

Decision Maker: Executive

Date: 10th June 2014

Decision Type: Non-Urgent Executive Non-Key

Title: ECONOMIC DEVELOPMENT AND INVESTMENT FUND

Contact Officer: Kevin Munnelly, Head of Renewal
Tel: 020 8313 4582 E-mail: kevin.munnelly@bromley.gov.uk

Chief Officer: Director of Regeneration & Transformation

Ward: (All Wards);

1. Reason for report

This report provides an update on the operation of the Council's Economic Development and Investment Fund. The report outlines expenditure to date and growth and investment opportunities that could shape the future use of the fund and how additional funding can contribute to achieving the medium and longer term objectives of the Council's financial strategy.

2. **RECOMMENDATION(S)**

2.1. **Note the operation of the fund to date and**

2.2 **Approve the allocation of additional funding (£13.792k) from general reserves to the Economic Development and Regeneration Fund (Earmarked Reserve) as detailed in Sections 5.3-5.4 of the report.**

Corporate Policy

1. Policy Status Existing Policy
 2. BBB Priority: Excellent Council, Vibrant, Thriving Town Centres
-

Financial

1. Cost of proposal: Estimated Cost: £13,792k transfer from General Reserves to earmarked reserve for Economic Development & Investment Fund.
 2. Ongoing costs: Not Applicable:
 3. Budget head/performance centre: N/A
 4. Total current budget for this head: £N/A
 5. Source of funding: Additional funding from general reserves.
-

Staff

1. Number of staff (current and additional): 4
 2. If from existing staff resources, number of staff hours:
-

Legal

1. Legal Requirement: Non-Statutory - Government Guidance:
 2. Call-in: Applicable:
-

Customer Impact

1. Estimated number of users/beneficiaries (current and projected): N/A
-

Ward Councillor Views

1. Have Ward Councillors been asked for comments? Not Applicable
2. Summary of Ward Councillors comments: N/A

3. COMMENTARY

- 3.1 The Regeneration & Investment Fund was established by the Executive in September 2011 with £10m of seed funding being allocated from general reserves. The objective of the fund was to support economic development and regeneration opportunities, whilst also providing a long term alternative income stream. As part of the operation of the fund individual investment decisions were to be considered on a case by case basis examining income stream, liquidity of assets, risks relating to asset depreciation/increase in value etc. Income derived from investment was expected to significantly exceed treasury management interest earnings. Funding would also be targeted on opportunities that enable an increase in business activities in the borough, with a subsequent increase in business rates, to capture further income from business rate growth.
- 3.2 As a further commitment to economic development Full Council on 27th February 2013 approved, as part of finalising the 2013/14 budget, the establishment of an Economic Development Fund of £16,319k.
- 3.3 On 12th June 2013, the Executive agreed to combine the balance of these funds to create a single Economic Development & Investment Fund. Furthermore, to reflect the Council's continued commitment to economic development and achieve sustainable levels of additional income the Council agreed that the level of general reserves should be reduced to £20m. This provided additional funding, combined with savings reflected in the outturn for 2012/13 to increase the new combined Economic Development and Investment Fund by £20,977k. This additional funding reflected the need for significant funding to be set aside to contribute towards the economic development and investment opportunities of the Council. Therefore, the total funding allocated to the Economic Development & Investment Fund was £47,296k.

Property Acquisitions

- 3.4 An initial focus for the use of the fund has been the strategic acquisitions of properties in Bromley town centre, particularly in support of the key development sites. The Council's Property team has been very active in the market and has successfully completed the purchase of four High Street properties. The criteria set out by the Executive for the acquisition of properties for inclusion in the regeneration/investment portfolio, was that they should provide key investment opportunities that would ensure value for money is obtained, whilst seeking a long term alternative to current income streams. In doing so a level of income from investments would be achieved which exceeds treasury management interest earnings.
- 3.5 To date £9.8m has been spent (including costs) on the acquisition of the four High Street units. These properties currently generate an income of £615,000pa. In addition terms have been agreed for the acquisition of four further units at a price of £18million (£19.044million including costs) which will produce an income of £1,064,800p,a. Once the acquisition of these units has been completed the total annual income from the retail investments will be £1,679,800. These investments generate an overall initial yield of approximately 6%. The target for income from the investment in commercial property is £2,025,000pa

Growth Study

- 3.6 The Local Plan report to Executive in February 2013 identified a key policy objective to maximise economic growth. This included a commitment to identifying investment opportunities and undertaking key infrastructure improvements in the main growth areas of: Biggin Hill; Cray Business Corridor; and Bromley Town Centre. In support of this objective consultants URS and DTZ were commissioned to provide a critical assessment of the future growth capacities of both the Biggin Hill Strategic Outer London Development Centre and the Cray Business Corridor. In Bromley Town Centre officers have also been working with GLA planners on a similar

development capacity study. These growth assessments have informed the development of planning policy options for these areas, which are being taken forward as part of the Local Plan review. These studies have also been critical in the identification and prioritisation of development opportunities that will inform future investment decisions for the fund.

Cray Business Corridor

- 3.7 The initial findings from the growth capacity work found that the Cray Corridor has a wide variety of employment sites which on the whole are well functioning, well managed and support a diverse range of businesses. In depth analysis of capacity of the corridor found that the area could support maximum additional growth of approximately 58,000 sq.m (11.6ha) over the 15 years, which at a blended industrial job density of 1 job per 54m² would equate to 1074 new jobs.
- 3.8 This growth would be brought forward partly through private owners redeveloping vacant sites such as the Klingers site at Ruxley Corner. However, for many of these under developed and derelict sites, there has been a clear failure of the market to bring about a timely redevelopment. This is in part due to the fragmented landownership patterns, poor servicing infrastructure and competing uses increasing the cost of industrial land. The benchmark industrial land values for an acre is between £650-£750k (£1.60m - £1.73m per hectare) which is well below the values retail or housing uses can support. New industrial floorspace supports typical rents in the order of £8.5 - £9 per sq ft (£90-£95 per sq m) and the investment yield for a new multi-let industrial estate is likely to be between 6-6.25%. Given a typical benchmark build cost of industrial buildings of £50-£60 per sq ft (£550-£650) this is a major impediment for the redevelopment of industrial floorspace as speculative developers could achieve a better return on non-industrial development.
- 3.9 The Council can achieve its wider regeneration and growth objectives by tackling the constraints that are contributing towards this failure to bring forward the redevelopment of key employment sites. More stringent planning policy that protects strategic industrial land is being promoted as part of the Local Plan review. It is now proposed to prepare development briefs for the identified sites in the Cray Business Corridor. This work would determine which interests need to be acquired to deliver a viable scheme as assessed via a detailed financial appraisal. This work would also build upon the infrastructure and transport assessments carried out to date to identify these enabling costs so they can be included in the Borough's Infrastructure Delivery Plan and future Transport for London Local Implementation Plan submissions. Where delivery requires land assembly this will be sought through negotiation. However, if necessary, the Council will use its Compulsory Purchase Order powers (CPO) to deliver the growth agenda. It is proposed that investment and development opportunities are also assessed in the other large industrial areas such Kangley Bridge industrial estate.

Biggin Hill

- 3.10 The current growth strategy being promoted by the Biggin Hill Locate Partnership forecasts growth of up to an additional 50,000 sq m of floorspace, which would equate to approximately 2,300 new jobs over the next 20 years. This is based on generating additional demand from existing occupiers and expanding the opportunities to attract more occupiers, supply chain and customers bases. The Strategic Outer London Development Centre (SOLDC) designation provides a great opportunity for the Borough to adopt a more positive approach towards development at Biggin Hill. This could include stipulating an allowable quantum of development for replacement and/or new commercial development in the SOLDC area.
- 3.11 The report recommends that the main focus for Council intervention, outside of the wider planning policy review, should be on developing a credible long term business led solution for the cluster of Listed Buildings that form West Camp. It is proposed that the Council plays a more

active role in the redevelopment of the area, utilising the potential offered by the prospective Mayor's London Enterprise Panel Growth Fund allocation for a future skills academy and hotel. This could also be linked to expanding employment floorspace for smaller businesses linked to aviation and mechanical and electrical engineering, who are currently housed in the smaller of the industrial estates in South Camp. The ambition is for the creation of a regional engineering training and business hub. This would require securing ownership of the site and taking a more active role in the development and delivery of the skills academy. These issues and opportunities are the subject of on-going discussions with the GLA, landowners and the airport operator.

Bromley Town Centre

3.12 As part of the proposed draft amendments to the London Plan Bromley Town Centre has been included as one of 3 new Opportunity Areas in the Plan. The Plan has an indicative employment allocation of 2,000 new jobs (17,000 m² of additional floorspace) which is broadly in line with that in the adopted Area Action Plan. It is envisaged that a majority of these new jobs will be in office based business and financial services. Work is well advanced with the GLA on completing an urban design and development capacity assessment of the Town Centre as set by the AAP boundary. This work will provide the Council with an assessment of the capacity individual sites could potentially contribute to meeting the growth projections and provide an indication of phasing. This work will also identify constraints to development and define the potential role the Economic Development & Investment fund can play in facilitating growth. Sites that are currently being assessed include:

- Bromley South Station
- Civic Centre
- Bromley North Station
- Elmfield Road Business Improvement Area
- Sainsbury, West Street
- Hill Car Park
- Telephone Exchange, Edison Road
- Empire Cinema, High Street North

3.13 Officers are finalising an appraisal report on the current Muse Developments submission for Churchill Palace (Site G), which is due to be considered by the Executive in July 2014. Initial assessments would suggest that some form of Council investment, particularly around development costs and land acquisitions, will be required to secure the redevelopment of the site. The site acquisition cost for the first phase of a scheme north of Ringers Road has been estimated at £37m and the extent of any Council investment requirement will be subject to further assessment and would be subject to approval by the Executive and Full Council. Whilst the full extent of the investment requirements will not be known until the conclusion of further appraisal work, initial assessment would suggest that there could be a long term funding requirement in excess of £40m.

4. POLICY IMPLICATIONS

4.1 Work delivering the Draft action plans for three employment areas in the borough is entirely consistent with Policy Objectives set out in Building a Better Bromley 2011 and Renewal &

Recreation Portfolio Plan 2014/15. The work of the Renewal Group links to the Building a Better Bromley priorities by working towards the provision of Vibrant and Thriving Town Centres.

5. FINANCIAL IMPLICATIONS

- 5.1 A key priority for the Council is economic development. Economic development creates employment opportunities, potentially reducing the cost of council tax support, and generates income through business rates and new homes bonus. A key strand in the Council's financial strategy relates to economic development, creating employment opportunities and generating income. Further details were provided in section 11 of the "Draft 2013/14 Budget and Update on the Council's Financial Strategy 2014/15 to 2016/17" report to Executive on 9th January 2013.
- 5.2 To date the following allocations and approvals have been made to the Economic Development & Regeneration Fund.

Breakdown of Funding:

Initial Regeneration Inv Fund £10,000k (Executive 7/9/11)
Initial Economic Dev Fund £16,319k (Council 27/2/13)
Additional funding £20,977k (Council 1/7/13)
Total available funds £47,296k

Completions to date (including costs)

95 High Street £1,620k
98 High Street £2,167k
72-76 High Street £2,888k
104-108 High Street £3,150k

Further approvals

Further High Street Property Acquisitions £19,044k
Growth Fund Study £170k
Crystal Place Development work £200k
Bromley Town centre Bid £110k

Total approvals £29,349k

Uncommitted balance. £17,947k

- 5.3 It is proposed that to meet the Council's existing commitments from the Economic Development & Investment Fund and to take advantage of new investment opportunities identified through the on-going growth work consideration is given to supplementing the existing balance of the Fund. It is requested that a further £13,792k from the general reserve in 2013/14 be approved and allocated to the Economic Development & Investment Fund bringing the uncommitted balance to £31,739k.
- 5.4 In addition to individual investment decisions being considered on a case by case basis examining income stream, liquidity of assets, risks relating to asset depreciation/increase in value, proposals should also include a business case detailing non-financial benefits. Funding should also continue to be targeted at the identified growth areas; however, there should be an opportunity for proposals outside of these geographical areas to be considered on a case by case basis as the investment opportunity arises. It is also proposed that where additional funding becomes available through the sale of assets or through S106 negotiations, these funds should be used to supplement the Economic Development and Investment Fund where appropriate.

6. LEGAL IMPLICATIONS

6.1 None for the purposes of this report

7. PERSONNEL IMPLICATIONS

7.1 None for the purposes of this report

Non-Applicable Sections:	Legal and Personnel
Background Documents: (Access via Contact Officer)	None