Report to:	**Lead Cabinet Member for Strategic Management and Economic Development**
Date:	**4 September 2014**
Report by:	**Director of Communities, Economy and Transport**
Title of report:	**Sea Change Sussex Funding**
Purpose of report:	**To seek approval for the County Council to secure from the South East Local Enterprise Partnership funding in order to issue a loan funding package to Sea Change Sussex of an equivalent amount**

RECOMMENDATIONS: The Lead Member is recommended to:

(1) agree to secure from the South East Local Enterprise Partnership loan funding to the value of £4.6m to Sea Change Sussex in advance of expenditure for the Sovereign Harbour Innovation Mall;
(2) agree to the loan funding referred to above;
(3) delegate authority to the Director of Communities, Economy and Transport to agree the terms of, and enter into, the loan agreement with Essex County Council as the South East Local Enterprise Partnership's accountable body, necessary to secure the funding; and
(4) delegate authority to the Director of Communities, Economy and Transport to take any action, including agreeing the terms of and entering into any agreements with East Sussex Energy and Infrastructure Development Limited, trading as Sea Change Sussex, he considers appropriate to give effect to or in consequence of recommendations 1, 2 and 3.

1 Financial Appraisal

1.1 The Sovereign Harbour Innovation Mall (SHIM), estimated cost £6m, is being part funded by the Growing Places Fund (GPF) through the South East Local Enterprise Partnership (SELEP). The GPF operates on a rolling fund basis and the loan funds are repayable after the completion of each project. As many projects are being undertaken by delivery partners independent of Local Authorities, Essex County Council (ECC) as the accountable body require upper tier authorities to underwrite each loan.

1.2 The County Council has already provided an £800k loan to Sea Change Sussex (along with £850k from Eastbourne Borough Council) for the acquisition of the land for the Sovereign Harbour Business Park within which the Innovation Centre will be located.

1.3 The phasing of payments anticipated and relied upon by Sea Change Sussex, our delivery partner for SHIM, mean that ESCC would be making payments in advance of or 'forward funding' expenditure. This exposes the County Council to some increased financial risk, as until such time as the project is completed the asset may not prove sufficient security.

1.4 The loan of £4.6m from East Sussex County Council (ESCC) is not sufficient to fund the total cost of the Sovereign Harbour Innovation Mall, at £6m. Seachange Sussex is seeking to close the funding gap via a separate loan of £1.4m which is subject to confirmation on 3 September. In reaching the recommendation set out in this report to approve the forward funding of the £4.6m required in 2014/15 ESCC has sought to minimise the risks by understanding:

- the financial position of Sea Change Sussex, their profit and loss account and cash flow position;
- the progress of the project and its deliverability; and
- the likelihood of generating funds to meet the repayment requirements.

1.5 In addition, considerable due diligence about the viability of the project was carried through the initial assessment process by both ECC as accountable body and ESCC.

1.6 Notwithstanding the risk mitigations above it is also proposed to take a first legal charge over the land where the Mall will be built to cover the amount ESCC have loaned to Sea Change Sussex. This charge will be completed prior to release of the loan in keeping with the funding agreements with ECC and Sea Change Sussex. This will ensure that the Council will be able to sell the Mall land and recover its loan, should Sea Change Sussex breach its obligations. However, during the early part of the project the value of the land may not be sufficient to cover the amount advanced and any interest (and any other monies that ESCC may be required to repay ECC under its funding agreement with them). The land, once completed however, will be expected to be worth £5.74 million according to the valuation attached at appendix 1 and ESCC are satisfied this leaves SC in a strong position to make full repayment of the loan at this point. In relation to Sea Change Sussex's other assets, where ESCC do not have a charge should the company be wound up, ESCC will rank with any other unsecured creditors.

1.7 Some further reassurance is provided to ESCC by having a County Councillor on the Board at Sea Change Sussex to ensure financial propriety is observed at all times. In addition, an internal governance board has been established, comprising representatives from Legal, Finance and Communities, Economy and Transport Departments to help ensure County Council oversight as well as providing advice and support to the County Councillor on the Sea Change Sussex Board.

1.8 It should be remembered that by underwriting the loan ESCC remain liable until such time as the repayments are made in full.

1.9 All necessary planning permissions have been granted and the scheme is already on site, with an estimated completion date of August 2015.

2 Background

2.1 Details of Sea Change Sussex, its members and the constitution of the board are shown in Appendix 2.

2.2 SELEP has approved funding for a number of projects in East Sussex, amounting to over £19m, achieved in partnership between the County Council and Sea Change Sussex (see appendix 3)

2.3 Sea Change Sussex is working to secure significant business growth, including over 6,000 new jobs by 2022. A central part of this is the development of 900,000 sq ft of commercial premises to create thriving business communities in four main areas, one of which is the Sovereign Harbour Innovation Mall.

2.4 ESCC is now seeking approval to provide funding in advance of expenditure to Sea Change Sussex to the value of the amounts set out in the drawdown schedule agreed by ESCC, Sea Change Sussex and ECC. This equates to £4.6m for the Sovereign Harbour Innovation Mall in the financial year 2014/15. The drawdown profile for all the years of all the SELEP and ESCC approved GPF projects and the anticipated repayment profile for the SHIM project are attached to this report as Appendix 4.

2.5 This requested loan is in addition to monies previously awarded, such as the £800k loan for the employment land at the Sovereign Harbour Business Park.

3 Supporting information

3.1 The Sovereign Harbour has been developed into an important leisure attraction and residential area over the past 20 years. The area is missing the social and economic infrastructure that is required for it to become a sustainable community; the Sovereign Harbour Business Park will resolve this issue and the Innovation Centre is the first step for this important development.

3.2 The land for the Sovereign Harbour Business Park has been acquired, planning permissions granted and the build contract for the Innovation Mall awarded, thus the project is ready to proceed subject to ratification of funding.

4 Conclusion and reason for recommendation

4.1 The Sovereign Harbour Innovation Mall will make a positive contribution to the economic regeneration and growth of the county, and securing GPF funding will facilitate early delivery of the project. The Innovation Mall will be the focal point of and the catalyst for the Sovereign Harbour Business Park which is forecast to attract £34m of private investment. The funding will enable Sea Change Sussex to deliver this project, and it is therefore recommended that the County Council approves the allocation of the funds identified and delegations above referred to.

RUPERT CLUBB
Director of Communities, Economy and Transport
Contact Officer: James Harris, Assistant Director, Economy Tel. No. 01273 482158
Local Member: All
BACKGROUND DOCUMENTS :

None

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Mr John Shaw
Sea Change Sussex
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Highfield Drive
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TN 38 9UH

30th November 2012

Dear John

Harbour Innovation Mall, Sovereign Harbour, Eastbourne

On your instructions we have set out below our view on the inputs required to support the development of the Growing Places Fund business case for the Harbour Innovation Mall. This includes market commentary, the importance of the Business Mall as a catalyst to investment for the remainder of the 30,000 square metres of the land allocated for the business use at Sovereign Harbour – (this 30,000 square metres representing half of the 60,000 square metres allocated in the Borough of Eastbourne) a review and commentary on proposed take-up rates, void periods, rents and yields adopted and our market validation.

The basis of our advice has regard to the net income/rental value of the Harbour Innovation Mall on completion of the development in December, 2014 and our opinion on the potential sale price in 2020/2021 assuming the building is fully let on flexible leases with an average length of 3 to 5 years to reasonable covenants. Clearly, the sale date is sometime in the future so our comments and views can only be very general in nature and we have assumed normal market conditions will prevail at the time, rather than the depressed market conditions we are currently experiencing in both the occupational and investment markets. Please note that the advice contained in this letter is to be regarded as agency advice in connection with Harbour Innovation Mall and does not constitute a formal red book valuation.

Description

The Harbour Innovation Mall will provide the first phase of (use class) B1 business units which will extend to 30,000 square metres (322,926 sq ft) once fully developed. It is envisaged that the Harbour Innovation Mall will provide 2,490 square metres (26,802 square feet) of total net lettable space designed with total flexibility to accommodate a wide range of sizes from small suites of 30 square metres (322 square feet) but with the potential to offer larger floors up to 498 square metres (5360 square.feet) to accommodate future changes in the demand profile. There will be a large central atrium running through the scheme which accommodates the core reception, lift and toilet facilities leaving regular floorplates of 498 square metres (5360 square feet) in five wings with external access doors at ground and floor levels together with internal walkways to maximize flexibility in terms of unit sizes. The total floor area is set out below but the intention is to break the floors down to small suites to provide up to 63 workshops (45 B1 offices of 30 – 60 square metres (322 – 644 square feet) and 18 studios/R&D units at lower ground floor.

Floor	Square Feet	Square Metres
Lower ground floor north wing	5360	498
Ground floor north wing	5360	498

Ground floor south wing	5360	498
First floor north wing	5360	498
First floor south wing	5360	498
Total	26,800	2490

The flexible design concept, to which we have contributed, provides a range of grade A office units in "galleries" serviced from a central atrium or mall. The design offers up a unique blend of letting options from monthly licences to traditional 5 year leases in units ranging from 30 square metres (322 square feet) to any permutation in the upper floors from a basic unit of 60 square metres (644 square feet) up to a whole floor of 498 square metres (5360 square feet).Should requirements emerge during the construction period, the Harbour Innovation Mall is also capable of lease or sale to a single occupier without modification.

The office building will be finished to a grade A standard to include raised floors, air conditioning, suspended ceilings with recessed lighting and will be fully compliant with DDA and modern building standards and will include green energy features to help minimize future occupancy costs.

The high specification of the Mall includes a central reception; a café bar; meeting/break-out space; a 3D computer aided design (CAD) "printing" (i.e. producing product prototypes) terminal networked to the other managed centers and the University of Brighton; a large cinema screen and projection facilities in the Mall will also be available for networked business events and capable of being used as a commercial venue in the evenings.

The use of the Mall by the wider community is intended to raise the market profile of the Harbour Innovation Mall and the wider development of business units at Sovereign Harbour.

The planning policies of Eastbourne Borough Council and the agreed Masterplan for Sovereign Harbour envisage 30.000 square metres of B1 business units on 8.9 hectares of the otherwise largely developed residential, leisure and retail components of the wider Sovereign Harbour. The long held ambitions of the Eastbourne Borough Council for Sovereign Harbour are the attraction of inward investment and the creation of high quality local employment.

The Harbour Innovation Mall will provide long awaited critical mass to kick start the wider development by providing high quality, flexible office accommodation. It is essential that the Harbour Innovation Mall is developed to attract smaller local and regional businesses into the area which can then expand over time to complement the larger occupiers who will be attracted to further phases of development as the Business Park matures. Without this catalyst a significant sector of the property market – B1 Uses, will remain undeveloped against a background of higher value alternatives.

Market overview / Estimated Rental Value

The existing stock of business space in Eastbourne is largely 1960's/70's office buildings which lack modern standard and have floor slab to ceiling slab heights, typical of their era, which preclude incorporating such modern amenities as raised floors. This stock is supplemented by office uses above retail units as would be expected in the tertiary locations surrounding an established retail centre. None of this accommodation has demonstrated any success in attracting an interest. The only new development in the last 10 years has been on the outskirts of the town at Hargreaves Business Park adjacent to the A27 which achieved rents of up to £17.00 per square feet for buildings between 2,000 and 5,000 square feet.

There have only been 11 transactions recorded since the start of 2010, the majority being between 500-2,500 square feet with the exception of a 28,500 square feet building sold to Mistywell for their own occupation. This is in contrast to the success of the Creative Media and Innovation Centres set up in neighbouring Hastings which has attracted a wide range of SME's and currently has occupancy rates in excess of 90%. The success of these centres should form a blue print for future growth in areas where demand has previously proved fragile and will encourage opportunities for local expansion as well as appealing to regional companies who struggle to find appropriate flexible accommodation in the wider locality.

Existing supply is limited to less than 60,000 square feet of offices in 27 units which are predominantly between 500 square feet and 3,000 square feet with only two buildings currently available over 5,000 square feet. All the buildings are second hand with no new developments currently available to let.

The rents achieved for the typical older office stock are up to £10.00 per square foot. That these historic rents have been achieved is illustrative of the lack of a modern grade A alternative. This stock is singularly unattractive and inflexible for modern dynamic businesses, either locally expanding or inward investment as leases or business occupations of these buildings comes to an end, they are increasingly finding new occupiers difficult to attract or are being left empty (e.g. the former NHS offices and BT Exchange). This stock is effectively nearing the end of its economic life – hence the greater importance of establishing the critical mass of a modern business park at Sovereign Harbour. The historic stock locations do not lend themselves to redevelopment and market economies suggest they will be used for more lucrative uses such as residential or retail.

Eastbourne and its immediate environs have become a major commuter location for Gatwick and Brighton as is evidenced by the relative strength of the housing market – assisted by commuting times by train and car (A22/A27) to both destinations. Given the cost of transport and commute times, the disposable income and quality of the arguments will create the "two way street" of commuter residences and work places, providing a major cost advantage for any employer locating to Sovereign Harbour.

Our conclusion for assessing rental is that there is a significant unsatisfied demand for the wider market opportunity combined with the lack of suitable modern alternatives. The rents achieved historically at Hargreaves Business Park and in neighbouring Hastings underpin the rental levels at Harbour Innovation Mall and we are of the opinion that £17.00 per square foot will be readily sustained in the Harbour Innovation Mall and that flexibility of lease options and unit size will underpin a successful take-up of the accommodation.

Review of the development appraisal for the scheme

The development costs of £6m are based on our Hastings experience over 5 years, the competitive quotes recently received for phase 3 Priory Quarter and are comparable to the range of prices for the limited number of new speculative office schemes currently taking place in the south east office market.

The professional fees adopted in the appraisal are typical of those used in traditional office development appraisals and in our opinion reflect market rates.

Given our comments made on the "**market overview/rental value,**" we are of the view that our client's view of the take-up rates is somewhat pessimistic and we believe that all of the unit sizes in the proposed range will be able to attract occupiers from the opening of the Harbour Innovation Mall.

Given the relatively small size of the suites and short term nature of the licences and leases that will be granted we are of the opinion that the rent free periods will be minimal, ranging from 3 months to 6 months, depending on the length of term.

After year 5, we assume the building will be generating the full rental value on 3 to 5 year leases. As some leases will be shorter than phase 4 Priory Quarter this will impact on value and we consider a yield of 7.5% to be more appropriate on the assumption that normal market conditions will prevail at the time of sale, rather than the depressed occupational and investment markets that currently exist. In our opinion this is a fair average long term yield to adopt.

Estimated Capital Value in Year 5

Based on the full rental value of £455,600 a yield of 7.5% and deducting purchaser's costs of 5.5%, we believe the capital value to be £5.74 million. Given that early repayment of the loans is liable to reduce the outstanding debt from the initial borrowings of £6m to £4.5m this valuation should achieve repayment through sale or refinancing.

Yields in the current investment market have softened as a result of the exceptional economic circumstances that prevail and therefore in order to assess appropriate yields in year 5 we should have regard to longer term average yields rather than present day figures. Assuming the building is let on 3 to 5 year leases we are of the opinion that a yield in the region of 7.5% (which is reflective of a normal investment market) could be applied to the base rent to achieve the capital value required.

Eastbourne has no Grade A office accommodation and has low rents for the South East which we expect to increase over the next 10 years as the area becomes more re-established as an office location as the occupational market improves. Therefore by adopting a rental value of £17.00 per square foot, which has already been achieved at Hargreaves Business Park, we believe there is a significant "in-built" contingency factor as these rents should increase over time.

I trust this is sufficient for your purposes.

Yours sincerely

Richard Harding

Partner
BrayFoxSmith

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Mr John Shaw
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14th May 2014

Dear John

Harbour Innovation Mall, Sovereign Harbour, Eastbourne

Further to my previous advice of the 30th November 2012 and to our recent discussion, I would not propose to alter the contents of my report but would confirm that the contents continue to be accurate in their entirety for the market assessment in relation to the Harbour Innovation Mall. The market stagnation continues for Eastbourne with no other competing projects coming out the ground amidst market concern that the Harbour Innovation Mall appears to be yet another stalled project in a 23 year history.

We would strongly advise an intensive awareness campaign to re-launch the Harbour Innovation Mall, related to the positive message of construction start.

Yours sincerely

Richard Harding

Director
BrayFoxSmith

46 Mount Street, Mayfair, London, W1K 2HH

East Sussex Energy, Infrastructure and Development Limited
Trading as Sea Change Sussex

Company number: 07632595
Registered Office: Innovation Centre, Highfield Drive, St Leonards TN38 9UH

Sea Change Sussex is the trading name of East Sussex Energy Infrastructure & Development Ltd (ESEID), a company limited by guarantee. It is a 'not for profit' economic development and regeneration company, working to expand the area's economy and business community with ESCC and other key partners.

Sea Change Sussex is a delivery partner for ESCC, which is represented on the board of directors; ESCC, Hastings Borough Council and Rother District Council all own a stake in the company, and we have a well-established and very successful relationship in implementing economic development projects. We have also set up an internal governance board in respect of loan funding to Sea Change Sussex, further mitigating any risk.

The members of the company are:

Hastings, Bexhill and East Sussex Business Association Ltd	50.00%
University of Brighton	19.90%
East Sussex County Council) Hastings Borough Council) Rother District Council)	19.90%
Voluntary Sector	10.20%

Members of the Board are:

Professor Julian Crampton	University of Brighton	Chairman
Councillor Peter D Chowney	Hastings BC	
Councillor Robin Patten	Rother DC	
Councillor Rupert A Simmons	ESCC	
Sonia J Blizzard		
Paul Evans		
Gareth P Jones		
Steven J Manwaring	Hastings Voluntary Action	

SELEP Growing Places Fund – Summary of East Sussex Projects

Since the launch of the Government's Growing Places Fund (GPF) the South East Local Enterprise Partnership (SELEP) has been allocated approximately £50m to fund projects commensurate with the GPF criteria. ECC has been established as the Accountable Body, issuing funds on a project by project basis to the relevant authority (or 'borrower') primarily through loan agreements, who then secure repayment via various forms of reimbursement.

Funding already awarded

Scheme	Project Cost	GPF Funds
Priory Quarter Phase 3, Hastings Construction of 6 storey office accommodation in Hastings town centre providing 25,000 sq ft of rentable space for single business or multiple occupancy.	7,250,000	7,000,000
North Queensway, Hastings Provision of new junction to access a key employment site along with the provision of new Utility Service supplies to the site.	1,500,000	1,500,000
Bexhill Innovation Mall Construction of 3 storey 'Business Mall' office accommodation in Bexhill providing 26,800 sq ft of rentable space for multiple occupancy by Small and Medium Enterprises (SME's) in a managed and supported environment.	6,000,000	6,000,000
Sovereign Harbour Innovation Mall, Eastbourne Construction of 3 storey 'Business Mall' office accommodation in Eastbourne providing 26,800 sq ft of rentable space for multiple occupancy by Small and Medium Enterprises (SME's) in a managed and supported environment.	6,000,000	4,600,000
Total	**20,750,000**	**19,100,000**

Growing Places Fund – East Sussex Drawdown Profile

Scheme	2012/13	2013/14	2014/15	2015/16	2016/17	Total	Status
Priory Quarter Phase 3 Hastings	1,425,000	4,825,000	715,000	35,000		7,000,000	Approved
North Queensway – Hastings	1,270,000	230,000				1,500,000	Approved
Bexhill Innovation Mall		1,750,000	4,000,000	250,000		6,000,000	Approved
Sovereign Harbour Innovation Mall Eastbourne			4,600,000			4,600,000	Approval requested, subject to this report
Totals	2,695,000	6,805,000	9,315,000	285,000	0	19,100,000	

Sovereign Harbour Innovation Mall - Repayment Profile for requested funds

Anticipated timetable for repayment of £4,600,000

year	amount	balance	notes and comments
2016/17	£25,000	£4,575,000	
2017/18	£200,000	£4,375,000	
2018/19	£300,000	£4,075,000	
2019/20	£475,000	£3,600,000	
2020/21	£400,000	£3,200,000	
At this stage SCS will re-finance the project and repay the balance of the loan			

South East
Local Enterprise Partnership

SOUTH EAST GROWING PLACES FUND

PREPARING THE BUSINESS CASE – GUIDANCE NOTES FOR SHORTLISTED AND PIPELINE PROJECTS

Projects selected by the Executive Group of the South East Local Enterprise Partnership (SELEP) at its meeting on 7 September 2012 as 'shortlisted' or 'pipeline' projects have been invited to submit a business case as part of the second stage of the project evaluation process.

The business case for 'shortlisted' projects ONLY will be subject to an appraisal commissioned by upper tier authorities. An appraisal of the business case for 'pipeline' projects will be undertaken when it is clear that there is sufficient financial headroom within the fund to support these projects.

These guidance notes have been prepared in two parts. Part A provides guidance for the applicant and Part B provides guidance for the appraiser.

Part A: Notes for Applicants

Good practice demands that the business case (and the appraisal of it) should be "5-case" compliant – i.e. that the business case should reflect HM Treasury's "five case model" comprising a **strategic** case, an **economic** case (looking at the relative costs, benefits, value for money and risks of different options), a **commercial** case (understanding the deal, and the underpinning evidence to support it), the **financial** case (for the preferred option) and a **management** case (including governance, work programme, risk management plan and monitoring arrangements).

There is no need to repeat information already provided as part of the Expression of Interest, but there is an opportunity to expand where it may be helpful to so. It is important that supporting evidence is provided. A check list of evidence required is provided at Annex B.

If there are any variances from the details provided within the Expression of Interest it is important that there are highlighted in the relevant box under 'Project Details' , together with an explanation for any changes.

Detailed notes are provided as follows:

NOTE: THE APPLICANT ONLY NEEDS TO COMPLETE THE BOXES WHICH ARE LEFT UNSHADED. THE APPRAISER (FOR SHORTLISTED PROJECTS ONLY) WILL COMPLETE THE BOXES SHADED GREY.

<u>Section 1</u>

1.1: This can be based on B1 to B3 of the Expression of Interest.

Section 2

2.1: This can be based on A7 of the Expression of Interest.

2.2 (Table 1): By "gross" we mean the total outputs generated, without any adjustment for deadweight, leakage, displacement or multiplier effects.

Estimation of direct jobs from commercial/industrial space: Please explain what evidence on **employment densities** (e.g. sq. m per job) has been used to derive job estimates. A useful source of information is recent guidance on Employment Densities published by the HCA. Employment density evidence normally represents all jobs, including part-time jobs as well as full-time jobs. In Section 2, the jobs should be expressed as **Full-Time Equivalent (FTE) jobs**, with a working assumption that 2 part-time jobs = 1 FTE.
http://www.homesandcommunities.co.uk/employment-densities-guide-2nd-ed

'Direct' outputs are those directly dependent on the intervention or delivered by it. For example, if the funding is supporting the provision of business space the jobs accommodated in that space can be considered to be direct outputs. If the funding is supporting a new road opening up an initial phase of an employment then again the jobs accommodated in this phase can be treated as outputs. Further outputs arising for example from future phases of development or spin off in the wider economy should be treated as indirect outputs.

2.3 (Table 2) and 2.6 (Table 5): For the gross direct jobs and housing outputs, please indicate when these will be delivered (based on anticipated year of occupancy for jobs and practical completion of housing units)

2.5: Please provide a reasoned argument for what would happen to the delivery of the project, and the employment, housing and other outputs dependent upon it, in the absence of any Growing Places Fund investment.

2.7 (Table 6): Table 6 uses Tables 4 and 5 and compares this with the performance of the preferred option.

2.11: Please provide a discussion of at least two other front-running options which were considered prior to arriving at the preferred option described in Section 2.1. These alternative options might take the form of different land uses; different infrastructure options to deliver the same outputs; or different procurement methods for delivering the same infrastructure and outputs.

For each option discussed in this section, please provide as a minimum the following commentary (no quantitative analysis is required):

a) summary description of the option
b) how the performance of the option varies from the approach taken in the preferred option – performance might be considered, for example, in relation to issues such as cost, timescale, level of risk, level of outputs, quality of outputs
c) why the option was rejected as unsuitable. If a formal options analysis/appraisal was conducted, please provide some summary details of the approach taken and the key indicators which were considered in arriving at a formal judgement on the preferred option.

<u>Section 3</u>

3.1: Confirmation that the primary loan will be based on the standard form of Credit Facility (see notes below) between the Essex CC and the borrowing authority.

3.2: An explanation of how the sub-ordinate loans and repayment would work in practice including:

- details of how these are linked to income streams related to the project (e.g. S.106 agreements, business rates uplift etc.)
- details of where risks (financial, programme, reputational) are being carried

Notes on Credit Facilities: SELEP has determined that it will allocate GPF primarily through loan agreements with local authorities, who will then secure repayment through landowners/developers via planning agreements or other forms of reimbursement. Where a sufficiently compelling case is presented SELEP may provide support for non- standard projects, either in terms of the type of project or the financing structure.

Primary Loan Agreements will be entered into between Essex County Council (accountable body for SELEP), the 'Lender' and the applicant authority, the 'Borrower' (normally a County or Unitary authority).

Dialogue between upper and lower tier authorities is encouraged to ensure projects brought forward are strategic in nature, liabilities for repayment are covered and that the accountable body is not exposed to undue risks.

The Primary Loan Agreement will contain 'standard terms' including:

- A capped facility for capital expenditure;
- A definition of the works (infrastructure);
- Drawdown conditions based on certification of works;
- A loan term;
- Drawdown profile;
- Repayment profile;
- A finance rate - may be charged if there the loan involves State Aid
- Monitoring requirements

Where appropriate Primary Loan Agreements will be conditional upon a subsidiary agreement being entered into between the Borrower and a third party – for example a developer or infrastructure providing for works to be undertaken and/or contributions based on planning agreements, tariffs or CIL.

<u>The Primary Loan Agreement will provide a contractual obligation for the Borrower to repay the loan according to the repayment profile.</u>

3.3 Describe the further steps that need to be taken to firm up on financial projections and timings.

<u>Section 4</u>

4.1: Financial information should be presented in the template provided in Annex B.

4.3: Clearly quote the evidence on which all financial information is based.

4.5: Provide details of other funding in Annex B.

4.7: Provide confirmation (with reasons) that by supporting this project the Growing Places Fund will not be providing State Aid.

<u>Section 5</u>

5.1: For example, Project Board, Senior Responsible Owner (SRO), any sub-committee structures.

5.2: Describe any in-house/external appointments.

5.3: Attach a project programme or a simple table setting out major delivery milestones – from now until practical completion of final outputs. Include any critical tasks that will be needed to realise benefits post-construction, e.g. marketing, the use of other incentives etc. to attract occupiers in target sectors.

5.4: Describe the t*op 10 risks: cause, risk event, consequence, risk evaluation (likelihood and impact) and risk management. Note this is to be prepared from the perspective of the Borrower (upper tier authority).*

Part B: Notes for Appraisers

NOTE: THIS PART IS ONLY RELEVANT TO THE SHORTLISTED PROJECTS. THE APPRAISER SHOULD ONLY COMPLETE THE BOXES SHADED GREY. THE APPLICANT SHOULD HAVE COMPLETED THE BOXES LEFT UNSHADED.

The SELEP want to adopt a consistent approach towards appraisal across all projects to provide the necessary assurance **both** to the accountable body (on behalf of the LEP), as lender, **and** to the upper tier authorities, as borrowers, that a robust appraisal process has been adopted. There is a wish to avoid separate appraisal processes, however there is a need for both the 'lender' and the 'borrower' to undertake due process and satisfy themselves on the costs, benefits, risks and value for money.

Each upper tier authority is charged with the task of preparing an appraisal on projects which the SELEP has approved to progress. The appraisal should follow the template attached to these notes. Any changes to the project information presented in the Expressions of Interest should be highlighted.

The appraisal should be undertaken by a suitably qualified independent person. To assist the process and to promote consistency and high standards of appraisal the SELEP has made available a limited resource to provide **appraisal support**. If you require guidance in the first instance please contact Zoe Myddelton at South East LEP Secretariat (tel: 01245 434104).

In terms of defining and evaluating options, the approach draws heavily on the decisions which have arrived at a ‘preferred’ option. The quantitative analysis therefore focuses on the costs and benefits of this option versus a reference or ‘do nothing’ case. For the most part, as projects supported by GPF are stalled, the same outputs may be expected to be delivered, the difference being that GPF allows the projects to be accelerated. The appraisal therefore has been designed to quantify this acceleration and give due weight to it.

In distinguishing the roles of the LEPs and the upper tier authorities the appraisal will need to capture the benefits for the LEP area as a whole and as a sub-set of this the unitary area concerned with each project. The appraisal will also need to be consistent with the requirements DCLG have laid down for reporting, particularly in relation to capturing outputs.

The conventional approach for the treatment of costs is to look at the ‘gross’ costs of the intervention representing a contingent liability in accounting terms. In this case as the primary loans are due to be repaid in full this does not give a fair reflection of the cost of the project to the public purse. Therefore an additional metric has been provided which treats the costs as the present value of the loan less the present value of the repayments.

The requirement for a suitably qualified independent person to certify that the terms of the loan are fair and reasonable, both from the lender’s and the borrower’s perspectives, puts an onus on the appraiser to consider the terms of the loan in the round and the risks being borne by each party. It needs to provide ECC comfort that loans will be repaid within an appropriate timescale reflecting the characteristics of each project. It also needs to provide the upper tier authority comfort that the repayment terms fairly reflect the risk it is taking on through subordinate agreements (where these apply).

Section 1

1.2: Provide a commentary on the project’s strategic fit.

Table 1: Normally the **construction jobs** involved in delivering a project are not counted as benefits as they are considered to be part of the project inputs i.e. necessary to enable the project. However, with the fiscal stimulus a number of government departments are claiming as benefits the construction jobs created from their capital infrastructure investment can also be taken into account. To count one job, please use full-time equivalent “job-years” rather than employment units. For example, construction jobs are temporary jobs, not permanent jobs, and usually last for one year. So for a construction project running during 10 years and employing 1,500 per year, the full-time equivalent job-years = 15,000 (1,500 jobs each year over 10 years). Similarly, if the project employs 100 people working for a period of 6 months, then the full-time equivalent job-years = 50.

The method being adopted for estimating construction job years is as follows:

Step 1: Estimate total construction spend
Step 2: Multiply total construction spend by 35% as an estimate of the labour element of construction spend
Step 3: Divide the figure derived from Step 2 by £131, 993 (Average UK Turnover per employee in construction sector, source 2009 ABS). This provides the estimate of construction job years.

2.4 (Table 3): In the absence of any bespoke evidence for the project, a useful source of benchmark evidence for leakage and displacement is the BIS/CEA additionality benchmarks[1] and for multiplier effects we recommend the EP/HCA Additionality Guide[2]. For this purpose, please use the "local area" or "sub-regional" levels in these benchmark documents as a proxy for Upper tier level; and "regional" as a proxy for SELEP level.

2.5 For guidance on issues to consider in approaching this analysis, please refer to the CWA/OffPAT guidance on "the role of the Reference Case in project appraisals" and specifically the treatment of land and property projects in Annex 1 of this guidance[3].

2.8: In the absence of Growing Places Fund investment, the working assumptions about end use and thus displacement, leakage etc. may be exactly the same (e.g. if the sectors are similar) – but where sectors of employment are different, it may be appropriate to use different displacement and potentially different leakage and multiplier assumptions.

2.9 (Table 8): Completes the formal quantitative output and value for money analysis at the SELEP level in relation to employment outputs. Where the project is producing both direct jobs and housing units, then costs should be apportioned. Where information is available on the anticipated costs of servicing the different areas, then this should be used. Where no such information is available, then costs should be apportioned based on the relative land area for employment uses vs residential.

For the Present Value of GPF net costs please draw on Table 10 in the financial case (Section 4). (Where there are other public sector costs being incurred, a table modelled on Table 10 should also be provided in Section 4 and this can be drawn on for a Present Value of Net Public Sector cost in Table 8)

2.10 (Table 9): Completes the formal quantitative output and value for money analysis at the SELEP level in relation to housing outputs. The same points above about cost apportionment and about using cost data from Section 4 also apply here.

Section 3

3.4: Provide a commentary on the commercial case.

Section 4

4.2: Costs should be in real 2012 prices, and shown as 'gross' costs and 'net' costs both undiscounted and discounted to 2012 Present Values . As GPF is a loan fund which is due to be repaid on an undiscounted basis the net cost would be expected to be nil. Only by applying a discounting factor are we able to estimate the time cost value of the resource from the public sectors perspective.

Where 'other' public sector funding is provided this table should be repeated for the total public sector costs.

[1] http://www.ceaevaluation.co.uk/files/BIS_Additionality_file53196.pdf

[2] http://collection.europarchive.org/tna/20100911035042/http://englishpartnerships.co.uk/docdownload.aspx?doc=Additionality%20Guide_0.pdf&pid=E6B323D899F74AE381E392234B7AF5FD

[3] http://www.colin-warnock.co.uk/files/OffPAT_Ref_Case_PAN_07-05.pdf

Use 2012 (current day) prices and apply a discount rate of 3.5% per annum for the discounted costs.

4.2: This can be based on D1 and D6 of the project pack. It is important for the appraiser to pass comment on the quality and relevance of the evidence which is provided.

4.3: Part of the assessment of value of money reflects the time it take to repay the loan. As GPF is a revolving fund shorter loan periods will enable the fund to be recycled more frequently thus enabling more outputs too be realised. Table 11 provides an assessment of this feature.

Annex A

For each item on the check list provide a commentary on the robustness of the evidence presented and the residual risks to both the LEP/accountable body (lender) and to the upper tier authority (borrower).

Annex B

The figures presented in Annex B should be reviewed and scrutinised.

BUSINESS CASE TEMPLATE

NOTE: THE APPLICANT ONLY NEEDS TO COMPLETE THE BOXES WHICH ARE LEFT UNSHADED. THE APPRAISER (FOR SHORTLISTED PROJECTS ONLY) WILL COMPLETE THE BOXES SHADED GREY.

Project Details

Project Title	**Harbour Innovation Mall, Eastbourne**
The contracting authority (the Borrower) – upper or lower tier or unitary	East Sussex County Council
Lead Point of contact	**John Shaw, Chief Executive, Sea Change Sussex**
Contact email	johnshaw@seachangesussex.co.uk
Contact telephone	01424 858287
Location of the project including which Local Authority Area(s) it falls within	Sovereign Harbour, Eastbourne, East Sussex Eastbourne Borough Council East Sussex County Council
How much funding is sought from the Growing Places Fund?	£4,600,000
Highlight any changes to the information provided in the Expression of Interest	There is no material changes in the information presented within this Business Case compared with the Expression of Interest. The GPF loan request has increased from £5.75m to £6m, reflecting an additional contingency of £0.25m. The rationale for this additional contingency is based upon Sea Change Sussex's (SCS) actual recent experience of receiving construction tenders for the Priory Quarter Phase 3 scheme which were higher than anticipated, largely due to increases in construction material costs. We felt that it would be prudent to increase our building cost contingencies to reflect our current experience of major construction contracts, particularly the cost of materials and to include the installation costs of new green energy technologies, hence the final budget for the construction costs is £6 million of which **£4,600,000** is sought as available GPF from SELEP. Since the EOI stage, we are able to import more confidence into the scheme from sustained pre-development activity since the Expression of Interest. Harbour Innovation Mall has evolved into a "shovel ready" mature project with a clear timeline to a programmed practical completion date of July 2015. The Harbour Innovation Mall now benefits from: • Agreed Heads of Terms with Carillion which has informed the land transfer arrangements • Planning Permission was granted for the scheme on 4th March 2014

	• Tenders for the construction of the development were received on the 21st February 2014 and the lowest was approved for acceptance by the Sea Change Sussex Board on 6th March 2014. • The formal contract award will be made on receipt of the GPF, in the meantime, Sea Change Sussex is addressing pre-start conditions, including ecology issues, in order to maintain the build programme • Sea Change Sussex is now acquiring a larger development site of 3.4 hectares with funding support from East Sussex County Council (ESCC) and Eastbourne Borough Council (EBC) thus securing continued investment of up to 10,000m² of B1 business space beyond the Harbour Innovation Mall. • Letters of support from East Sussex County Council and Eastbourne Borough Council for the new Innovation Mall are unchanged.

1. Strategic Case

1.1 Outline how the project fits with the LEP Vision and objectives; the policy and strategic context (local policies, strategies, local investment plan etc); state who are the key partners in the project

Growing Places Fund (GPF) loan investment through the SE LEP is being sought to deliver a new 2,490m^2 (NIA) Innovation Mall at Sovereign Harbour in Eastbourne, capable of accommodating c.60 occupier businesses. GPF investment will directly deliver the physical construction of the Harbour Innovation Mall and will therefore directly create new employment opportunities within indigenous, inward-moving and new start-up businesses. Critically, it is envisaged that the new Innovation Mall will catalyse the proposed 30,000m^2 Business Park for Sovereign Harbour which has been a policy aspiration of the Eastbourne Local Plan since the early 1990's but which has not come forward and represents a significant gap in the local property market offer, hindering economic growth potential. Sea Change Sussex is acquiring a larger site to deliver a larger part 10,000m^2 of the Eastbourne employment land supply. Bringing forward Sovereign Harbour is critical to the economic future of Eastbourne and East Sussex as the Sovereign Harbour employment land allocation represents half of the employment land use allocation of the Borough. The project fully aligns with and supports the LEP vision and objectives and also the wider policy/strategy base at all spatial scales. Details of this alignment are summarised below.

a) South East Local Enterprise Partnership (SELEP)

Fit with SE LEP vision

The SELEP has a mission statement to ***"create the most enterprising economy in England".*** Within the next 20 years the LEP seeks to have achieved the following as part of its vision:

- *Established and New Businesses across the area creating between 250,000 and 300,000 new jobs.*
- *All coastal and rural communities will aim to match the prosperity of the small cities and market towns.*
- *Formerly deprived areas will be making significant progress towards becoming thriving communities*
- *Unemployment to be below the average for other prosperous regions.*

The Harbour Innovation Mall has the potential to contribute towards all of the above objectives through the direct provision of a high quality workspace facility to create high value employment opportunities.

Fit with SE LEP strategic objectives

The SELEP identifies 4 strategic objectives and the Harbour Innovation Mall directly aligns with ***Objective 2 – "Promote investment in our Coastal Communities".*** The SE LEP strategy recognises the significant deprivation that some of its coastal communities face, but also the considerable unrealised potential and the possibility of significant economic growth. It identifies key strategic growth opportunities in low-carbon technologies, creative and cultural industries, manufacturing, engineering and business services and identifies Eastbourne as a key location for investment as part of this objective.

In economic development terms, the delivery of the Harbour Innovation Mall will:

- fill the void in Eastbourne's' business infrastructure, addressing a proven local demand for high quality and flexible business space;
- contribute directly to private sector employment in a location over-reliant on the public sector for jobs;
- safeguard existing employment opportunities in the town; and
- provide existing companies with the opportunity of retention and expansion and attracting new companies to Eastbourne.

b) Sea Change Sussex Business Plan 2012-2017

Sea Change Sussex is the delivery vehicle for major capital development projects leading the economic regeneration and growth of Hastings, Bexhill and East Sussex. It is a not-for-profit company whose members include the business community, voluntary sector, local authorities and the University of Brighton.

Its intention is to spread the economic footprint across East Sussex. The initial focus from existing resources is to progress the pre development works to unlock a £60 million programme over the period 2012-17 delivering 3,500 jobs focused on the Priory Quarter Central Business District in Hastings and strategic employment sites in Queensway (north Hastings employment area), North East Bexhill and Eastbourne. The ambition is to unlock a further 3,000 jobs over the period 2017-2022 by a further extension of this development activity.

The Sovereign Harbour Innovation Park (SHIP) including the Harbour Innovation Mall is now a key initiative within the 2014-2020 business plan approved by the Sea Change Sussex Board which seeks to respond to known market demand in the local economy for small, high quality business premises to promote business start-up and growth and ensure that existing businesses are not forced to relocate to find suitable physical premises.

c) East Sussex Economic Development Strategy, April 2012

The East Sussex Economic Development Strategy sets the following Vision:

"*By 2021, East Sussex will have a stronger, more resilient, inclusive and balanced economy, built on an expanded private sector base in a county recognised for its distinctive character and excellent connectivity.*"

The Strategy identifies 7 strategic priorities to deliver the Vision. Strategic Priorities 1 and 4 are particularly relevant to the Harbour Innovation Mall and these are set out below:

Strategic Priority 1: Right environment to attract new businesses, retain existing ones and foster enterprise, job creation and innovation – the strategy recognises the need to encourage further business investment and growth, suggesting that the County should build on existing businesses whilst also encouraging higher-value added niche sectors which could help boost productivity in the county if further developed e.g. finance and business services, advanced manufacturing and engineering, and environmental technologies.

Strategic Priority 4: Upgrade the provision of commercial premises - ensure workspace is sufficient, appropriate, sustainable and flexible – the strategy identifies that this is key to attracting, retaining and growing businesses and jobs. It identifies the potential to explore the use of alternative/innovative funding mechanisms where there are viability issues with site/building development. It suggests a need to provide business appropriate incubator space and move on premises to allow for 'property escalation' to encourage business growth and to increase the potential for attracting higher growth and high value-add businesses to the area. In terms of a spatial focus, it points to *key development sites across East Sussex, in particular* ***Sovereign Harbour,*** *Hastings town centre, the A21 corridor (Enviro21), N/NE Bexhill, Newhaven and* ***Eastbourne****/ south Wealden.*

The Strategy recognises the County's strengths in terms of its diversified private sector base, high levels of self-employment and space for new employment sites. However, it identifies that there is an insufficient supply of business premises and many of those that do exist are not appropriate to the needs of businesses.

d) Eastbourne Borough Council Corporate Plan 2010 – 2015 (2012 refresh)

Eastbourne BC's Corporate Plan identifies 4 priority themes, one of which is entitled 'Prosperous Economy' which seeks to offer increased opportunities for employment by attracting new businesses and investment in the Borough. The Plan identifies the development of a Sovereign Harbour Business/Office Park as a corporate priority, which could create up to 2,000 jobs. It states that the intentions of this are to both retain existing and attract new employers to the Borough and to develop high quality business space which in turn will create more high quality job opportunities. The Plan refers to the potential for this to become a regional centre of technology excellence occupied by businesses with international markets.

e) Local Planning Policy Context

The Eastbourne Plan 2006-2027 (January 2012)

The Core Strategy provides a long-term vision for Eastbourne to 2027 and identifies 10 key spatial objectives. Spatial Objective 4 is entitled the 'Local Economy' and the strategy seeks *"to give support to a strong and growing local economy built on innovation, creativity and entrepreneurship"* to create a new economic image for the Borough. The following policies within the Plan are considered relevant to the proposed project:

Policy B1 - identifies that the strategy will deliver at least 55,000m^2 of new employment land by 2027, with a priority focus on brownfield sites. It states that "economic growth will be stimulated by an improved range, flexibility and quality of employment and mixed use business space in its existing industrial and employment areas, for use by local firms and speculative investors.

Policy C14 – Sovereign Harbour Neighbourhood Policy – seeks to provide extensive employment opportunities through the ***development of a Business Park for B1a office uses at Sovereign Harbour***. It identifies that the Council has an ambition to develop a Business Park (B1a Office) in Sovereign Harbour to provide high quality skilled employment opportunities for local communities and attract investment into the town. The remaining development sites at the Harbour are identified as having the potential to offer an opportunity for this ambition to be realised.

Policy D2 – Economy – this seeks to promote job growth and economic prosperity in Eastbourne. The Plans states that the development ***which supports improvements in the local jobs market through creation of additional jobs and employment diversification will be encouraged as will development which provides for, or achieves, units for new start-up businesses. This policy also specifically states that it will support the development of B1(a) office use at Sovereign Harbour.***

Sovereign Harbour Draft Supplementary Planning Document (SPD) – April 2012

Eastbourne Borough Council has prepared a draft Supplementary Planning Document (SPD) for

Sovereign Harbour. The draft SPD provides detailed guidance on the implementation of Policy C14 of the Eastbourne Plan: Core Strategy. This identifies that Sovereign Harbour has been developed from a shingle landscape to an important leisure attraction and residential area over the last 20 years, comprising four separate harbours, a retail park and a variety of different housing developments. It is now the largest man-made marina in Northern Europe. The SPD recognises that the completion of the Sovereign Harbour development is long overdue and that the area is missing the social and Economic infrastructure that is required for it to become a sustainable community.

One of the main objectives of the SPD is to create employment opportunities at Sovereign Harbour through the development of a Business Park. The SPD references Policy C14 of the Eastbourne Plan which states that it seeks to provide extensive employment opportunities through the development of a B1a office business park, whilst also seeking to increase the importance of the waterfront as a leisure and tourist centre and allowing up to a maximum of 150 new homes.

The SPD makes reference to the fact that Policy D2 identifies land for 30,000m^2 of B1a office use at Sovereign Harbour to contribute towards the Borough's overall requirement of 55,000m^2 of new employment land by 2027. ***This equates to land at Sovereign Harbour having the potential to account for 55% of the Borough's total new employment land requirements to 2027 and highlights the critical importance of the Sovereign Harbour site.***

A plan of Sovereign Harbour (extracted from Google Maps) is presented below. This identifies the scale and critical mass of development which has already taken place at Sovereign Harbour, particularly in terms of residential and leisure development. However, as identified within the SPD, there is a need for the development of employment floorspace to promote the economic competitiveness and sustainability of the location.

f) Eastbourne and Wealden Employment Land Review 2008

This review identifies that Eastbourne and South Wealden together have some 17 employment site allocations and commitments. Four of these sites - Land North of Dittons Road at Polegate, South Broadwater in Eastbourne, ***Sovereign Harbour***, Land East of Tutts Barn, and St Anthony's Hill in Eastbourne - account for 80% of the overall planned supply. It suggests that land at Sovereign

Harbour could account for approximately half of the likely market-viable supply of planned office development.

The review identifies that 8.9ha of land at Sovereign Harbour were allocated for B1 employment use in the Eastbourne Borough Plan 2001-2011, with the potential to accommodate c.31,000m^2 of commercial floorspace. It refers to the fact that it is a brownfield site under the ownership of Carillion plc. An assessment by property agents Cluttons, as part of the review suggested that demand for business space in the area is predominantly from local firms, with little significant inward investment. It reports that most local occupiers require less than 185m^2 of office space and it is therefore unlikely that the site will be developed for large scale office development through the open market – nor is it likely to be suitable for some industrial uses due to neighbouring residential developments. ***Critically the review points to the need for enabling development at Sovereign Harbour to catalyse the development of the wider site.***

The Harbour Innovation Mall is that catalyst.

g) East Sussex Sustainable Community Strategy – Pride of Place

The Strategy identifies Sovereign Harbour Science Park as a key element of its Regeneration and Economy aspirations to provide high quality and sustainable economic infrastructure by unlocking and assembling strategic sites to support inward investment, support and retain local growing businesses and actively encourage the provision of high quality well-paid jobs.

h) Key Project Partners

The project will be managed and delivered by Sea Change Sussex.

Key partners supporting the project are:-

- Eastbourne Borough Council
- Sea Change Sussex
- East Sussex County Council
- The University of Brighton
- The Eastbourne Business Community
- The Sovereign Harbour Residents

SCS has a dedicated team of professional staff. Its predecessor company, which traded as Sea Space, has already delivered over 40,000sqft of managed workspace across East Sussex over the past 7 years, including two phases of the Creative Media Centre in Hastings Town Centre and the Innovation Centre Hastings, between them home to more than 80 businesses and more than 90% occupied.

1.2 Commentary on strategic fit (to be completed by appraiser)

2. The Economic Case - options analysis

2.1 Description of the preferred option.

The preferred option is for GPF to support the direct delivery of a new flagship Innovation Mall at Sovereign Harbour, providing 3,024m^2 (32,550 square feet) (GIA)/2490 square metres (26,800 square feet) (NIA) of high quality managed and flexible workspace, with the potential to directly support in the region of 300 new gross jobs. This will represent the first phase of development of the allocated employment land at Sovereign Harbour and is intended to serve as a catalyst to unlock the development of the surrounding employment land.

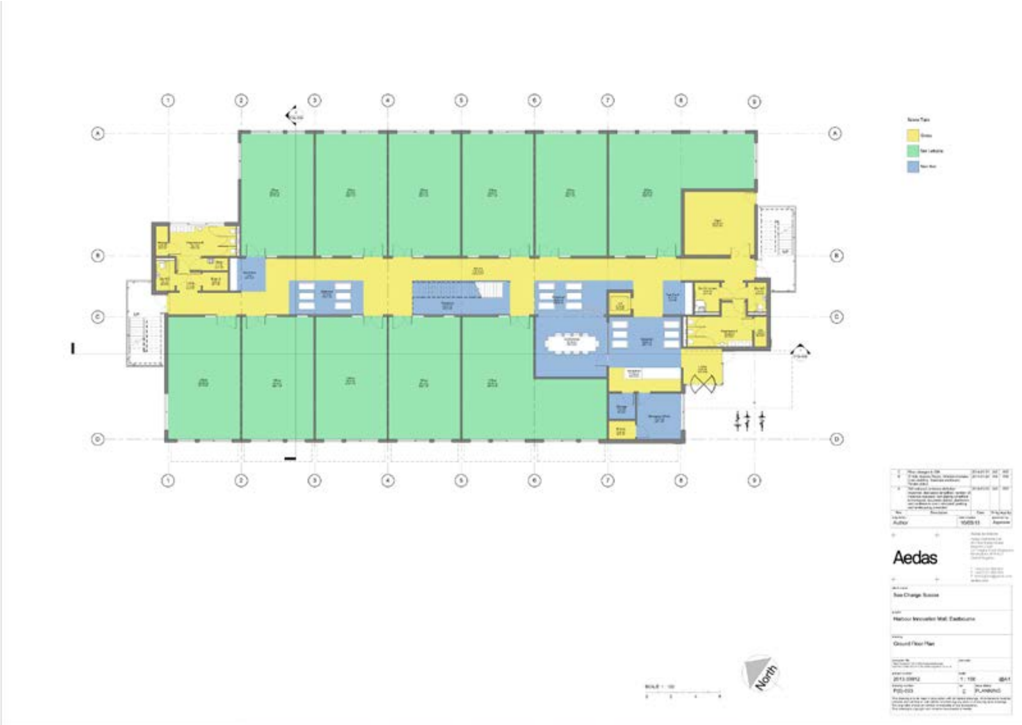
Sovereign Harbour is a high quality and successful marina development built in the last 20 years. It is a site of strategic economic importance and presents a significant opportunity to support economic growth in Eastbourne and the wider coastal East Sussex economies. It is designed as a sustainable community with a large strategic employment allocation of 8.9 hectares. The allocated 30,000 square metres of employment floor space has not been delivered for the past 20 years due to development viability issues, a situation which has worsened since the economic downturn of 2007.

The Harbour Innovation Mall will provide high quality start-up and move-on accommodation for indigenous and inward-moving businesses. It is envisaged that the success of this is integral to establishing developer confidence and therefore development momentum across the wider employment land available in the area, to both deliver local policy objectives and the wider sustainable and comprehensive development objectives of the Sovereign Harbour site. The Harbour Innovation Mall will address a critical market failure and constraint facing small high growth businesses through the provision of a high quality managed workspace facility to help attract and retain businesses to the local area. The proposed facility seeks to achieve the following:

- fill the void in Eastbourne’s business infrastructure, addressing a demand for a high quality business premises and facilities;
- contribute significantly to private sector employment in a location over-reliant on the public sector for jobs;
- safeguard existing employment opportunities in Eastbourne; and
- provide existing companies with the opportunity of retention and expansion and attract new companies to the local area.

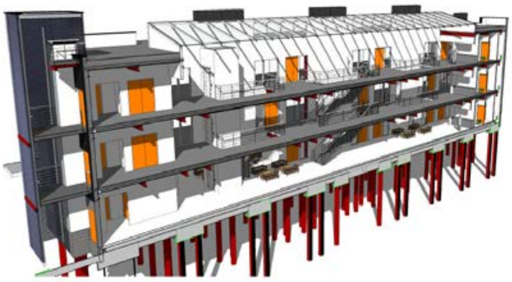
The Harbour Innovation Mall will comprise c.60 small high quality business units in total, with an equal mix of 30 square metre and 60 square metre flexible units and several 30 square metre studio/R&D workshops with their own individual external access. SCS has already appointed an architect, Proctor and Matthews, which has prepared initial designs for the Innovation Mall, as presented below. A flexible approach is proposed in relation to the design and construction of the building so that some of the floors can be easily converted into office accommodation for a single user if demand fails to come forward for the proposed small business units, thus minimising the GPF loan repayment risk. An important feature of the Innovation Mall will be its central atrium which will provide a common networking/break-out area for business occupants, as well as informal meeting space, supported by a café/bar. Experience elsewhere shows that this sort of space is critical for maximising innovation, collaboration and networking opportunities between companies often leading directly to the creation of new company ventures. The designs for this promote maximum flexibility so that this area can also be utilised for business functions and events. This part of the building will comprise a large cinema-type projector screen to promote the use of the building for conferences/events as well as a ‘state of the art’ 3D printing machine, fully connected to the University of Brighton’s IT network, to enable businesses to develop and model new products and prototypes.

The Harbour Innovation Mall received planning permission on the 4th March 2014. Plans and visualisations of the building are below.



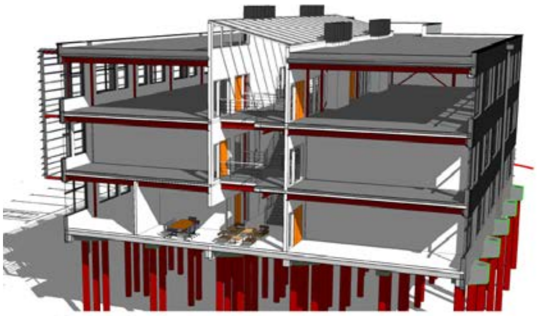
1 Wider Site Context

4 View Towards Entrance



2 Cutaway View of Central Atrium

5 Site Context View from North West



3 Cutaway Section

6 Site Context View from North

The total cost of delivering the Harbour Innovation Mall and the wider Sovereign Harbour Innovation Park site now being acquired by Sea Change Sussex is over £25 million of which £6m was sought as loan funding from the SELEP Growing Places Fund. The overall project will be also managed and delivered by Sea Change Sussex who are now acquiring the larger site area of 3.4 hectares on a long (999 year) lease.

The Harbour Innovation Mall will respond to a gap in the local commercial property market for this type of property product. The two managed workspace facilities which SCS has previously delivered (as Sea Space) and now operates in Hastings are at over 90% occupancy and far exceeded take-up expectations with both being over 50% occupied within their first year of operation. Demand is anticipated from both indigenous existing and start-up businesses as well as small high growth businesses relocating from outside of East Sussex to this attractive coastal location as part of a wider lifestyle choice. The Harbour Innovation Mall will also be attractive to wider businesses in the Gatwick-Brighton corridor which already share Eastbourne as their workforce commuter belt.

Sovereign Harbour has developed rapidly over the past 20 years to provide a significant and high quality residential and retail/leisure offer in this attractive coastal location. However, to date, no B1 Class employment floorspace has come forward. The Harbour Innovation Mall will provide new Grade A space for the first time in two decades through the provision of the new Innovation Mall which it is envisaged will then catalyse the wider development of employment floorspace across the Harbour, as supported by local policy and strategy.

The phasing of the build period has been adjusted to allow cashflow management of the contract spent on the assumption that £4.6m can be made available from GPF from 1st April 2014. Sea Change Sussex are now proceeding on a basis of higher costs due to land acquisition of the larger site and alternative arrangements for the further £1.4m build cost of the Harbour Innovation Mall after taking into account the allocation of £4.6m of GPF.

2.2 Table 1 should be completed for the preferred option.

Table 1: Preferred option – gross outputs

	FTE Construction job years	**Commercial/industrial space created (sq. m) (broken down by Use Class)**	**Gross FTE jobs accommodated**	**Gross homes provided**	**Other (specify) (add further columns as necessary)**
Outputs which are directly dependent on or delivered by the project which GPF is supporting	120 construction jobs for 1 year build period Based on total construction spend of £4.95m, over 1 year. Using OffPAT 2009 construction job calculation guidance	2,490m^2 (NIA) new B1a office floorspace	299*	n/a	n/a

	note, and an average mid point range co-efficient across infrastructure and private commercial, this equates to 24.3 jobs per £1m of construction spend per annum. Annual construction spend = £4.95m multiplied by 24.3 = 120 construction jobs for the 1 year build period				
Other, indirect outputs which may be facilitated by this project	N/A	n/a	n/a	n/a	n/a
Total outputs supported by the project	120 construction jobs for 1 year build period	**2,490m^2 (NIA) B1 floorspace**	**299**	n/a	n/a

** Applying an employment density ratio of 1 job per 7.5m^2 and prudently assuming a maximum 90% occupancy rate at any point in time (note this has been modified from the HCA's Employment Density Guide (2010) which allows B1(a) Serviced Offices at 1 job per 10m^2. However, ESEID's experience is that the Creative Media Centre and the Innovation Centre in Hastings are more intensively occupied, given the predominance of small units (some as small as 15m^2). Taking the known metrics for the Innovation Centre of 24,000ft^2 and 336 signed in employees, this equates to 1 job per 6.6m^2. If Virtual Tenants are included as well, this falls further to around 1 job per 6m^2, therefore the ratio of 1 job per 7.5m^2 is considered 'realistically' prudent).*

Appraisers comments:

2.3 The following table should be completed for the preferred option.

Table 2: Preferred option – timing of gross direct outputs		
	Gross direct FTE jobs accommodated	**Gross direct homes provided**
2012/13		n/a
2013/14		n/a
2014/15		n/a
2015/16	83	n/a

2016/17	50	n/a
2017/18	33	n/a
2018/19	50	n/a
2019/20	83	n/a
Etc.		n/a
Total gross direct jobs or homes	**299**	n/a

Appraisers comments:

*2.4 For the **direct** employment outputs, please provide the following analysis.*

Table 3: Preferred option – from gross to net local employment outputs		
	i) Upper tier level	**ii) SE LEP area level**
a) Gross FTEs accommodated(one figure)	299	
b) % of gross FTEs which will be taken by residents living outside i) the Upper tier and ii) the SE LEP area	17.3%	10.4%
c) Number of gross FTEs which will be taken by residents living outside i) the Upper tier and ii) the SELEP area (b x a)	51	31
d) Gross local FTEs(a – c)	**248**	**268**
e) % of gross local FTEs which will, through product market displacement/competition effects, be offset by reductions in productive capacity elsewhere in the economy	43.1%	35.6%
f) Number of gross local FTEs lost through product market displacement effects (e x d)	106	95
g) Net local FTEs before multiplier effects (d-f)	**142**	**173**
h) Combined supply/income multiplier	1.29	1.44
i) Net local FTEs after multiplier effects (g x h)	**183**	**249**

2.5 No GPF investment option (the reference case).

Complete the following tables for the No GPF investment option:

Table 4: No GPF Investment (reference case) option – gross outputs				
	Gross FTE jobs accommodated	**Gross homes provided**	**Other (specify)**	**Other (specify)**
Direct outputs arising from the project which GPF is supporting	0	n/a	n/a	n/a
Indirect outputs which may be facilitated by this project	0	n/a	n/a	n/a
Total jobs, homes or other outputs supported by the project	**0**	n/a	n/a	n/a

Appraisers comments:

2.6 Please complete Table 5, showing when these gross direct outputs would be delivered.

Table 5: No GPF Investment (reference case) option – timing of gross direct outputs		
	Gross direct FTE jobs accommodated	**Gross direct homes provided**

2012/13	0	n/a
2013/14	0	n/a
2014/15	0	n/a
2015/16	0	n/a
2016/17	0	n/a
2017/18	0	n/a
2018/19	0	n/a
2019/20	0	n/a
Etc.	0	n/a
Total gross direct jobs or homes	**0**	n/a

Appraisers comments:

2.7 Please complete Table 6.

Table 6: Comparison of No GPF investment outputs with preferred option outputs		
	Gross <u>direct</u> FTE jobs accommodated	**Gross <u>direct</u> homes provided**
a) No. of preferred option outputs which would still be delivered at the <u>same time</u> under the No GPF investment option	0	n/a
b) No. preferred option outputs which would be <u>delayed by 1-5 years</u> in the absence of any GPF investment	0	n/a
c) No. of preferred option outputs which would be <u>delayed by 6 years</u> or more in the absence of any GPF investment (but which would still be delivered at some point in the future)	0	n/a
Total	**0**	n/a

Appraisers comments:

Provide a supporting commentary with justification for the assumptions being made.

Under the 'No GPF Investment' option (i.e. the reference case), it is considered that no job outputs would be delivered in relation to the Harbour Innovation Mall at any point in the future. The rationale for this is that even in a prosperous market, this type of specialist managed workspace facility as a property product is rarely funded and delivered solely by the private sector given the higher levels of risk and greater difficulty of securing private sector finance given the typically poorer quality covenants associated with the occupying companies. Often, such a facility will also take a number of years to reach break-even point, although this is not anticipated here given SCS' experience in Hastings, a waiting list of companies looking for accommodation, and the potential for SCS to share overhead cost with its existing facilities improving profitability, and therefore the ability to make GPF repayments even in the project's early years of operation.

However, for a private sector developer reliant upon raising equity or bank finance, the prevailing economic/market conditions in this particular location (i.e. the first phase of development in a deprived coastal location in East Sussex) the level of risk, or certainly the perceived level of risk increases. This makes it extremely unlikely that a private sector developer would be able to obtain the necessary development finance to deliver the proposals and even if it was able to secure this, the perceived risks would be likely to outweigh the perceived financial benefits of investment. It is considered therefore, that in the absence of GPF investment, the market failure that is associated

with this type of development will result in the market being highly unlikely to deliver such a facility. SCS is no different to a private sector developer in this context, in that although it may be prepared to accept a lower rate of return if it could secure wider economic development outcomes, in the absence of GPF investment, it would not be able to secure the necessary development finance required to secure board approval to proceed. Without GPF, at the current time, there is no other form of public sector investment support that could provide the capital financing necessary to deliver the Harbour Innovation Mall, certainly in the short/medium term. It is considered that it could take some time for the economic conditions to improve to the extent where local authorities are able to grant fund or provide loan funding for projects of this nature. In the absence of GPF, it is therefore considered that the Harbour Innovation Mall would be highly unlikely to be developed in the foreseeable future. This would then fail to build upon the momentum that has been established locally through various highly successful economic development initiatives (e.g. the Innovation Centre Hastings and the Priory Quarter developments) and the economic competitiveness of Eastbourne could be compromised.

Appraisers comments:

*2.8 For the **direct** employment outputs in the No GPF investment option, please complete Table 7.*

Table 7: No GPF investment (reference case) option – from gross to net local employment outputs		
	i) Upper tier level	**ii) SE LEP area level**
a) Gross FTE jobs accommodated(one figure)	0	
b) % of gross FTEs which will be taken by residents living outside i) the Upper tier and ii) the SE LEP area*	n/a	n/a
c) Number of gross FTEs which will be taken by residents living outside i) the Upper tier and ii) the SELEP area (b x a)	n/a	n/a
d) Gross local FTEs (a – c)	n/a	n/a
e) % of gross local FTEs which will, through product market displacement/competition effects, be offset by reductions in productive capacity elsewhere in the economy*	n/a	n/a
f) Number of gross local FTEs lost through product market displacement effects (e x d)	n/a	n/a
g) Net local FTEs before multiplier effects (d-f)	n/a	n/a
h) Combined supply/income multiplier*	n/a	n/a
i) Net local FTEs after multiplier effects (g x h)	**0**	**0**

2.9 Please complete Table 8.

Table 8: Net additional jobs (FTEs) and value for money	
a) Net direct local FTEs including multiplier effects from preferred option (row i from Table 3)	249
b) Net direct local FTEs including multiplier effects from No GPF Investment option (row i from Table 7)	0
c) Net additional direct FTEs(narrow definition – before account of timing additionality) (a minus b)	**249**
d) Number of preferred option direct FTEs which are brought forward by 1-5 years multiplied by 0.25 (this being the weight which we are giving to acceleration of outputs by 1-5 years) (Table 6, row b x 0.25) multiplied by Table 3 row I divided by row a (i.e. the net additionality ratio for FTEs), i.e. ((Table 6 row b x 0.25) x (Table 3 row i/row a))	0

e) Number of preferred option direct FTEs which are brought forward by 6-10 years multiplied by 0.5 (this being the weight which we are giving to acceleration of outputs by 6-10 years) (Table 6 row c x 0.5) multiplied by Table 3 row I divided by row a (i.e. the net additionality ratio for FTEs), i.e. ((Table 6 row c x 0.5) x (Table 3 row i/row a))	0
f) Net additional direct jobs after taking into account timing additionality	**249**
Present Value of GPF net cost associated with employment outputs (as per Section 4 Financial Case)	**£883,865**
(Where applicable) Present Value of total public sector net cost associated with employment outputs (as per Section 4 Financial Case)	**n/a**
PV GPF net cost per net additional job	**£3,550**
(Where applicable) PV public sector net cost per net additional job	**n/a**

2.10 Please complete Table 9.

Table 9: Net additional homes and value for money	
a) Gross direct homes from preferred option	n/a
b) Gross direct homes from No GPF Investment option	n/a
c) Net additional homes (a minus b)	**n/a**
d) Number of preferred option direct homes which are brought forward by 1-5 years multiplied by 0.25 (this being the weight which we are giving to acceleration of outputs by 1-5 years) (Table 6, row b x 0.25)	n/a
e) Number of preferred option direct homes which are brought forward by 6-10 years multiplied by 0.5 (this being the weight which we are giving to acceleration of outputs by 6-10 years) (Table 6 row c x 0.5)	n/a
f) Net additional homes after taking into account timing additionality	**n/a**
PV GPF net cost associated with housing outputs	**n/a**
(Where applicable) PV public sector net costs associated with housing outputs	**n/a**
PV GPF net cost per net additional home	**n/a**
(Where applicable) PV public sector net cost per net additional home	**n/a**

2.11 Other options considered

Two other options were considered as part of the process of identifying a preferred option. Outline details of these and the reasons for their rejection are presented below:

Option 1 – Scale Option – A larger/smaller facility is delivered than that being proposed

a) Summary description

The preferred option proposes a 26,800ft^2 (NIA) facility and under this option the viability/deliverability of a 10,000ft^2 variation in net lettable floorspace either side of this was considered – i.e. a 16,800ft^2 facility and a 36,800ft^2 facility. The purpose of this was to ensure that the optimum scale of facility is being proposed in accordance with the local property market characteristics and the availability/repayment of funding.

b) Option performance

Smaller facility – 16,800ft^2

The capital build costs of delivering a smaller facility will be lower given that there is 10,000ft^2 less floorspace under this option. However, the cost will remain fairly significant given that it still proposes a 16,000ft^2 (NIA) new build. The principle issue with this option is the likely operational viability issues that could arise given the reduced scale. This type of facility needs to be of a certain scale to reach a 'break even' point. Based on some indicative business planning, it is clear that at 16,000ft^2, given the fixed costs that are associated with the proposed facility and the reduced number of units and therefore reduced rental income, even when it is well occupied, the facility would struggle to reach a break-even point and would not be financially sustainable. Even assuming it does manage this, the level of operating profit generated would be likely to be insufficient to repay the GPF loan in a timely manner. With fewer units available to let, a lower number of businesses would be able to occupy the facility and it would fail to satisfy the level of market demand that is considered to be present for this type of product in this location. This could have a detrimental impact upon the dynamics of the local economy and businesses could be forced to look elsewhere for available/suitable accommodation for their needs.

Larger facility – 36,800ft^2

The capital build costs associated with a larger build option would be higher for obvious reasons. This option would require SCS to request a larger GPF amount to fund this additional capital cost and there would be additional risks associated with the repayment of this given the challenges that letting this additional floorspace could create. It is considered that there would be insufficient market demand from small business occupiers for an additional 10,000ft^2 of net lettable space, certainly in the short-medium term and this result in a higher level of void units. This would impact upon the ability of the project to generate sufficient income and capital value via refinancing to repay the additional GPF loan that would be required to deliver a facility of this scale. Therefore, despite the fact that a larger facility could provide opportunities for enhanced delivery of employment opportunities, the scale and nature of the local demand for this type of property product would be likely to constrain the ability for this larger facility to be fully occupied, certainly in the timescales required to make GPF repayments in a timely manner.

c) Reason for rejection

The high levels of risk associated with a variation in the scale of the proposed facility were the principle reasons for the rejection of this option, as outlined above. Both the larger and smaller variations would be likely to result in operational viability/sustainability issues which would impact upon the ability of the project to repay the GPF investment in a timely manner.

Option 2 - Alternative Land-Use Option – Development of more generic B1(a) office units

a) Summary description

This option considered the potential for GPF to support the direct development of more generic, B1(a) office units instead of a specialist, high quality managed workspace facility.

b) Option performance

The capital build cost of this option would be likely to be similar to the costs of the preferred option, assuming that the generic office units were built to a similar quality and specification as being proposed. The GPF request under this alternative option would therefore be similar. However, there are several issues to note with regards to this option. Firstly, more generic B1 office units are more likely to be delivered by the private sector as they potentially represent a lower risk and more viable investment proposition. Developers are therefore more likely to be able to secure development finance for more generic office development, subject to the identification of occupier demand, and the direct public sector delivery of this type of development would not therefore be addressing a market failure.

In this instance, a planning allocation has been in place for c.30,000m^2 of B1 office floorspace for some years on this particular site but nothing has yet been delivered, indicating a form of critical market failure. However, it is considered that the most efficient and effective investment route for the public sector is to support the direct delivery of a specialist managed workspace which would address market failures on two fronts. This type of specialist facility is seldom delivered without public sector funding support and so the direct delivery of this would address this gap in the local commercial property market and ensure that businesses are not forced to relocate elsewhere to achieve their growth ambitions. Secondly, it is envisaged that through funding this specialist facility, the public sector investment would enhance levels of developer/investor confidence in the area and establish the necessary momentum to catalyse the wider development of the allocated employment floorspace over time. Therefore the proposed facility could catalyse the wider development of more generic B1 floorspace over time, but it would be unlikely to occur the other way around (i.e. the public sector delivery of generic B1 floorspace would be unlikely to unlock the private sector delivery of a specialist managed workspace facility. The critical gap in the local property market at present is for dedicated small workspace to support new and expanding enterprises, not large scale generic B1 floorspace. This is supported by the findings of the 2011 East Sussex Business Survey, which identified that a significant majority of East Sussex businesses are micro-businesses (1-10 employees) and that 'small' premises (i.e. < 1,000ft^2) are likely to be in most demand.

The quality/value and level of employment outputs associated with more generic office accommodation is likely to be lower than the outputs envisaged under the preferred option. Specialist managed workspace offers the potential for more intensive use of the floorspace and through attracting high growth businesses, often in early phases of establishment, it could contribute to a more significant GVA impact upon the local economy.

c) Reason for rejection

This option was rejected on the basis of the above points. The delivery of generic B1 office units is not typically constrained by elements of market failure to the extent that a specialist managed workspace facility is. It is therefore considered far more preferable to use GPF to address a critical market failure and to let the private sector develop out more generic B1 office floorspace in due course in accordance with market demand and planning policy for this area which has allocated a significant quantum of land for this use class. The level and quality of outputs under this option would also be likely to be lower compared with the preferred option and this option would also fail to address the gap in the market for high quality managed workspace, which could have potentially detrimental impacts on the local economy, if businesses are forced to relocate to find suitable and available business accommodation.

Appraisers commentary on other options considered

3. The Commercial Case

3.1: Confirmation that the primary loan will be based on the standard terms of the Credit Facility. ESCC has confirmed that the primary loan will be based on the standard terms of the Credit Facility.

3.2: Provide an explanation of how sub-ordinate loans (if applicable) and repayment would work in practice. Sub-ordinate loan drawdown and repayment would be based on the existing arrangements between ESCC and SCS as established during GPF Round 1. SCS has agreed a procedure with ESCC in relation to GPF loan investment in Priory Quarter phase 3 and the principles of this would apply to this project, although written confirmation of the specific details of this project and loan drawdown/repayment would need to be agreed between ESCC and SCS.

3.3: What further steps need to be taken to firm up on financial projections and timings? SCS, as the project promoter, will continue to progress with a robust design/construction tendering process for all elements of the proposed project to ensure that financial projections and timings reflect current market rates. It will also design and implement an appropriate monitoring framework as the project progresses to enable the performance of the proposed facility to be closely monitored and reported on a say, quarterly basis, over the initial build up period to confirm its ability to repay the GPF loan and to flag any potential repayment issues from an early stage to enable appropriate measures to be implemented.

3.4 Appraisers comments on the commercial case

4. Financial Case

4.1: Please complete the table in Annex B.

4.2 Please enter cost data in Table 10.

Table 10: Costs (2012 prices)		
a)	Total Gross Costs Undiscounted (based on Drawdown Schedule)	£4,600,000
b)	Total Repayments Undiscounted (based on Repayment Schedule)	£4,600,000
c)	**Total Net Costs Undiscounted a) – b)**	**£0**
d)	Present Value of total Gross Costs (Discounted) (based on Drawdown Schedule)	£4,294,149
e)	Present Value of Total Repayments (Discounted) (based on Repayment Schedule)	£3,541,458
f)	**Present value of Total Net Costs (Discounted) d) – e)**	**£752,691**

4.3 Please confirm that assumptions relating to income and costs are is based on market rates stating sources of evidence

Costs

The projected capital build and operating costs of the Harbour Innovation Mall are based upon evidenced estimates provided by the applicant Sea Change Sussex (SCS). SCS and its predecessor, Sea Space, have over 7 years' experience of developing and operating similar business centres in this geographical area. It developed the Innovation Centre and the Creative Media Centre in Hastings and therefore has a very strong grasp of the likely capital and revenue cost implications of developing, setting up and operating new business centres. SCS has based the projected costs for the Harbour Innovation Mall on the recently tendered costs for the development of Priory Quarter Phase 3 to ensure that they are as up to date as possible. SCS has its own in-house qualified and highly experienced project managers who will ensure that the project costs remain within budget and it will seek external verification of the assumed costs by an independent cost consultant if required at any point as part of the GPF application/appraisal process. A summary breakdown of the project's capital costs is presented below:

Predevelopment Costs - Design and Procurement (incl. contingency)	£500,000
Development costs – Works, Fees, Utilities	£5,000,000
Non-allocated contingencies	£250,000
Development Management Costs	£200,000
Marketing Costs	£50,000
TOTAL COSTS	£6,000,000

Income

The economic programme of flexible employment space brought forward by SCS' predecessor delivery vehicle, Sea Space, has delivered more than 40,000ft^2 of managed business space for small and micro-businesses over the last seven years. This includes two phases of the Creative Media Centre in Hastings town centre, now supporting more than 40 businesses and c. 130 jobs and 42 businesses and 35 ‘virtual tenants’ in the Innovation Centre located in the North Hastings employment area, supporting c. 370 jobs. Both of these business centres are operating at in excess of 90% occupancy, and in terms of initial take-up, original business cases had assumed 25% take-up by the end of Year 1, 50% by the end of Year 2. However, the experience was that both hit 50% within their first 12 months of operation.

Demand continues to grow for this type of serviced workspace provision generating numerous enquiries from high growth companies across all sectors. As the existing Centres are currently at almost maximum capacity there is a real lack of this type of space for businesses which will stifle new economic growth if this is not urgently addressed. Hence SCS is very confident that a new Innovation Mall, kick-starting development at Sovereign Harbour, would equally be taken up quickly. Critically, there are tenant waiting lists at SCS’ existing Business Centres in Hastings and SCS already receives upwards of 20 enquiries per annum from businesses requesting units in these. SCS is confident that following the provision of further new high quality small business accommodation, this number of enquiries would increase given the latent demand that exists for this type of property product.

SCS has sought independent property market advice from Bray Fox Smith Chartered Surveyors to underpin the income assumptions presented within this Business Case. The remainder of this section summarises Bray Fox Smith’s analysis of the Innovation Mall potential and opportunity.

Catalytic role of the Innovation Mall

Bray Fox Smith’s view is that the Harbour Innovation Mall will provide long awaited critical mass to kick start the wider development by providing high quality, flexible office accommodation. They consider it essential that the Harbour Innovation Mall is developed to attract smaller local and regional businesses into the area which can then expand over time to complement the larger occupiers who will be attracted to further phases of development as the Business Park matures. Without this catalyst, Bray Fox Smith suggest that a significant sector of the property market – B1 Uses, will remain undeveloped against a background of higher value alternatives.

Market supply/demand review

Bray Fox Smith identifies that the existing stock of business space in Eastbourne is largely 1960’s/70’s office buildings which lack modern standards and have floor slab to ceiling slab heights, typical of their era, which preclude incorporating such modern amenities as raised floors. This stock is supplemented by office uses above retail units as would be expected in the tertiary locations surrounding an established retail centre. They suggest that none of this accommodation has demonstrated any success in attracting an interest to date. Bray Fox Smith report that the only new development in the last 10 years has been on the outskirts of the town at Hargreaves Business Park adjacent to the A27 which achieved rents of up to £17 per square feet for buildings between 2,000 and 5,000 square feet. They identify that existing office supply is reported to be limited to less than 60,000 square feet of offices in 27 units which are predominantly between 500 square feet and 3,000 square feet with only two buildings currently available over 5,000 square feet. All the buildings are second hand with no new developments currently available to let.

Bray Fox Smith point to the fact that there have only been 11 transactions recorded in Eastbourne since the start of 2010, the majority being between 500-2,500 square feet, with the exception of a 28,500 square foot building sold to Mistywell for their own occupation. This is in contrast to the success of the Creative Media and Innovation Centres set up in neighbouring Hastings which has attracted a wide range of SME’s and currently has occupancy rates in excess of 90%. The success of these centres should form a blueprint for future growth in areas where demand has previously proved fragile and will encourage opportunities for local expansion as well as appealing to regional companies who struggle to find appropriate flexible accommodation in the wider locality.

Occupier take-up and rental income assumptions

SCS has developed an operational business plan for the Harbour Innovation Mall which has made assumptions regarding occupier take-up and projected rental incomes. This assumes a headline rent of £17/sqft (excl service charge) and the following take up profile:

Year 1	Year 2	Year 3	Year 4 onwards
25%	50%	65%	90%

Bray Fox Smith have reviewed the above take-up assumptions and is confident that these take-up levels can be achieved and that this is a conservative profile which will be improved upon, particularly given the fact that the existing Innovation Centre and Creative Media Centre (CMC) in Hastings both achieved 50% occupancy in Year 1 and are both currently running at 90% with tenant waiting lists. They are of the view that the assumed take-up rates are somewhat pessimistic and believe that all of the unit sizes in the proposed range will be able to attract occupiers from the opening of the Harbour Innovation Mall.

Bray Fox Smith has also reviewed the rental income assumptions within the operational cashflow prepared by SCS, which are based on a net rent of £17/sqft (i.e. excluding service charge, rates, utilities and central overheads). They report that the rents achieved for the typical older office stock are up to £10.00 per square foot and the fact that these historic rents have been achieved is illustrative of the lack of a modern Grade A alternative. Bray Fox Smith identify that this stock is singularly unattractive and inflexible for modern dynamic businesses, either locally expanding or inward investment as leases or business occupations of these buildings comes to an end, they are increasingly finding new occupiers difficult to attract or are being left empty (e.g. the former NHS offices and BT Exchange). It is suggested that this stock is effectively nearing the end of its economic life – hence the greater importance of establishing the critical mass of a modern business park at Sovereign Harbour. The historic stock locations do not lend themselves to redevelopment and market economies suggest they will be used for more lucrative uses such as residential or retail uses.

Bray Fox Smith point to the fact that Eastbourne and its immediate environs have become a major commuter location for Gatwick and Brighton as is evidenced by the relative strength of the housing market – assisted by commuting times by train and car (A22/A27) to both destinations. Given the cost of transport and commute times, the disposable income and quality of the arguments will create the “two way street” of commuter residences and work places, providing a major cost advantage for any employer locating to Sovereign Harbour.

Their conclusion for assessing rental levels is that there is significant unsatisfied demands for the wider market opportunity combined with the lack of suitable modern alternatives. The rents achieved historically at Hargreaves Business park and in neighbouring Hastings underpin the rental levels at the Harbour Innovation Mall and Bray Fox Smith are of the opinion that £17.00 per square foot will be readily sustained in the Harbour Innovation mall and that flexibility of lease options and unit size will underpin a successful take-up of the accommodation.

Capital value assumptions

Bray Fox Smith suggest that yields in the current investment market have softened as a result of the exceptional economic circumstances that prevail and therefore in order to assess appropriate yields at the time of capital refinancing in year 2019/20, they should have regard to longer term average yields rather than present day figures. Assuming the building is let on 3 to 5 year leases, they are of

the opinion that a yield in the region of 7.5% (which is reflective of a normal investment market) could be applied to the base rent to achieve the capital value required. Based on the full rental value of £455,600, a yield of 7.5% and deducting purchaser's costs of 5.5%, Bray Fox Smith estimate the capital value of the completed scheme at 2019/20 to be £5.74 million. Given that early repayment of the loans is liable to reduce the outstanding debt from the initial borrowings of £4.6m to £3.6m, they report that this valuation should achieve repayment through refinancing. SCS has also secured the agreement of East Sussex County Council and Eastbourne Borough Council to underwrite the interest payments associated with the refinancing of the completed scheme which will enhance SCS' ability to refinance it.

4.4 Please complete Table 11, timing of repayments.

Table 11 Repayments to ECC/SELEP		Tick
Repayment less than 3 years	Good	
Repayment 3 to 6 years	Medium	✓
Repayment 7 years plus	Poor	

* All but £0.75m of the GPF loan will be repaid within 6 years of the GPF drawdown (ie. 88% of the GPF loan will be repaid within 6 years of being drawn down). A cautious approach has been adopted in terms of the loan repayment and an alternative approach could be to assume that the capital refinancing/disposal of the completed scheme occurs a year earlier (i.e. in 2018/19) and that 100% of the GPF loan is therefore repaid within 6 years of drawdown. The independent market appraisal advice sought as part of this application would also support this approach.

Other funding

4.5 Please clearly set out the other funding sources including the status/certainty of these. Show how the other funding contributes to income in the table in Annex B.

4.6 Leverage, please complete Table 12.

Table 12 Leverage	
GPF investment	£4,600,000
Other Public Funding levered	£3.0
Private Funding levered	£17.4m
Total Other Public Funding and Private Funding levered	£20.4m
Ratio of GPF to Other Public Funding levered	
Ratio of GPF to Private Funding levered	1:3.78
Ratio of GPF Total Other Public Funding and Private Funding levered	1:4.43

4.5 Terms of the Loan.

The following question should be answered by a suitably qualified person:

Are the terms of the loan from the Borrowers (upper tier authority) perspective fair and reasonable?

Yes	

(Delete as appropriate)

Are the terms of the loan from the Lenders (Essex CC) perspective fair and reasonable?

Yes	

(Delete as appropriate)

Please provide justification for the responses provided.

Please provide details of the qualifications, experience and position of the person who has provided the responses.

4.7 State Aid

GPF will not be providing State aid through supporting this project. The loan is to be provided at 0% interest and the loan interest foregone utilising the EC Reference Rate over a 5 year period does not accumulate to more than 20% of the total eligible project costs. SCS is defined as a small enterprise and benefits from exemption under the General Block Exemption Regulation (GBER) (800-2008EC).

Appraisers commentary on the financial case

5. The Management Case

Please provide details of the following:

5.1 Governance arrangements.

The delivery vehicle for Growing Places Fund Round 2 projects is East Sussex Energy, Infrastructure and Development Ltd trading as Sea Change Sussex. The company is limited by guarantee (company number 07632595) and is not for profit. The members of the company are:

Hastings, Bexhill and East Sussex Business Association Ltd	50%
East Sussex County Council	)
Rother District Council	) 19.9%
Hastings Borough Council	)
University of Brighton	19.9%
Voluntary Sector	10.2%

Governance of the company is regulated by its Articles of Association which set out, among other matters, the membership, operation and conduct of the Board and its meeting requirements. The Board is currently chaired by Professor Julian Crampton, Vice Chancellor of University of Brighton.

Currently, general meetings take place every 2 – 2.5 months with the AGM approving the annual accounts (to 31st March 2012) having taken place on May 25th 2012.

The financial transactions of the company are regulated by the current Financial Regulations and Scheme of Delegation approved by the Board on 11th January 2012. Basically, all significant contractors are selected by competitive tendering and are the subject of Board approval.

Financial payments are made by the tried practice of purchase orders and payments authorised on compliance and financial checks by the appropriate staff. Financial monitoring and management accounts are provided from a computer-based system (Access Dimensions, approved by HMRC and Institute of Chartered Accountants) which allows flexible interrogation. The system is specifically designed for project accounting. Each Board meeting receives an 'income and expenditure' report which also informs bank balances. Separately, 'expenditure commitments' are identified to the Board informing the project and extent of financial commitments relating thereto. These sets of information identify the source of funding and the expenditure incurred on a project by project basis against that funding commitment. From 1st April 2013 a further report will be added showing 'all years/project life' expenditure. The accounts are annually audited externally (currently by Reeves & Co) and corporate legal advice is provided to the Board on a regular basis (currently by Pinsent Masons).

Sea Change Sussex therefore believes that its current governance and financial controls are fit for purpose for the requirements of the Growing Places Fund.

5.2 Project management arrangements.

The project manager will be Sea Change Sussex (SCS). It will be managed on a daily basis by Clive Taylor at SCS, an experienced project manager in this type of capital development project. John Shaw of SCS will act as Project Director. SCS has prepared a comprehensive Project Execution Plan (PEP), which outlines the key project management and delivery arrangements and a high level of review of this has been undertaken as part of this appraisal in order to provide an answer to this question.

SCS has already appointed and worked alongside the following consultants to deliver the project:

- Architect - Aedas
- Engineer – Peter Brett Associates
- Ecologist – Applied Ecology
- M & E – Method Consulting
- Cost Consultants – Michael Edwards & Associates
- Contractor – Buckingham Group Contracting

The PEP identifies the following key project management tasks to be undertaken:

- Monitor and review the project through all stages and report regularly to the Employer on the status of the Project (monthly report required in a form to be advised by the Employer); obtain decisions needed and with the Employer's approval amend the development proposals;

- Maintain and update as necessary the development budget and cashflow; provide reports as required by the Employer's finance department on the financial status of the project and update Employer project monitoring systems as necessary;

- Initiate action in the event that any aspect of the Project appears to be likely to fail to achieve the Employer's objectives, public organisations, budget and programme. Agree suitable corrective action and monitor its implementation;

- Throughout the project brief and manage consultants and contractors on their duties, the Project procedures and the Project as necessary to achieve the project brief and so that all parties and individuals understand what is needed to achieve the Employer's objectives;

- Establish communication, reporting and authorisation procedures to operate between Employer, Project Manager, Consultants and Contractors;

- Develop with the team a detailed Project Brief to include all relevant objectives, statutory duties, constraints and their relevant priorities;

- Develop and maintain a Project Execution plan (PEP).

The following project controls will be applied during the project lifetime:

- Monthly progress reports will be provided;

- Appropriate meeting structures will be implemented;
- An issues log and risk management plan will be produced and reviewed at appropriate intervals;
- Compliance reviews of Development Framework and Cost plan will be held at regular intervals;
- A Request For Information and a Change Control system will be put in place;

It is considered that for the purposes of this appraisal, appropriate project management mechanisms have been put in place.

5.3 Programme/Gantt chart

An outline programme is presented below as per the Project Execution Plan:

Milestone	Anticipated Date / Milestone	Status
Feasibility work	3rd Dec 2012	Achieved
Site investigation works	13th May 2013	Achieved
Prepare OJEU notice for architect/structural engineer	21st Nov 2012	Achieved
Shortlist selection	14th May 2013	Achieved
Architect/structural engineer contract award	9th Oct 2013	Achieved
Prepare OJEU notice for building contract	16th Apr 2013	Achieved
Shortlist selection	14th May 2013	Achieved
Submitted building planning application	25th November 2013	Achieved
Planning committee decision	4th March 2014	Achieved

Building contractor selected as lowest tenderer	6th March 2014	
Building contract award		Pending GPF award
Start on site	1st May 2014	Pending
Build completion	July 2015	Pending

5.4 Appraisers comments on management case

5.4 Please complete risk analysis.

Risk identification		**Risk evaluation**			**Risk management**		
Risk ID ref	**Risk event**	**Impact score (1-5)**	**Likelihood score (1-3)**	**Overall risk score (I x L)**	**Action plan**	**Owner**	**Timescale for action**
1	Lack of occupier demand for units in the facility and therefore recipient is unable to repay GPF loan	5	1	**5**	Sea Change Sussex will develop and implement a marketing strategy/programme in order to market the Harbour Innovation Mall to potential occupiers. Property market work has already been undertaken which demonstrates the likely occupier demand. Previous similar developments undertaken by SCS in Hastings were over 50% let by the end of year 1 and are now both at 90% occupancy levels	SCS	Ongoing
2	Units take longer than anticipated to let and loan repayments are delayed	4	2	**8**	As above	SCS	Ongoing

3	Completed scheme is unable to be refinanced to repay the balance of the GPF loan	5	1	**5**	Independent property market advice has been sought in relation to the likely timing and value of the disposal of the completed scheme. This confirms that through a combination of rental income and capital refinancing, it has the potential to generate sufficient income to repay the loan in full in a timely manner (90% of loan will be repaid within 6 years of loan draw down date). Sea Change Sussex will seek to promote the occupancy of the building to maximise rental income and thus the capital value that it could receive. Flexibilities will also be built into the design and build process so that a large part of the building can be made available for single occupier use if take-up for small business units does not come forward	SCS	Ongoing
4	Planning permission for the facility is not granted	5	1	**5**	Sovereign Harbour is identified as a key employment site within the emerging LDF for B1 business park uses. SCS has already held initial discussions with the local planning authority and will continue to do so up to the point where it applies for consent.	SCS	Ongoing
5	Actual build costs exceed projected costs	3	1	**3**	SCS has already delivered two similar centres in Hastings and also has experienced project managers as part of its delivery team. A contingency has also been included as part of the cost plan.	SCS	Ongoing

6	Capability and experience of Sea Change Sussex to manage the project	5	1	**5**	Sea Change Sussex formed out of ESEID and before that, Sea Space. It has an established Board and an experienced project management/delivery team which have significant experience of delivering capital development projects across East Sussex. It has already successfully delivered similar types of property products in Hastings and will seek to build upon the experience of delivering these projects	SCS	Ongoing
7	Abnormal ground conditions and service requirements	3	1	**3**	Full site investigation works are due to be undertaken by SCS prior to any works commencing on site	SCS	Ongoing

5.5 Appraisers comment on risks analysis

6. Conclusions

Please provide a summary with conclusions on:

How strong is the strategic contribution of this project for the SELEP? *Does the project overall represent good value for money ? How have you arrived at this judgement?* *In terms of repayment timescale how has the project been assessed (good/medium/poor)?* *Are the terms of the Credit Facility considered to be fair and reasonable to both the Borrower and the Lender?* *Are the levels of risk acceptable and capable of being managed?*

Due Diligence Process

The appraisal process should include a technical due diligence review by the upper tier authority. This Form has been designed to capture information required, evidence provided and to inform an assessment of residual risks for both the upper tier authority and the accountable body representing the LEP. It is presented as a guide and check list to help upper tier authorities appraise projects which they are supporting.

In conducting due diligence, the appraiser will need to analyse the proposition supported where appropriate by 'expert' financial, legal and technical advice. The depth of analysis should be proportionate to the size and nature of the prospective investment. The process should ask critical objective questions, to understand all the factors that will generate a successful project and outcome for the LEP and the upper tier authorities.

The due diligence process should also reflect the terms of the agreement and exposure to risk that the LEP through the accountable body is taking on and the risk that the upper tier authorities are taking on. Risks that the upper tiers may be exposed to will depend on any sub-ordinate loans put in place which may in turn transfer risk on for example to a landowner or developer. For the LEP/accountable body agreements will take the form of repayable credit facilities including contractual requirements to repay according to a pre-agreed timescale. The financial risk exposure to market factors is consequently more limited than in circumstances where, for example, repayment by an upper tier authority is linked to development milestones triggering S106 or CIL payments. There is risk exposure in the latter case to market factors which would need to be assessed as part of the due diligence process.

These notes describe three key elements of the due diligence process as follows:

Financial appraisal

SELEP will not fund projects which could be funded from other sources and be able to go ahead without investment from the Growing Places Fund. SELEP will provide only the minimum funding required to allow the project to progress. The financial appraisal stage, therefore, will seek (from both the LEP/accountable body and upper tier authority's perspective) to:

- Appraise the project financial position and test underlying assumptions, particularly with regard to project costs and project revenues;
- Confirm the amount of funding applied for is the minimum funding needed to unlock the development and that other sources of funding have been explored;
- Evaluate the potential for recovery of the investment through loan repayment, interest, or in special circumstances, a share of returns, overage, or other models;
- Understand pricing and marketing strategies for the project; and
- Understand and consider the financial, commercial and market risks associated with the project;

The table below should be completed.

Factors	*Evidence provided*	*Assessors Comments*	*Residual risks to the Accountable Body/LEP*	*Residual risks to the upper tier authority*
Costs		***Prompt: Are the cost estimates appropriate for the stage of scheme design and prepared professionally. Is the level of contingency reasonable?***		
What is the overall project cost (Qualifying Expenditure)				
Check costs associated with necessary planning contributions and obligations (e.g. S106, CIL, S278) – are these correctly reflected				
Does the cash flow profile of costs reflect the build programme?				
Interest Rate		***See below under Financial Standing***		
Are there any critical cost risks?				
Revenue		***Prompt: Are these in line with market rates?***		
What are projected sales values				
Are there any critical sales risks?				

Factors	Evidence provided	Assessors Comments	Residual risks to the Accountable Body/LEP	Residual risks to the upper tier authority
Confirm that the build and sales programmes are reflected in the cash flow profile of revenue?				
What is the status of other funding sources?				
Are there any critical revenue risks?				
Is the amount of GPF applied for the minimum amount necessary to enable the project to proceed?				
Have other forms of funding been explored?				
Are there any critical risks relating to repayment of the loan?				

Financial standing

Non-public sector applicants will be required to undergo a thorough review of their financial standing in order to provide an assessment of credit worthiness and collateralisation. The upper tier authority will consider the most appropriate form of security to protect it's investment, which may involve the use of charges and guarantees.

The financial standing should be recorded in the table below:

Factors	Details	Assessors Comments	Residual risks to the Accountable Body/LEP	Residual risks to the upper tier authority
Financial standing				
Borrower – address, status, if private company number				
Guarantor (if applicable)		***What is required?***		
Security (value an type) provided (if applicable)		***What is required?***		
Rate of interest (where appropriate)		***Reflecting EC Reference Rate plus a Margin***		

Deliverability

The appraiser should test the key project assumptions:

- The ability to (re)start on site including a review of title, planning and site constraints;
- The development programme and underlying assumptions

Factors	Evidence provided	Assessors Comments	Residual risks to the Accountable Body/LEP	Residual risks to the upper tier authority
Deliverability				
What planning and other consents are required?				
Is the land under the control of the project promoter and if not what is the property acquisition strategy?				
When will key milestones be achieved? Full Planning Approval Contractor appointed Primary infrastructure completed Start of project Completion of project				
Is the pre-contract period reasonable for a development of this nature?				
Delivery of outputs – number of jobs, homes and other outputs and timing – are these realistic estimates?				
What are the key risks to the programme				

Annex B

Project Promoter Summary Cashflow to be completed by recipient of GPF funding											
	2012/13	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**Total**
CAPITAL											
Project costs											
Pre-development (planning/design/tender)											
Development (Build/Professional fees/Utilities/Marketing/PM)			4,600,000								4,600,000
Total capital costs (Balance)			4,600,000								4,600,000
GPF Capital Drawdown			4,600,000								4,600,000
Centre Occupancy					25%	50%	65%	90%	90%		
GPF Capital Repayment					25,000	200,000	300,000	475,000	3,600,000		4,600,000
- centre operating surplus					*25,000*	*200,000*	*300,000*	*475,000*	*400,000*		*1,400,000*
- centre refinancing									*3,200,000*		*3,200,000*
Net Position (Balance less GPF Capital Drawdown plus GPF Capital Repayment)			(4,600,000)		25,000	200,000	300,000	475,000	3,600,000		0
REVENUE											
Revenue costs – wider business support activities				100,000	100,000	100,000	100,000	0			400,000
Revenue income/funding – SCS contribution				100,000	100,000	100,000	100,000	0			400,000
Balance				0	0	0	0	**0**			0
GPF Revenue Drawdown				0	0	0	0	0			0
GPF Revenue Repayment				0	0	0	0	0			0
Net Position (Balance less GPF Revenue Drawdown plus GPF Revenue Repayment)				0	0	0	**0**	**0**			**0**

IMPORTANT NOTE:

- The net position should never be in deficit, when in surplus GPF can be repaid
- The above cashflow is not intended to act as a detailed project analysis; it needs to demonstrate that the Growing Places Fund repayment criteria can be met
- Detailed data, evidence and reports to support the cashflow figures should be provided as part of the due diligence process