

Report

Report to:	Community and Enterprise Resources Committee
Date of Meeting:	31 March 2020
Report by:	Executive Director (Community and Enterprise Resources)

Subject:	Clyde Gateway Urban Regeneration Company – Approval of a Members’ Agreement Reserved Matters
----------	---

1. Purpose of Report

1.1. The purpose of the report is to:-

- ♦ seek approval to allow Clyde Gateway Urban Regeneration Company (URC) to enter into a Heat Supply Agreement (HSA) with Scottish Water Horizons (SWH) and establish a trading subsidiary company to assist in the delivery of a community energy project within the Dalmarnock area
- ♦ seek approval to allow Clyde Gateway Urban Regeneration Company (URC) to accept the offer of loan finance of up to £3million from Scottish Enterprise to assist in the delivery of regeneration projects within the URC operating area

2. Recommendation(s)

2.1. The Committee is asked to approve the following recommendation(s):-

- (1) that approval be given for URC to enter into a Heat Supply Agreement (HSA) with Scottish Water Horizons (SWH) and establish a trading subsidiary company to assist in the delivery of a community energy project within the Dalmarnock area;
- (2) that approval be given for URC to accept the offer of loan finance of up to £3 million from Scottish Enterprise (SE) to assist in the delivery of regeneration projects within the URC operating area; and
- (3) that the Executive Director (Community and Enterprise Resources), in consultation with the Executive Director (Finance and Corporate Resources), be authorised to conclude all other relevant matters pertaining to the URC proposals in the best interests of the Council.

3. Background

- 3.1 South Lanarkshire Council is one of three member organisations that make up Clyde Gateway URC – the others being Glasgow City Council and Scottish Enterprise. The URC was officially set up early in 2008 and has been implementing a programme of regeneration activity since then within its defined boundaries.
- 3.2 The legal documentation, known as the ‘Members’ Agreement’, governs the operation and activities of Clyde Gateway URC. In certain circumstances, known as ‘reserved matters’, the URC requires to obtain the written consent of the three members before it can enter into certain contracts, engage in specific activities, borrow or grant a security over its assets or make amendments to the URC Articles of Association.

- 3.3 Since its inception in 2008, Clyde Gateway has been successful in securing funding from a wide range of sources, including its stakeholders, the Scottish Government and EU funding streams. Good progress is still being made towards achieving the 20 year business plan targets.

4. 'Reserved Matters' Proposal by Clyde Gateway – Heat Supply Agreement

- 4.1 Clyde Gateway has, over a number of years, pursued a range of new and/or innovative sources of funds and investment. The URC has been successful in obtaining a funding offer worth £2.1 million from Scottish Power Energy Networks Green Economy Fund associated with a joint project with Scottish Water Horizons (SWH) to introduce a self-sufficient local energy supply through introducing heat pump technology into SWH's Dalmarnock waste water treatment centre. The total estimated cost of the project is £6.2 million.

- 4.2 The project encompasses an energy centre being delivered by SWH which will generate power to supply the Dalmarnock treatment works' needs. Heat generated as a by-product of these operations will be supplied for onward sale into a district heating network that is being developed in the central Dalmarnock area. Clyde Gateway will require to enter into a Heat Supply Agreement (HSA) (for a period of up to 25 years) with SWH to facilitate this.

- 4.3 Revenue and working capital requirements for the project have been considered and the establishment of a wholly owned subsidiary of the URC, into which the delivery and operation of the Community Energy Project will be assigned, is considered to be the most effective vehicle to deliver this project.

- 4.4 The 'reserved matters' approvals being requested from South Lanarkshire Council relate to the setting up of a subsidiary company by the URC and approval to enter into a HSA with SWH to enable affordable heat and hot water to homes and businesses in the central Dalmarnock area.

5. 'Reserved Matters' Proposal by Clyde Gateway – Scottish Enterprise Loan

- 5.1 The URC has recently been successful in obtaining a funding offer worth £4 million from the Scottish Government Regeneration Capital Grant Fund associated with the development of Red Tree Central, a 50,000 sq.ft. managed business centre on a site adjacent to the recently completed Red Tree Magenta at Shawfield Phase 1. The total estimated cost of the project is £13 million.

- 5.2 The offer of grant from the Scottish Government is conditional on the balance of funding for this project being put in place. The URC has, therefore, decided to consider an offer of loan finance from SE, on commercially competitive terms, to support this and other potential development opportunities that become available.

- 5.3 Any access to loan finance will require assets held by the URC to be used as collateral to secure any loan. Security over assets at Red Tree Magenta, Shawfield and The Albus building, Bridgeton will be offered to support the loan facility from SE. Scottish Government has been consulted on the proposal and is supportive. As some of the assets proposed for use as collateral have been developed using Scottish Government grant funding, Ministerial approval will be required prior to any loan offer being concluded.

- 5.4 It is currently anticipated that the £3 million of loan funding will be allocated against a range of future projects including the Dalmarnock Gas Purifier Studios and Red Tree Central. It should be noted that the existing Red Tree Magenta received £3.2 million of capital financial support from South Lanarkshire Council during its construction phase. Income streams from the secured properties will be used to service the debt payments.

6 Employee Implications

- 6.1 There are no employee implications. Ongoing liaison and engagement with the URC can be managed using existing staff resources.

7. Financial Implications

- 7.1 There are no financial implications for the Council associated with this proposal. The Council's exposure to any financial failure of the URC is limited, under the terms of the URC Articles of Association, to £1.
- 7.2 The risks associated with any loan finance taken out by the URC primarily relate to the ability to service debt repayments from rental income. The value of assets that will be used as security for the debt will exceed the value of the debt. These risks remain the responsibility of the URC.

8. Climate Change, Sustainability and Environmental Implications

- 8.1. The initiative identified in this report will be delivered using a range of sustainable techniques and models, having regard to best practice and current construction industry guidance. It is also noted that the proposed project may have a positive impact in reducing carbon emissions and assist in meeting local and national climate change targets.

9. Other Implications

- 9.1. The risks associated with revenue shortfalls to the URC affecting the long term viability of the operation have been considered and the setting up of a URC subsidiary company will mitigate these risks going forward. There is a break clause within the HSA that allows either party to terminate the agreement by providing twelve months written notice to the other party on or following the tenth anniversary of the commencement date.

10. Equality Impact Assessment and Consultation Arrangements

- 10.1. This report does not introduce a new policy, function or strategy and, therefore, no impact assessment is required.
- 10.2. This report has been prepared in consultation with Finance and Corporate Resources. Liaison with Clyde Gateway URC will continue utilising the Council's existing monitoring arrangements and attendance at URC Stakeholder meetings and Board meetings.

Michael McGlynn

Executive Director (Community and Enterprise Resources)

9 March 2020

Link(s) to Council Values/ Ambitions/Objectives

- ◆ Promote economic growth and tackle disadvantage
- ◆ Support the local economy by providing the right conditions for inclusive growth

Previous References

- ◆ None

List of Background Papers

- ◆ None

Contact for Further Information

If you would like to inspect the background papers or want further information, please contact:-

Ken Meek, Project Manager, Planning and Economic Development Services

Ext: 5928 Tel (01698 455928)

Email: ken.meek@southlanarkshire.gov.uk