

Programme Management Group Teleconference

7 February 2019

Elmbridge Invest for Growth – Item 3c

Programme Management Group members are asked to:

AGREE: the recommendation that a loan of £0.75m Local Growth Fund is awarded to the revised Elmbridge Invest for Growth project and a grant of £0.75m Local Growth Fund is awarded to the same project

AGREE: the project goes forward to contract with Elmbridge Borough Council

1 Background

- 1.1 Elmbridge Borough Council submitted a funding request for a grant of £1.5m LGF at the January 2018 Programme Management Group meeting for the development of employment space through the purchase of existing employment space. The original request for funding related to a building that the council had already purchased at a cost of £16.5m using Elmbridge Borough Council and Public Loans Works Board funding. As the funding request was retrospective, Elmbridge Borough Council were advised that the Invest for Growth Elmbridge project would not be funded but the £1.5m would be ringfenced for six months for them to submit a proposal for a second property to develop a project on similar lines to that submitted in January 2018.
- 1.2 Elmbridge Borough Council submitted a proposal for a second property in September 2018 and the meeting of the Programme Management Group on 15 September 2018 approved the project to progress to due diligence.
- 1.3 The project was presented to the December 2018 teleconference for approval to go to contract. PMG agreed the award of £1.5m but considered that Elmbridge District Council could afford the repayments from tenants' revenue and therefore the option of a £1.5m loan should be explored with Elmbridge.
- 1.4 A meeting between Elmbridge and Enterprise M3 considered the proposal for a loan and it was suggested that 50% of the total could be a loan at 2% above base over a 20 year repayment period. The remaining 50% balance of £0.75m would be a grant. Elmbridge supplied financial information demonstrating that from the tenant revenue income per annum of £816,029 a balance of £157,826 remained after allowing for tenancy voids, the cost of borrowing and the repayments and interest on the Public Works Loan Board loan for the same project.
- 1.5 This approach of a part grant/part loan will ensure that the £300,000 per annum economic development fund aspect of the project is protected but will also provide repayment to Enterprise M3 to allow for other projects to be supported.
- 1.6 The above suggestion was verbally shared with January PMG and it was agreed that this paper would be prepared to enable PMG members to duly consider the information presented.

2 Details of the Project

- 2.1 Elmbridge Borough Council (EBC) has requested an LGF grant of £1.5m to part fund the £18m purchase of a commercial property located in Esher. This approach builds up on the successful Invest for Growth model in East Hampshire which was supported by Enterprise M3

in 2016. The full business case for the project, along with the AECOM due diligence report are available to PMG on request.

- 2.2 The request for £1.5m unlocks £16.5m in Local Authority match funding. Building upon the East Hampshire model, the Elmbridge Invest for Growth initiative has two main aims:
 - Firstly, to achieve a balance between employment and housing provision that contributes to sustainable economic growth as increasing pressure from residential values threatens the provision of the existing employment stock, and
 - Secondly, to support longer term local investment in economic development objectives and priorities to help enable a new wave of knowledge-based sector growth across the Borough and support the wider Local Enterprise Partnership Strategic Economic Plan (SEP).
- 2.3 The first of these aims is to address the result of Permitted Development Rights (PDR) by purchasing commercial property to minimise the risk that further reduction of commercial space may have a detrimental effect on the balance of employment and housing in the Borough. Developers use PDR to convert offices to residential use and due to high residential values in Elmbridge, since 2010 the Borough has lost over 9,000 sqm of office space to PDR threatening future business growth.
- 2.4 Furthermore, with some of the highest residential values outside of London it is reasonable to expect that the Borough is likely to receive a continued high number of PDR office to residential conversion applications in the future, resulting in further reductions in commercial space that will leave Elmbridge unable to meet the needs of an expanding business base and high value sectors.
- 2.5 This will directly impact on the Council's ability to deliver on one of its key strategic objectives: "to get the maximum return on investment by facilitating the economic conditions to create, retain and attract knowledge-based businesses"
- 2.6 This has further been expressed by local agents and the council who have reported a shortage of space and sites in Elmbridge with the growing pressure on sites as a result of PDR increasingly becoming a threat.
- 2.7 The target property for purchase is the Aissela building located at 42-50 High Street, Esher. It provides 3,060 sqm of Net Lettable Area (NLA) consisting of a mixture of B1 offices (1,592 sqm) above a ground floor retail space (1,468 sqm) with associated car park.
- 2.8 Status of occupancy is as follows:
 - There are 4 ground floor units let on leases from 5 to 20 years
 - There are 6 office units let on leases from 10 to 15 years
 - According to the tenancy schedule provided by Elmbridge, the current annual income from the occupied units is £981,656.
- 2.9 The second of these aims is to provide an economic development fund of £300,000 per annum for five years.
- 2.10 The fund will be administered and managed by the Council and Enterprise M3 will be engaged in decision making associated with the fund, allowing for close alignment with the SEP and emerging LIS.
- 2.11 The fund will help to support economic development initiatives to tackle barriers to growth and build on opportunities to enable a new wave of knowledge sector growth.
- 2.12 Key to identifying economic development initiatives will be the partnership structures in place with the Elmbridge Business Leaders Board that brings together 12 large strategic employers, and the Elmbridge Business Network that connects start-ups and small and growing companies across the Borough.

3 Economic Benefits and Outputs

3.1 An LGF grant of £0.75m plus the loan of £0.75m unlocks £16.5m in Local Authority match funding paid for by EBC cash account from the Public Loans Works Board.

3.2 The purchase of commercial property delivers the following direct outputs:

- Minimum of 1,500 sqm commercial office floor space safeguarded
- Minimum of 1,450 sqm commercial retail floor space safeguarded
- 125 FTE jobs supported by safeguarding the office space (based on the assumption of 1 FTE per 12 sqm of floorspace)
- 76 FTE jobs supported by safeguarding the retail space (based on the assumption of 1 FTE per 19 sqm of floorspace)

3.3 The creation of economic development fund is expected to bring the following indirect outputs:

- Supporting the local economy to enable a new wave of knowledge-based sector growth with an additional 370 knowledge-based FTE jobs per annum, 1,200 additional businesses to 2024, 20 new foreign direct investments to 2021, 16,000 sqm of new a-grade office space to 2026, 11,500 sqm of refurbished commercial floorspace to 2026.
- Supporting skills development that meets the needs of the local economy by enabling micro businesses to take on new apprenticeships and support employer/school engagement that will help local businesses offer 400 apprenticeship starts per annum.
- Supporting the future delivery of housing and affordable housing over the Local Plan period to 2035.
- Supporting visiting and tourism in the local economy with a 150-bedroom hotel.

3.4 Wider benefits associated with the purchase of this anchor building include:

- It is central to longer term plans to support and build on the viability and vitality of Esher. With approximately 60% of the borough covered by greenbelt, town centre offices are vital for the borough's employment offer with several above retail office properties lost to permitted development rights conversions threatening an important source of employment space and daytime footfall.
- The investment would complement the work that the Council has been doing to regenerate and revitalise the town centre in partnership with local stakeholders and the Esher Business Guild. Elmbridge Borough Council have been working across a range of projects such as the Esher Festival and have been helping Sandown Park to develop a longer-term masterplan that would renew the facilities at Sandown, open a new hotel and leisure facility and better link the station and town centre.

4 Independent Scrutiny and Assurance

4.1 AECOM have carried out due diligence on the robustness of the project and make the following recommendations:

- That Enterprise M3 obtain from EBC confirmation of the purchase price for the building together with a breakdown of the costs involved in the purchase and any management/maintenance cost for the building. This would also include the repayment details including interest relating to any loan that EBC take out to fund the purchase of the project including PLWB.
- That Enterprise M3 obtain from EBC a summary of any maintenance and management costs that would be applicable to the building ownership.
- That EBC provide a detailed programme of actions necessary for the agreement of the sale with the vendor together with the personnel and timescale that is to be implemented.

- That Enterprise M3 have sight of the Deeds and purchase agreement of the property (when available). This agreement should be reviewed with the EM3 legal team to ensure that EM3 are comfortable that there are no unknown costs that may jeopardize the reinvestment.
- AECOM recommend that EM3 obtain a letter of confirmation from Elmbridge confirming the £300,000 investment in EBC's economic development before the Loan/Grant is awarded and have an understanding of how the monies are released and managed.
- That EBC provide confirmation that they will provide the £16.5M and underwrite any overspend.

5 Finance

5.1 The table below details the spend profile of the project

Table 1

	2018/19
EM3 Capital Funding	£1.5m
EBC Capital Funding	£16.5m
TOTAL	£18m

6 Key criteria

6.1 The table below summarises how the project performs against key criteria

Table 2

Criteria	Assessment	Comments
Strategic Fit	Good	Identified in the Strategic Economic Plan 2018-30
Impact of the Scheme	Good	Safeguarding of commercial floorspace and jobs creating a positive economic impact for the borough Economic development fund will provide opportunities for wider economic impact
Percentage of Match Funding	Excellent	Match funding represents 92% of funding
Past Performance of Scheme Promoter	Unknown	Enterprise M3 have not funded any projects with the scheme promoter

7 Milestones & Key Dates

Table 3

February 2019	LGF funding approved
2018/19	Commercial property investment
2018/19	Economic Development Investment (Year one)

8 Conclusion & Next Steps

- 8.1 Elmbridge Borough Council originally applied for £1.5m LGF grant to part fund the £18m purchase of a commercial property located in Esher to secure commercial floorspace in the borough and provide revenue for reinvestment into economic development in the borough.
- 8.2 The project has been through a thorough due diligence process, which has led to the recommendations above. These recommendations are manageable and will be addressed through the contract negotiation and project delivery phases.

9 Recommendations

9.1 Programme Management Group members are asked to:

AGREE: the recommendation that a loan of £0.75m Local Growth Fund is awarded to the revised Elmbridge Invest for Growth project and a grant of £0.75m Local Growth Fund is awarded to the same project

AGREE: the project goes forward to contract with Elmbridge Borough Council.

Sally Agass/Helen Caney

1 February 2019