



Driving prosperity in the M3 corridor

Programme Management Group

15 November 2018

Elmbridge Invest for Growth – Item 7b

Programme Management Group members are asked to:

AGREE: the recommendation that £1.5m Local Growth Fund is awarded to the revised Elmbridge Invest for Growth 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 combined with reinvestment of rental income to create an economic development fund. (see Section 3.12 below). 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.

2 Details of the Project

- 2.1 Elmbridge Borough Council (EBC) has requested a LGF grant of £1.5m to part fund the £18m purchase of a commercial property located in Esher. The full business case for the project, along with the AECOM due diligence report are available to PMG on request. Please email helen.caney@enterprisem3.org.uk
- 2.2 The request for £1.5m unlocks £16.5m in Local Authority match funding paid for by EBC cash account of the Public Loans Works Board.
- 2.3 EBC have requested grant funding for the project. Having examined the financial revenue streams section 1.12 below, we believe that a loan is a viable option if the repayments are linked to the income generated by the rent receipts.
- 2.4 The aims of the project remain as stated in the original paper to PMG in January.
- 2.5 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).
- 2.5. **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 experienced over 9,000 sqm of office space lost to PDR threatening future business growth.
 - 2.6. 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.
 - 2.7. 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"
 - 2.8. 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.
 - 2.9 An initial list of five potential investment targets located in Weybridge, Cobham and Walton-on-Thames were originally identified by the Council Asset Management
 - 2.10 The target property for purchase is the Assiela 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.
 - 2.11 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 for all of the occupied units is £981,656. This would support the Council's budget with the required annual reinvestment of £300k into the economic development fund should all the other units be unoccupied for a period of 5 years from 2019/20
 - 2.13 **The second of these aims** is to create an economic development fund. Rental income generated from the purchase of the property will enable the Council to commit to investing £300k per annum to support economic development objectives and priorities from 2019/20 for a period of 5 years to 2023/24.
 - 2.14 The fund will be administered and managed by the Council and overseen by the LEP.
 - 2.15 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.
 - 2.16 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.
 - 2.17 The fund will align with the strategic priorities and objectives set out in the LEP's Strategic Economic Plan.

3. Economic Benefits and Outputs

3.1 An LGF grant of £1.5m unlocks £16.5m in Local Authority match funding paid for by EBC cash account of 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 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/schools 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 to 2026.

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 approx. 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. We have been working across a range of projects such as the Esher Festival, the Esher Transport Study with Highways 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.
- EM3 should enter into a contract with EBC to enable the £300,000 / annum to be delivered into the local economy and that EBC have a strategy in place on how these funds are spent.
- AECOM recommend that EM3 obtain this letter of confirmation before the 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.
- That EBC provide confirmation of where the formula to calculate jobs per sqm has been obtained from.

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	Good	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

November 2018	LGF funding approved
2018/19	Commercial property investment
2019/20	Economic Development Investment (Year one)
2020/21	Economic Development Investment (Year two)
2021/22	Economic Development Investment (Year three)
2022/23	Economic Development Investment (Year four)
2023/24	Economic Development Investment (Year five)

8 Conclusion & Next Steps

- 8.1 Elmbridge Borough Council have 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 grant of £1.5m is approved for the Elmbridge Invest for Growth project

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

Helen Caney
6 November 2018