 We recommend that LCC considers directly delivering the office buildings and retaining ownership of them. The project will require grant funding and LCC will be well placed to secure this by evolving the project ahead of a call for bids for the next round of Growth Deal funding.

5.29 The use of the SCAPE Framework will provide a mechanism under which a professional team can be assembled quickly and evolve the design and overall business case ahead of a grant application.

6 Development, financial and economic appraisal

Introduction

6.1 Based on the work in previous chapters we have taken forward the following options to complete indicative financial and economic appraisals:

- Option 1 - Delivery of a traditional office block on the Eastern Site (Plot 2)
- Option 2 – Delivery of a mixture of own front door terraced offices and more traditional offices on the Eastern site (Plot 2)
- Option 3 – Delivery of an office block above A3 uses on the Western Site (Plot 3)
- Option 4 – Delivery of both Option 1 and Option 3
- Option 5 – Delivery of both Option 2 and Option 3

6.2 All Options assume a delivery structure that involves LCC directly developing the buildings, 50% of the costs paid for by grant with the remainder paid for through PWLB borrowing. We assume LCC retain ownership and use the revenue generated to service the debt.

6.3 At this stage of initial exploration we have not looked into detail with regards the optimum size of office units, nor the specification of the building in the context of market demand. At the next stage we would recommend the use of an agent with an in-depth understanding of the local office demand to input into this work.

6.4 The results of this appraisal work should only be used in the context of whether there is likely to be a deliverable project and whether the next stage of feasibility is warranted. The costs and values used are indicative only and are likely to alter as the project progresses. We strongly recommend that these appraisal are updated as the project progresses and that in their current form are not relied upon to commit to the construction stage of the project.

Managing the buildings once operational

6.5 For simplicity at this early stage of evolving the project we have assumed the following for all options:

- The completed buildings are managed by LCC.
- A service charge on all occupied space is sufficient to cover costs for all management and maintenance (including a sinking fund for major repairs to common areas and building fabric). LCC make no net profit from the service charge.

- There is a cost of £43 per sqm incurred by LCC on vacant space to cover contributions to common areas, maintenance and sinking funds and possible empty rates liability. This is a high-level figure and more detail will be required to accurately estimate this amount.
- There is no inflation assumed on rents received over 25 years (this is unlikely to be the reality and therefore the long-term income streams will be underestimated in our model). With inflation currently c.0% we felt it appropriate to take this prudent approach.

Prudential borrowing

6.6 We assume the delivery costs not covered by grant is funded through Prudential Borrowing via the Public Works Loan Board (PWLB). This borrowing is assumed to take place upon completion of the building, which means LCC cashflows the development from reserves until this point.

6.7 We have assumed under all options that PWLB borrowing is taken out as an annuity over 25 years at a fixed rate of interest. This ensures that LCC will have complete certainty once operational what the costs of servicing the associated debt will be. This also means that over time the cost of servicing the debt in real terms will fall assuming there is inflation in the economy.

6.8 There are a number of rates that may be available to LCC. We have modelled the standard new loan rate as published by PWLB as at 30th September 2015 of 3.08%.

6.9 LCC could alternatively apply for a preferential rate as a LEP sponsored project. This could result in a 0.4% discount on the listed rate. LCC would need to apply to the LEP for this rate, the total borrowing in a LEP area is capped and each application is judged on its merits.

6.10 We understand that the LEP already has an investment fund that can be loaned to projects such as that proposed on Kesteven Street. Funding from this source could provide an even greater discount on the listed PWLB rates.

6.11 In the next stage of work we would expect dialogue with the GL LEP to discuss the approach to securing the debt required and what preferential rates could be achieved. For caution at this moment we have assumed no preferential rate. In Section 7 we look at the impact on the cashflow should a preferential rate be achieved.

Financial modelling

6.12 To assess the financial performance of the development options, for Options 1-3, we have completed a financial model which has a bespoke input sheet, development appraisal, 5 year and 30 year cashflow (including an assessment of the LCC Internal Rate of Return and Discounted Cashflow). Options 4 and 5 have been derived through combining the financial results of the Option 1-3 appraisals.

Economic Appraisal

6.13 We have completed an economic impact assessment for each of the options. In accordance with HM Treasury Green Book Guidance and the English Partnership Additionality Guide we have examined the gross jobs created and then calculated the net additional jobs taking account of the leakage, displacement, multiplier and deadweight impacts.

6.14 To calculate the gross number of jobs we have used an assumption of 1 job per 12 sqm NIA for Office space and 1 job per 19 sqm NIA for retail space (in accordance with the HCA / Deloitte Employment Density Guide 2010).

6.15 We have also assumed 1 years employment for every £100,000 spent on the delivery of the project, and assumed that 10 years employment is the equivalent of 1 FTE position.

6.16 We have assumed the following assumptions across all options to calculate the net additional jobs:

- A leakage of 25%
- A displacement effect of 12.5%
- A 25% composite supply chain and income multiplier
- Zero deadweight (acknowledging nothing would happen on these sites without public sector intervention as evidenced from the development appraisals)

6.17 In order to monetise the benefits we have assumed that the public sector willingness to pay for job creation is a proxy for the benefit to society of those jobs. In our experience typically grant funding contributes somewhere between £15,000 and £30,000 per job. We have used £22,500 as a mid-point.

6.18 To compare the costs and benefits we have created a discounted cashflow (using 3.5% as the discount rate) of the following items:

- The benefits:
    - the market value of the asset created
    - the monetised value of net additional jobs created
- The costs:
    - The LEP grant funding
    - The PWLB funding required

Option 1 – Eastern Block traditional office scheme

6.19 For the Eastern block under option 1 we have assumed:

- A 3 storey office block.

- The development will have 16 car parking spaces adjacent to the development and a further 37 available on the site under the fly-over
- The 3 storeys of offices will deliver 1,776 sqm GIA of office space
- The GIA:NIA ration for the office uses will be 80%

Opt 1 - Delivery costs

6.20 The costs used to derive the delivery costs are as follows

- The majority of pre-construction work takes place between January 2016 and September 2016
- The construction starts on site on October 2016 and is completed in March 2018.
- Construction cost £ per sqm GIA of £1,502 for the office space
- £2,000 cost per car parking space
- A 11% contingency (consisting of 3% design contingency, 3% client contingency and 5% site constraints. This is a high-level of contingency but we consider this a prudent amount given the uncertainties surrounding the project at this early stage)
- 0.5% SCAPE fee
- 15% professional fees (including all other survey work, bid preparation, marketing and letting)

6.21 Using these assumptions the estimated costs of delivering Option 1 is c.£3.55m. It is assumed 50% (£1.77mm) of this would be funded through grant and the remainder funded through PWLB.

Opt 1 - Inputs and assumptions used – income

6.22 Assumptions used to derive the income stream from the development are as follows:

- £129 per sqm (NIA) Rent on the office accommodation
- Occupancy rates as per the table below, with Year 5 representing a steady-state average over 25 years (note we expect occupancy rates would exceed these levels but have used these figures to build in contingency in the income model)

	Office
Year 1	40%
Year 2	60%
Year 3	80%
Year 4	80%
Year 5	80%

- A cost to the Council for holding the vacant space of £43.04 per sqm (note this is an indicative estimate only for use in modelling, we recommend a more detailed look into the holding costs is undertaken at the next stage of feasibility)
- In Year 25 the Council will retain the asset which will have a value. The value is calculated assuming a 10% yield which is greater than the yield one would expect today and reflects the increased risks some investors associate with older buildings. Note this is not a formal valuation and should not be used as such.

Opt 1 - 30 Year cashflow

6.23 Based on the above assumptions a 30 Year cashflow for Option 3 has been estimated. A summary of the key outputs is provided below. It demonstrates in the steady-state the project is estimated to create a revenue surplus for LCC and the return on their investment at 6.69% is healthy (all be it less than a private investor would expect for a project with this risk profile).

Metric	Value
Steady state income per annum	£146,763
Steady state costs per annum	£112,847
Steady state surplus per annum	£33,916
Cash surplus over 25 years, excluding residual value (£m)	£0.79
DCF (£m)	£0.79
IRR	6.69%

Opt 1 - Economic Impact

6.24 Based on the above assumptions an early-stage Economic Impact Assessment has been undertaken for Option 1. A summary of the key outputs is provided below:

EIA Measure	Value
Gross jobs	96
Grant per gross job created	£18,404
Net additional jobs	79
Grant per net additional job created	£22,435
Total benefits (£m)	3.79
Total costs (£m)	3.55
Net present value of benefits minus costs (£m)	0.07

6.25 The table above shows that both the cost per gross job and net additional job is in-line with projects we would expect to be competitive in attracting grant funding (i.e. between

£15k-£30k). Although further dialogue with the LEP should be undertaken to get greater clarity on their expectation in this regard.

6.26 The appraisal also demonstrates a positive NPV of the public sector investment which suggests at this early stage there is merit in exploring this proposition further. This suggests that when the social value of job creation is added to the commercial value of the development then the benefits exceed the costs of delivery.

Option 2 – Eastern Block variant office scheme (terraced offices plus office block)

6.27 For the Eastern block under Option 2 the development assumed is to be two smaller office blocks. One comprising a 3 storey office block with one core and 5 3-storey office units with their own front doors. It is also assumed:

- The development will have 20 car parking spaces adjacent to the development and a further 37 available on the site under the fly-over
- The offices will deliver 1,185 sqm GIA of office space in block one and 914 sqm for the terraces
- The GIA:NIA ratio for the office uses will be 80% for the office block and 75% for the terraces (this will need to be explored in more detail in the next stage of feasibility)

Opt 2 - delivery costs

6.28 The assumptions used to derive the delivery costs are as follows

- The majority of pre-construction work takes place between January 2016 and September 2016
- The construction starts on site on October 2016 and is completed in March 2018.
- Construction cost £ per sqm GIA of £1,502 for the office space. Note we have not distinguished between the costs of delivering offices in terraces or in a single block, this will require further investigation at the next stage.
- £2,000 per car parking space
- A 11% contingency (consisting of 3% design contingency, 3% client contingency and 5% site constraints. This is a high-level of contingency but we consider this a prudent amount given the uncertainties surrounding the project at this early stage)
- 0.5% SCAPE fee
- 15% professional fees (including all other survey work, bid preparation, marketing and letting)

6.29 Using these assumptions the estimated costs of delivering Option 2 is c.£4.18m. It is assumed 50% of this would be funded through grant and the remainder funded through PWLB.

Opt 2 - Inputs and assumptions used – income

6.30 Assumptions used to derive the income stream from the development are as follows:

- £129 per sqm (NIA) rent on the traditional office accommodation and £135 per sqm for the terraced accommodation (assuming a premium could be charge for the street frontage and niche design). This will require further investigation in the next stage of feasibility.
- Occupancy rates as per the table below, with Year 5 representing a steady-state average over 25 years.

	Block 1	Block 2
Year 1	40%	40%
Year 2	60%	60%
Year 3	80%	80%
Year 4	80%	80%
Year 5	80%	80%

- A cost to the Council for holding the vacant space of £43.04 per sqm (note this is an indicative estimate only for use in modelling, we recommend a more detailed look into the holding costs is undertaken at the next stage of feasibility)
- In Year 25 the Council will retain the asset which will have a value. The value is calculated assuming a 10% yield which is greater than the yield one would expect today and reflects the increased risks some investors associate with older buildings.

Opt 2 - 30 Year cashflow

6.31 Based on the above assumptions the 30 Year cashflow for Option 2 has been estimated. A summary of the key outputs is provided below. It demonstrates in the steady-state the project is estimated to create a revenue surplus for LCC and the return on their investment at 6.36% is healthy (all be it less than a private investor would expect for a project with this risk profile).

Metric	Value
Steady state income per annum	£171,684
Steady state costs per annum	£132,547
Steady state surplus per annum	£39,138
Cash surplus over 25 years, excluding residual value (£m)	£0.92
DCF (£m)	£0.77
IRR	6.36%

Opt 2 - Economic Impact

6.32 Based on the above assumptions an early-stage Economic Impact Assessment has been undertaken for Option 2. A summary of the key outputs is provided below:

EIA Measure	Value
Gross jobs	111
Grant per gross job created / safeguarded	£18,845
Net additional jobs	91
Grant per net additional job created	£23,035
Total benefits (£m)	4.39
Total costs (£m)	4.18
Net present value of benefits minus costs (£m)	0.02

6.33 The table above shows that both the cost per gross job and net additional job is in-line with projects we would expect to be competitive in attracting grant funding. The appraisal also demonstrates a positive NPV of the public sector investment.

Option 3 - Western block

6.34 For the Western block the development assumed is 4 storeys of office accommodation above A3 accommodation. Other assumptions used are:

- The development will have 12 car parking spaces and an outdoor seating area
- The ground floor retail / A3 area will be 271 sqm GIA
- The 4 storeys of offices will deliver 1,344 sqm GIA of office space
- The GIA:NIA ration for the office uses will be 80%
- The GIA:NIA for retail will be 80%

Inputs and assumptions used – delivery costs

6.35 The costs used to derive the delivery costs are as follows

- The majority of pre-construction work takes place between January 2016 and September 2016
- The construction starts on site on October 2016 and is completed in March 2018
- Construction cost £1,200 per sqm GIA for the A3/retail space and £1,502 for the office space
- £2,000 per car parking space (12 spaces)
- External seating area costing £15,000
- A 11% contingency (consisting of 3% design contingency, 3% client contingency and 5% site constraints. This is a high-level of contingency but we consider this a prudent amount given the uncertainties surrounding the project at this early stage)
- 0.5% SCAPE fee
- 15% professional fees (including all other survey work, bid preparation, marketing and letting)

6.36 Using these assumptions the estimated costs of delivering the Option 3 development is c.£3.07m. It is assumed 50% of this would be funded through grant and the remaining funded through PWLB.

Inputs and assumptions used – income

6.37 Assumptions used to derive the income stream from the development are as follows:

- £129 per sqm (NIA) Rent on the office accommodation £137 per sqm (NIA) Rent on the A3 space
- Occupancy rates as per the table below, with Year 5 representing a steady-state average over 25 years (note we expect occupancy rates would exceed these levels but have used these figures to build in contingency in the income model)

	A3	Office
Year 1	50%	40%
Year 2	85%	60%
Year 3	85%	80%
Year 4	85%	80%
Year 5	85%	80%

- A cost to the Council for holding the vacant space of £43.04 per sqm (note this is an indicative estimate only for use in modelling, we recommend a more detailed look into the holding costs is undertaken at the next stage of feasibility).
- In Year 25 the Council will retain the asset which will have a value. The value is calculated assuming a 10% yield which is greater than the yield one would expect today and reflects the increased risks some investors associate with older buildings.

30 Year cashflow

6.38 Based on the above assumptions the 30 Year cashflow for Option 3 has been estimated. A summary of the key outputs is provided below:

Metric	Value
Steady state income per annum	£142,666
Steady state costs per annum	£97,007
Steady state surplus per annum	£45,659
Cash surplus over 25 years, excluding residual value (£m)	£1.15
DCF (£m)	£0.90
IRR	7.69%

Economic Impact

6.39 Based on the above assumptions an early-stage Economic Impact Assessment has been undertaken for Option 3. A summary of the key outputs is provided below:

EIA Measure	Value
Gross jobs	83
Grant per gross job created	£18,530
Net additional jobs	68
Grant per net additional job created	£22,641
Total benefits (£m)	3.34
Total costs (£m)	3.07
Net present value of benefits minus costs (£m)	0.07

6.40 The table above shows that both the cost per gross job and net additional job is in-line with projects we would expect to be competitive in attracting grant funding.

6.41 The appraisal also demonstrates a marginally positive NPV of the public sector investment which suggests at this early stage there is merit in exploring this proposition further.

Options 4 and 5

6.42 In assessing Options 4 and 5 we have combined the financial and economic appraisal of Option 1 and Option 3 for Option 4 and Option 2 and Option 3 for Option 5. The results are outlined below.

30 Year cashflow

Metric	Option 4	Option 5
Steady state income per annum	£289,429	£314,350
Steady state costs per annum	£209,854	£229,553
Steady state surplus per annum	£79,575	£84,796
Cash surplus over 25 years, excluding residual value (£m)	£1.89	£2.02
DCF (£m)	£1.65	£1.63
IRR	7.05%	6.84%

Economic Impact

6.43 Based on the above assumptions an early-stage Economic Impact Assessment has been undertaken for Option 4 and 5. A summary of the key outputs is provided below:

EIA Measure	Option 4	Option 5
Gross jobs	179	194
Grant per gross job created	£18,462	£18,710
Net additional jobs	147	158
Grant per net additional job created	£22,530	£22,867
Total benefits (£m)	7.13	7.73
Total costs (£m)	6.62	7.25
Net present value of benefits minus costs (£m)	0.14	0.10

Business Rates

6.44 It is important when completing the economic appraisal to not double count the impacts. We have assumed the public sector willingness to pay for job creation already accounts for additional revenue that could be generated associated with this economic activity (i.e. tax income).

6.45 It is none the less important to remember that in the era when Local Authorities retain business rates uplift an increase in business activity will have a positive impact on Local Authority revenue.

6.46 Due to some of the uncertainties surrounding alterations to the business rate retention scheme, and the base-line re-setting mechanism associated with this, we have not included the business rates uplift in the financial cash-flow for LCC in the core financial appraisal, as this cannot be relied upon.

6.47 However Appendix 5 does outline the potential financial benefit to both LCC and Lincoln City Council. This is outlined in the tables below.

Retention of business rates assuming 50% are retained locally

	Option 1	Option 2	Option 3	Option 4	Option 5
Uplift	£82,906	£88,227	£56,904	£139,810	£145,132
Retained locally	£41,453	£44,114	£28,452	£69,905	£72,566
Retained by Lincoln City	£33,162	£35,291	£22,762	£55,924	£58,053
Retained by LCC	£8,291	£8,823	£5,690	£13,981	£14,513

Retention of business rates assuming 100% are retained locally

	Option 1	Option 2	Option 3	Option 4	Option 5
Uplift	£82,906	£88,227	£56,904	£139,810	£145,132
Retained locally	£82,906	£88,227	£56,904	£139,810	£145,132
Retained by Lincoln City	£66,325	£70,582	£45,523	£111,848	£116,105

	Option 1	Option 2	Option 3	Option 4	Option 5
Retained by LCC	£16,581	£17,645	£11,381	£27,962	£29,026

Summary and conclusions

6.48 The table below draws together the key outputs of the modelling for each option.

	Option 1 - East block offices	Option 2- East block variant offices	Option 3 - West block A3 & offices	Option 4 Options 1 & 3	Option 5 – Options 2 & 3
Office space delivered NIA (sqm)	1,421	1,634	1,075	2,496	2,709
A3 Space delivered	0	0	217	217	217
Net additional jobs	79	91	68	147	158
Grant (£m)	1.78	2.09	1.53	3.31	3.62
£ grant per job	£22,435	£23,035	£22,641	£22,530	£22,867
Total costs (£m)	3.55	4.18	3.07	6.62	7.25
Prudential borrowing (£m)	1.75	2.06	1.50	3.24	3.55
Costs per annum of servicing prudential borrowing (£m)	0.10	0.12	0.09	0.19	0.20
Income per year in steady state (£m)	0.15	0.17	0.14	0.29	0.31
Annual surplus (£m)	0.03	0.04	0.05	0.08	0.08
IRR of RBC investment	6.69%	6.36%	7.69%	7.05%	6.84%
DCF of investment (£m)	0.79	0.77	0.90	1.65	1.63

6.49 Acknowledging that at the next stage there is much more work to do in order to provide certainty on the inputs in the financial and economic appraisals, the results above would lead us to conclude.

- The appraisals suggest that any of the above options would have merits in proceeding
- All options are estimated to provide LCC with a surplus after servicing the associated debt
- All options would be in-line with expectations with the number of jobs created and the grant level modelled (i.e. they would be competitive in applying for grant funding)
- The traditional office model performs marginally better in the cost : benefit analysis than the terraced office building owing to the higher density of jobs created. Although

the difference is not overly significant and LCC should consider other factors such as diversifying the office-mix, urban design and market demand before making a decision.

- The development of the Western Block would deliver less jobs than the delivery of the Eastern blocks. However the financial returns are equally as strong for this block and the impact in terms of urban design owing to its more prominent position would be stronger.
- The benefits of delivering the whole scheme would have significant impacts in terms of creating a destination, economic benefit and potential financial returns. It does however come at a higher-level of borrowing and therefore a greater degree of risk.
- An uplift in business rates would improve the financial position of LCC to a modest amount with Lincoln City Council benefitting to a greater extent.

7 Sensitivities

Introduction

7.1 Below we show the sensitivity of the financial appraisal to key variables. The sensitivities we have tested are:

- Construction costs
- Rental levels
- Occupancy levels
- PWLB interest rates

7.2 To bench mark the sensitivities we have illustrated the impact on Option 5 (which is to build out both the terraced and traditional offices on Plot 2 and Offices above A3 on Plot 3).

Construction costs

7.3 The table below illustrates the key metrics should construction costs alter. The table shows that with a 10% increase in construction costs LCC would need to borrow £360,000 more (however this assumes the grant covers 50% of the increase in costs). The model shows that LCC would retain a revenue surplus. Note that if the costs were to increase by 10% but the grant remained fixed the surplus would reduce by a further £20,000 per annum but it would remain positive.

	Base assumption	minus 10%	minus 5%	plus 5%	plus 10%
Total costs (£m)	7.25	6.54	6.90	7.60	7.95
Prudential borrowing (£m)	3.55	3.20	3.38	3.73	3.91
Costs per annum of servicing prudential borrowing (£m)	0.20	0.18	0.19	0.22	0.23
Income per year in steady state (£m)	0.31	0.31	0.31	0.31	0.31
Annual surplus (£m)	0.11	0.13	0.12	0.10	0.09
IRR of RBC investment	7%	8%	7%	6%	6%

Steady-state occupancy

7.4 The table below shows the key outputs with regards LCC's revenue position should the level of steady-state occupancy vary relative to the 80% assumed in the financial modelling. It demonstrates that even if occupancy is as low as 60% LCC would still create an annual surplus. The model can be solved to show that occupancy would need to fall to 55% before LCC started making an annual loss after servicing the project's debt.

Occupancy	Base assumption (80%)	60%	70%	90%	100%
Costs per annum of servicing prudential borrowing (£m)	0.20	0.20	0.20	0.20	0.20
Income per year in steady state (£m)	0.31	0.26	0.29	0.34	0.37
Annual surplus (£m)	0.08	0.02	0.05	0.12	0.15

Rental values

7.5 The base model assumes that rents for the office space can be achieved at £129 per sqm for the traditional office space and £135 for the terrace offices. The table below examines the impact on LCC's annual revenue position in steady-state if the rental values for offices achieved vary. It shows that in isolation the financial position of LCC is not prejudiced by a 20% swing in the office rental values that could be achieved (i.e. it continues to make a surplus).

Occupancy	Base assumption	minus 20%	minus 10%	plus 10%	plus 20%
Costs per annum of servicing prudential borrowing (£m)	0.20	0.21	0.21	0.20	0.20
Income per year in steady state (£m)	0.31	0.26	0.29	0.34	0.37
Annual surplus (£m)	0.08	0.03	0.06	0.11	0.14

PWLB Interest rates

7.6 We have modelled 3.08% as the PWLB rate for a 25 year annuity. It is likely to be over 2 year before LCC take out the PWLB borrowing and therefore it is likely the rate would differ. There is also the possibility that LCC can access a preferential rate (0.4% discount) by applying to GL LEP. We therefore set out the impact of variations of the PWLB rate in the table below.

7.7 The table shows that the overall revenue position is not overly sensitive to variations in the PWLB borrowing rate with regards fluctuations of up to 0.5% in either direction. The rate would need to increase to over 6% (all other things being equal) before the revenue surplus was eroded.

Occupancy	Base assumption (3.08%)	2.50%	2.75%	3.25%	3.50%
Costs per annum of servicing prudential borrowing (£m)	0.20	0.19	0.20	0.21	0.21
Income per year in steady state (£m)	0.31	0.31	0.31	0.31	0.31
Annual surplus (£m)	0.08	0.10	0.09	0.08	0.08

Pessimistic and Optimistic scenario

7.8 The sensitivity tests undertaken above demonstrate the fluctuation of one variable. It is likely all variables will differ from the base model. We have therefore also tested a pessimistic scenario and an optimistic scenarios for Option 5. This assesses the revenue position for multiple fluctuations in the assumptions that underpin the financial appraisals.

7.9 The pessimistic scenario assumes the following versus the base case:

- Construction costs rise by 10%
- Occupancy falls to 70%
- Rental levels are 10% below expectation
- The PWLB rate is 3.50% and no preferential discount is obtained

7.10 The optimistic scenario assumes:

- Construction costs fall by 5%
- Occupancy is at 90%
- Rental levels are 10% higher than the base model
- PWLB rate achieve is 2.75% which includes a 0.4% discount

The analysis below shows that LCC's revenue position could become negative in the steady-state with multiple negative fluctuations in the base assumptions. The pessimistic scenario would see LCC losing £10,000 per annum. The optimistic scenario shows that it could achieve a surplus of £170,000 per annum.

	Base assumption	Pessimistic	Optimistic
Costs per annum of servicing prudential borrowing (£m)	0.20	0.24	0.19
Income per year in steady state (£m)	0.31	0.26	0.37
Annual surplus (£m)	0.08	-0.01	0.17

Reducing risks

7.11 The analysis above demonstrates that the LCC investment is not without risks. It is therefore in LCC's interest to transfer or reduce these risks prior to committing to the main construction contract. We would therefore expect LCC as the project progresses to look at the following risk mitigation measures:

- Evolving the design to give greater cost certainty
- Backing out the construction cost risk via a fixed-price contract with a contractor (note SCAPE offers this solution)
- Achieving an element of pre-lets ahead of committing to construction. This could be a sizeable pre-let from the University or a series of pre-lets from known professional service firms interested
- LCC achieves a preferential borrowing rate through applying to the GL LEP to provide further financial contingency

Summary

7.12 The sensitivity analysis demonstrates there are risks associated with this development. LCC should carefully consider its risks and attempt to mitigate them ahead of committing to the main contraction contract if it progresses with this project.

8 Conclusions and next steps

Conclusions

8.1 This report is an initial exploration of the type of developing that could be brought forward on the Kesteven Street sites, the appropriate delivery structures and the financial and economic viability. The conclusions and recommendations are based on early stage feasibility work and should only be used in deciding whether the project should progress to the next stage of design and viability modelling.

8.2 The conclusions of this work are:

- An office development would be acceptable on planning grounds on the Kesteven Street sites.
- Any scheme brought forward should be of high-quality design and create an aspirational gateway to the city centre.
- An office development in our view would be an appropriate use of the site
- Initial investigations demonstrate there would be demand for offices in this location from smaller companies and also larger companies requiring satellite offices to access the Lincolnshire market. There is also the possibility of the University needing an office space for back-office functions.
- An element of residential development could not be relied upon to cross-subsidise an office development.
- A small amount of A3, convenience retail or budget gym could provide active ground floor uses and would benefit the overall scheme.
- An office development would require grant funding to be viable.
- The sites are capable of accommodating 3 blocks of office development which could be phased.
- The site could deliver between c.2,500 – 2,700 sqm NIA of office space plus c.270 sqm NIA of ground floor A3/retail on the western block.
- The Western site (Plot 3) offers great potential to make an impact owing to its visibility from the new transport interchange, footbridge and new public space created on Tentercroft Street.
- Based on further analysis of market demand LCC should make a decision on how much office space to deliver in Phase 1.
- There is merit on moving forward with all the development in one phase, but this would come at a greater risk to LCC in terms of void risk.
- The total costs of delivering all plots would be £6.6m - £7.2m requiring £3.3m-£3.6m of grant and prudential borrowing.
- The economic appraisal shows that the project could create / safeguard net additional jobs at a cost of c.£23,000 per job.
- The economic outputs coupled with its deliverability places the project well to achieve grant funding at the next Round of Growth Deal funding (expected to be announced this Autumn).

- The financial appraisals demonstrate that it is probable that LCC would make a small revenue surplus after servicing its debts associated with the scheme once operational, assuming 50% of the delivery costs are met by grant.
- The financial model is sensitive to construction costs and rental income and therefore more evidence is required ahead of LCC committing to the construction of the project.
- It is possible to achieve further improvements to the financial model before committing to the project (a discount on the PWLB rates, construction cost savings etc) which would improve the revenue surplus LCC would generate from the project.
- To heighten the prospects of the project receiving Growth Deal funding the design work and market analysis will need to commence quickly.

Next steps

8.3 The list below summarises the key recommended actions for the next stage of feasibility:

- A more detailed market assessment should be undertaken to provide more certainty on market demand. This should comprise of the following:
    - An assessment of market activity in Lincoln to establish likely rental levels and take up of space
    - Dialogue with potential known occupiers
    - A recommendation on the specification of the building and the size of the units offered
    - Dialogue with University of Lincoln to understand if it does have a need for offices
- Procuring the professional design team
- Completing a suite of technical due diligence work including
    - A check of clean title and any legal impediments to development
    - A review of historic ground condition reports and an assessment of further would be needed
    - A Flood risk assessment
    - A review of utilities and sewers that service the site or that may be present on the site
    - Habitat and other environmental services that may be required to support a planning application
- Dialogue with high-ways officers to understand access to the site and the acceptability of the proposed car parking solutions.
- Evolving the designs through RIBA Stages 1-2 (including dialogue with planners) ahead of a grant application to provide more certainty on the quantity of accommodation that could be delivered
- Completing a more detailed cost plan
- Receiving a formal view on any state-aid implications with the proposals (this will be critical for the LEP / grant funder, it may also limit the amount of surpluses LCC are able to make and LCC should understand this at the earliest possible stage).
- Entering into dialogue with the GL LEP to ascertain:
    - Likely requirements from a Growth Deal application

    - Likely metrics upon which Growth Deal projects would be judged, including intervention rates
    - The possibility of achieving borrowing for the project via the LEP at better rates that the standard PWLB
- Updating the economic and financial models
- Based on the work listed above deciding on the quantity of development to move forward in Phase 1
- Completing all tasks that would be required for a grant application. including:
    - Documenting the rationale for intervention
    - Documenting the options appraisal work completed
    - Updating the financial and economic models
    - Providing a clear delivery programme, including: a resources plan, financial appraisal, risk assessment, timetable for delivery.

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Report Reference:
Policy and Scrutiny

Open Report on behalf of Executive Director for Environment and Economy

Report to:	**Economic Scrutiny Committee**
Date:	**08 December 2015**
Subject:	**Water Management Plan for Greater Lincolnshire**

Summary:

Greater Lincolnshire considers that the effective management of flood risk and water resources is a critical factor in enabling economic growth in our area. It is a crucial part of our infrastructure needs. The overall aim is for water management to act as an incentive for investment and for effective management to be a positive contirbutor to economic growth. Partners across Greater Lincolnshire through the Local Enterprise Partnership's (LEP) Water Management Board have commissioned a Water Management Plan. This report outlines progress with the Water Management Plan.

Actions Required:

The Economic Scrutiny Committee is asked to note progress to date and comment on the approach being taken.

1. Background

Greater Lincolnshire considers that the effective management of flood risk and water resources is a critical factor in enabling economic growth in our area. It is a crucial part of our infrastructure needs. The overall aim is for effective water management to act as an incentive for investment and to be a positive contributor to economic growth.

Investment in water management and infrastructure can be seen as a good economic investment. A report commissioned by the Greater Lincolnshire Local Enterprise Partnership (GL LEP) and Local Partners during 2014 at the time of the government's growth deals suggested that a £20.5m contribution to 11 water infrastructure projects in Greater Lincolnshire could unlock approximately 5,440 FTE jobs in total. In terms of the benefits to business, this investment could unlock over £120m over 100 years which approximates to £7 of business benefits for every £1 contributed.

Partners across Greater Lincolnshire through the LEP's Water Management Board have commissioned a Water Management Plan as a means of enabling economic growth. The intention is that the Plan will be published by the end of 2015.

Why do we need a water management plan?

Globally and nationally, the pressure on water is growing. Water will further become a valuable commodity and there will be increased pressures caused by changes in climate change, sea level rises, extreme rainfall events and population growth and development. For example, water use has been growing at more than twice the rate of population increase in the last century. The water challenge is not unique to Greater Lincolnshire, but addressing it earlier than other areas may provide a competitive advantage and enable our ambitions for growth in the longer term.

Together in Greater Lincolnshire, our actions will create 13,000 new jobs, help 22,000 businesses and increase the value of the Greater Lincolnshire economy by £3.2 billion by 2030. In order to do this and work towards sustainable economic growth, we also need to maintain and seek creative funding solutions for flood risk management in the longer term, along with solutions for solving water stress for economic growth.

On flood risk management, the GLLEP's area is one of the lowest lying and vulnerable areas to flooding in the country. This is especially the case along the coast (but does not exclude inland areas) where much of the agri- food, visitor and port infrastructure is located. Security from flooding is a key infrastructure requirement for these sectors, and the housing growth sector. On the back of this economic growth, Greater Lincolnshire should make the case for additional investment in our water infrastructure. Lincolnshire is recognised nationally as having developed a best practice partnership for food risk management. There is currently no such partnership in place for water resource management, nor is there any strategic approach to integrated water management.

On water resource, the GLLEP's area is one of the driest in the country and is prone to drought. The availability and security of water supply is fundamental to agri-food, housing and manufacturing growth. With our ambitious plans for growth longer term, this water stress is set to increase and will need a different operating and investment model. Some companies have cited access to water as being a barrier to growth currently, particularly in manufacturing and agri-food. Our housing growth alone of 100,000 homes will require an additional 12 million cubic metres per year equivalent to 4,800 Olympic swimming pools.

The existing "business as usual" solutions are not enough because the pressures on water are growing, the public sector cannot fund all of the work that would be needed, and therefore it is likely that new partnerships will be needed for collaborative and multiple benefit solutions.

Who has been involved in the Water Management Plan?

In 2014, a Water Management Board was formed by the LEP to look at integrated water management in Greater Lincolnshire. The Board, led by Mark Tinsley, a LEP board director, has members drawn from the local authorities, the LEP, the Environment Agency, the regional flood committee, the Internal Drainage Boards and Anglian and Severn Trent Water. An officer group supports the Water Management Board.

In scoping the Water Management Plan, two workshops have been held during the summer of 2015. Both workshops were well attended with over 70 different organisations, and had representatives from key sectors such as manufacturing, construction, housing, visitor economy and agri-food in our area. The Lincolnshire Flood Risk and Drainage Management Partnership has been engaged throughout this process, and is supportive of the approach which is intended to incorporate the strategic objectives of the Joint Lincolnshire Flood Risk & drainage Management Strategy, established in 2012.

What is in the draft Water Management Plan?

Lincolnshire County Council is drafting the Water Management Plan on behalf of the Greater Lincolnshire LEP, and a draft version is planned for late November. The Water Management Plan will:

- promote integration between flood risk and water resource management
- set out the GLLEP aims and objectives for water management as a driver for economic growth
- integrate the three lead local flood authorities flood risk management strategies
- identify key current, emerging and future projects

This will be used to underpin further discussions with government, including Defra and BIS, to promote the case for investment in infrastructure to promote growth in the GLLEP area.

2. Conclusion

The Committee is asked to consider the impact of water on economic growth, and to comment on the approach taken in the water management plan.

3. Consultation

a) Policy Proofing Actions Required

n/a

4. Background Papers

The following background papers as defined in the Local Government Act 1972 were relied upon in the writing of this report.

Document title	Where the document can be viewed
Lincolnshire Flood Risk and Drainage Management Plan	www.lincolnshire.gov.uk/44398
Greater Lincolnshire Strategic Economic Plan	www.greaterlincolnshirelep.co.uk/sep

This report was written by Ruth Carver, who can be contacted on 01522 550515 or Ruth.Carver@lincolnshire.gov.uk.

Report Reference:
Policy and Scrutiny

Open Report on behalf of Richard Wills, the Director responsible for Democratic Services

Report to:	**Economic Scrutiny Committee**
Date:	**08 December 2015**
Subject:	**Economic Scrutiny Committee Work Programme 2016**

Summary:

This item enables the Economic Scrutiny Committee to consider its own work programme for the coming year.

Actions Required:

To comment and agree on the content of the work programme, as set out in Appendix A to this report.

1. Background

Current Work Programme

At every meeting of the Committee, Members are invited to consider their future Work Programme and to agree on items to be included in the Work Programme. The current work programme for the Committee is attached at Appendix A to this report.

Scrutiny Activity Definitions

Set out below are the definitions used to describe the types of scrutiny, relating to the items:

Budget Scrutiny - The Committee is scrutinising the previous year's budget, the current year's budget or proposals for the future year's budget.

Pre-Decision Scrutiny - The Committee is scrutinising a proposal, prior to a decision on the proposal by the Executive, the Executive Councillor or a senior officer.

Performance Scrutiny - The Committee is scrutinising periodic performance, issue specific performance or external inspection reports.

Policy Development - The Committee is involved in the development of policy, usually at an early stage, where a range of options are being considered.

Consultation - The Committee is responding to (or making arrangements to respond to) a consultation, either formally or informally. This includes pre-consultation engagement.

Status Report - The Committee is considering a topic for the first time where a specific issue has been raised or members wish to gain a greater understanding.

Update Report - The Committee is scrutinising an item following earlier consideration.

Scrutiny Review Activity - This includes discussion on possible scrutiny review items; finalising the scoping for the review; monitoring or interim reports; approval of the final report; and the response to the report.

2. Conclusion

That consideration is given to the content of this report.

3. Consultation

a) Policy Proofing Actions Required

No policy proofing is required for this report.

4. Appendices

These are listed below and attached at the back of the report	
Appendix A	Economic Scrutiny Committee Work Programme

5. Background Papers

No background papers within Section 100D of the Local Government Act 1972 were used in the preparation of this report.

This report was written by Tracy Johnson, who can be contacted on 01522 552164 or tracy.johnson@lincolnshire.gov.uk.

APPENDIX A

ECONOMIC SCRUTINY COMMITTEE

Chairman: Councillor Tony Bridges
Vice Chairman: Councillor Chris Pain

8 December 2015		
Item	**Contributor**	**Purpose**
Verbal Update on the Outcomes from the Comprehensive Spending Review	Justin Brown Enterprise Commissioner	Status Report
Agreement to participate in a pan-county financial instrument which provides finance to businesses	Justin Brown	Pre-Decision Scrutiny (Executive Councillor Decision on 8 January 2016)
Theme Performance: Quarter 2	Justin Brown	Performance Scrutiny
Regeneration on the East West Link	Paul Wheatley Group Manager – Economic Development	Policy Development
LEP 25 Year Water Strategy	Ruth Carver Commissioning Manager (LEP)	Policy Development
Financial Challenges Workshop 1.00pm – 3.00pm		

12 January 2016		
Item	**Contributor**	**Purpose**
Budget Proposals for 2016/17	Andy Gutherson County Commissioner for Economy and Place Dave Simpson Technical & Development Finance Manager	Budget Scrutiny
Agreement of EU Funding Bids for schemes that meet the Council's priorities	Justin Brown Susannah Lewis Principal Commissioning Officer (Funding)	Pre-Decision Scrutiny (Executive Councillor Decision TBC)
Enterprise Commissioning Strategy – Sign Off	Justin Brown	Policy Development
Lincoln Castle Revealed – Update	Mary Powell Commissioning Manager (Tourism)	Performance Scrutiny

Coastal Town Team (including Mablethorpe)	Nicola Radford Senior Commissioning Officer (Regeneration Programmes) Paul Learoyd Lincs Wildlife Trust	Status Report
Place Marketing – Involving the Private Sector	Jill McCarthy Principal Officer Growth	Status Report

23 February 2016		
Item	**Contributor**	**Purpose**
Agreement of Strategic Economic Plan for Greater Lincolnshire	Justin Brown	Pre-Decision Scrutiny (Executive Councillor Decision on 29 February 2016)
Adoption of the Outcomes of the Tourism Review	Mary Powell	Pre-Decision Scrutiny (Executive Councillor Decision on 31 March 2016)
Theme Performance: Quarter 3	Justin Brown	Performance Scrutiny
Impact of Transportation on Maximising Economic Growth (ITMEG) – Third Monitoring Update	Andy Gutherson	Scrutiny Review Activity
Greater Lincolnshire Local Enterprise Partnership (GLLEP) Coastal Vision and Water Management Plan – Update	David Hickman Environmental Services Team Leader	Update Report

12 April 2016		
Item	**Contributor**	**Purpose**
Role of Apprenticeships in Growing the Local Economy	Clare Hughes Principal Commissioning Officer (LEP)	Update Report
University of Lincoln's Plan for a Medical School	Professor Sarah Owen University of Lincoln	Status Report

Items to be Scheduled

Grantham Southern Economic Corridor	Paul Wheatley Group Manager – Economic Development	Status Report
The Economic Value of Nature Tourism in Greater Lincolnshire	Fran Smith Nature Partnership Manager	Update Report
Midlands Engine / Northern Powerhouse	Justin Brown	Update Report

For more information about the work of the Economic Scrutiny Committee please contact Tracy Johnson, Senior Scrutiny Officer, on 01522 552164 or by e-mail at tracy.johnson@lincolnshire.gov.uk

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