

REQUEST FOR MAYORAL DECISION – MD1337

Title: Growing Places Fund – Central Research Laboratory (CRL)

Executive Summary:

Further to endorsement from the London Enterprise Panel (LEP) and approval of the Stage 1 and Stage 2 papers by the Investment and Performance Board, this MD seeks approval for the GLA to provide a £7.7m loan to assist in the development of a Central Research Laboratory in Hayes. The funding is profiled to be repaid in full by June 2026. The finance is projected to be drawn from the Growing Places Fund (GPF) in 2014/15 (£5.2m) and 2015/16 (£2.5m). The MD also seeks approval for the GLA to procure the services of an independent monitoring surveyor to monitor loan utilisation against the development for the development period.

Decision:

That the Mayor approves GLA expenditure of up to £7,700,000 (capital) on:

- The provision of loan finance to Central Research Laboratory (TOVF) Property Company Limited from the Growing Places Fund, as an investment contribution in the development and establishment of a new “Central Research Laboratory” in Hayes
- The procurement by the GLA of an Independent Monitoring Surveyor to monitor loan utilisation against the development programme the costs of which will be funded by the borrower

Mayor of London

I confirm that I do not have any disclosable pecuniary interests in the proposed decision, and take the decision in compliance with the Code of Conduct for elected Members of the Authority.

The above request has my approval.

Signature: Boris Johnson

Date: 27 June 2014

PART I - NON-CONFIDENTIAL FACTS AND ADVICE TO THE MAYOR

Decision required – supporting report

1. Introduction and background

- 1.1. In July 2013, bids were received in response to the second round of the Growing Places Fund which sought proposals that delivered LEP Jobs and Growth Plan objectives. At the LEP meeting on 24th July the results of the GLA evaluation were reported, and the LEP endorsed the continued development of selected proposals. At the LEP meeting on 2nd October the LEP provided in principle approval for 4 projects to be shortlisted for GLA approval including the Central Research Laboratory (CRL).
- 1.2. This report seeks approval for the provision of £7.7m of loan funding which will be used by the proposed borrower to assist in meeting its costs of conversion of a semi-derelict building (the Record Store) on the Old Vinyl Factory site in Hayes, West London into the CRL, a facility to support design and manufacturing entrepreneurs to start and grow their businesses. In addition to providing a return on any GLA investment (see part 2 of this report for the details) the facility will support the development of high-tech, high-growth businesses and support the delivery of jobs and growth through the provision of a business incubator, workspace and manufacturing technologies and equipment for start-ups designing, making and commercialising early stage physical product ideas. The project will also support the economic and physical regeneration of Hayes by providing jobs for local residents, supporting local business and improving the physical quality of the urban realm.
- 1.3. The CRL will therefore, also contribute directly to the Mayor's commitment to create jobs and growth in the capital.
- 1.4. The Stage 1 (strategic decision) and Stage 2 (Investment decision) papers were presented to and approved by the Investment and Performance Board on 16th January 2014 and the 28th March 2014 respectively.

2. Objectives and expected outcomes

- 2.1 The Growing Places Fund seeks to drive jobs and growth in the Capital. The objectives of the CRL are to:
 - provide low-cost business workspace, a comprehensive business incubation programme and access to digital manufacturing technologies to support innovative, design-led, entrepreneurs with the potential for high-growth to get their ideas to market; and
 - build and create a facility which connects business, academia and investors and provides high spec digital design and production equipment to support the growth of the maker and manufacturing industry across London.
- 2.2 Expected outcomes:
- 2.3 The GLA is seeking a return on its investment in the CRL and the details of this, which are commercially sensitive are set out in Part 2 of this report.
- 2.4 The CRL team have identified the following Key Performance Indicators which will be monitored to understand the impact of the CRL and to support evaluation and business operations and have projected the level of benefits over its first 5 years. The figures are early projections and will be reviewed with the CRL team six months prior to opening of the facility. Performance against these KPIS will be reported to the GLA and where performance is lower than expected, there is an expectation that the CRL team, in working with the GLA, will identify why this is and put in place measures to improve performance.

- 16 rising to 35 new start up businesses supported through incubation programmes from years 1 to 5
- 128 entrepreneurs supported to start-up a company
- 1,705 jobs created through operation of the facility and in businesses supported to grow
- 95 businesses accessing seed funding
- 569 businesses benefitting from access to digital manufacturing technologies
- 1195 people accessing CRL workspaces
- Temporary construction jobs and apprenticeships created
- 46,500 sqft new commercial space created
- Support the economic and physical regeneration of Hayes
- Support the promotion of London as at the forefront of the global maker movement
- Support new products and innovations to come to market more quickly by connecting entrepreneurs with academia and finance

3. Other considerations

3.1. Key risks and issues

	Risk description	Mitigation / Risk response
1	Revenue assumptions – the strategic business case may have overestimated entrepreneurs willingness to pay for CRL services, resulting in lower early revenues and reduced financial viability and impact the ability to repay the GLA investment to the agreed repayment profile	The CRL team have undertaken a benchmarking exercise that shows pricing of the facility is very competitive. Marketing and PR consultants will be employed to ensure users are attracted to the facility. Strong partnerships are being developed with universities to ensure flow through of graduates to CRL entrepreneurs. The GLA commissioned a business plan evaluation which indicates sufficient market demand and confirmed the pricing structure is reasonable. The GLA will receive regular performance reports to monitor revenue and to ensure the business plan is being delivered as agreed, or changes are made where necessary to drive revenue.
2	Delays to build programme – may lead to later opening date and delay benefits	The CRL team will undertake effective contract management of contractors to ensure delivery on time and to budget. CG has a good record of delivering publicly funded, large programmes. The GLA will monitor and review progress through monthly reports of completed and forecast delivery and meetings with the CRL team. An independent monitoring surveyor will also be engaged to report on progress of the build. Drawdown of funds is based on monitoring surveyor reports of delivery therefore any delays to delivery will result in a slower drawdown of funds. If significant delays occur, drawdown of loan funds may be withheld. The GLA will be offered a 10% performance bond by the contractor to insure against the risk of the contractor not fulfilling its obligations.
3	Low success of resident start-ups – the incubator programme has a low impact on success of businesses, reducing overall benefits	The CRL team will engage proven operators of incubation and acceleration facilities. Entrepreneurs will be carefully selected for the incubation programme focusing on those who will benefit most from the specific CRL offer. The GLA will monitor and review progress and performance against KPIs through regular reports provided by the CRL.
4	High technology refresh costs – maintenance	The CRL team will engage experienced providers to

	of the manufacturing technologies may be more costly than expected, and new technologies may be unaffordable affecting the viability of the CRL	specify the technology offer and assess the replenishment costs. CG are in discussion with potential operators of the FabLab who will take part of the risk to updating the technology, and are currently in discussion with MakLab. The business plan indicates that there is sufficient revenue to meet the forecast technology upgrade requirements. In the lead up to the opening, the GLA will monitor the progress of these discussions.
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3.2. Links to Mayoral strategies and priorities

- 3.2.1. This project supports a number of Mayoral priorities. The activity supports the Mayor's manifesto commitments to support small business and to create 200,000 jobs in London over the course of this Mayoral term.
- 3.2.2. It also supports the objective set out in the Mayor's 2020 vision and the Mayor's Economic Development Strategy to encourage cost effective business support programmes for London's businesses, and especially for SMEs and entrepreneurs.
- 3.2.3. Finally it supports the objective set out in the Mayor's Economic Development Strategy to develop further London's strengths in innovation, by encouraging collaboration across sectors, promoting more productive links between business and academia, providing support for innovative activities, fostering entrepreneurial skills, and helping in accessing funding.

3.3. Impact assessments and consultations

- 3.3.1 A number of valuations of the Record Store building have been undertaken the details of which are included in Part 2 of this report. A consultant was jointly appointed by Cathedral Group/Purplexed and the GLA to undertake a valuation on the basis of the building use as the CRL and office space. Further to this the GLA appointed a consultant to undertake a valuation of the building assuming commercial office space to provide assurance that should the CRL facility fail the GLA could repurpose the facility and protect its investment.
- 3.3.2. Additional advice was sought to understand what value the facility and the building might have in Year 5 of the facility opening. This valuation work assumes the business has matured and takes into account the revenue streams of the business and assumes the top three floors generate a slightly higher rental value as office space, than the Central Research Laboratory.
- 3.3.3. A consultant was commissioned by the GLA to undertake a market demand evaluation of CRL's business plan which concluded that the investment proposition is viable and that there is sufficient demand to create a sustainable business which will be able to service the GLA loan. They have also made recommendations for further work that can be undertaken by the CRL team to improve the business plan. These recommendations will be addressed prior to entering into a loan agreement, or will form milestones in the agreement.
- 3.3.4 The valuation figures and recommendations in respect of which the loan and related agreements will be agreed are commercially sensitive and so are set out in part 2 of this report.

4. Financial comments

- 4.1. This decision requires capital funding of up to £7.7 million from the Growing Places Fund for which provision has been made. On the basis of current estimates £5.2m of this would be in 2014-15 and £2.5m in 2015-16 as expenditure is incurred on the building conversion. However, estimated retention fees of £75,000 would not be drawn down until 2016-17 and arrangements for this would need to be reflected in the loan agreement. The business plan for the SPV is based on full

repayment of this amount plus interest over 11 years. The cost of the independent monitoring surveyor will be recharged to Central Research Laboratory (TOVF) Property Company Limited.

4.2. Financial risks and issues in respect of security for the loan are included in part 2 of this decision.

4.3. The provision of the loan will be subject to a loan agreement being in place covering drawdown, interest and repayment terms.

5. Legal comments

5.1 The foregoing sections of this report indicate that:

5.1.1 the decisions requested of the Mayor fall within the powers of the GLA to do anything which promotes or which may be considered facilitative of or conducive or incidental to the promotion of economic development and wealth creation in Greater London; and

5.1.2 in formulating the proposals in respect of which a decision is sought officers have complied with the Authority's related statutory duties to:

- (a) pay due regard to the principle that there should be equality of opportunity for all people;
- (b) consider how the proposals will promote the improvement of health of persons, health inequalities between persons and to contribute towards the achievement of sustainable development in the United Kingdom; and
- (c) consult with appropriate bodies.

5.2 Officers must ensure that:

- (a) they continue to liaise with the GLA's finance team, TfL Legal and any other advisors engaged to in order to ensure that appropriate loan, security and other related documentation is agreed with the proposed borrower; and
- (b) such documentation is put in place and executed by the GLA and proposed borrower before any commitment is made to the provision of the proposed finance.

6. Investment & Performance Board

6.1. The Stage 1 and 2 papers have in principle approval from IPB. There were no comments.

7. Planned delivery approach and next steps

7.1 The project will be delivered by the Central Research Laboratory (TOVF) PropCo Limited, a wholly owned subsidiary of Purplexed Limited (whose Parent Company is Development Securities (Projects) Limited). Until a recent takeover of Cathedral Group by Development Securities, Purplexed was a joint venture company of both companies. Cathedral Group is now a subsidiary company of Development Securities and remains involved in the delivery of the Central Research Laboratory, and wider Old Vinyl Factory development. The takeover has no implications for this project.

7.2 Purplexed Limited owns the Record Store Building to be converted to the CRL and the Old Vinyl Factory (OVF) Site, where there are plans to develop a mixed-use regeneration scheme comprising 642 homes and 750,000 square feet of commercial space over the next few years.

7.3 Purplexed will provide £3.5m in match funding either from sales of land elsewhere on the OVF site expected from June 2014 or from their own resources once the total £7.7m GLA funding is drawn down, should land sales not have taken place.

- 7.4 Purplexed Limited will create a Special Purpose Vehicle New Company into which the Record Store Building will be transferred. The GLA will enter into a loan agreement with the Special Purpose Vehicle New Company (Central Research Laboratory (TOVF) Property Company Limited) which will provide the GLA with first charge over the asset and a lien over the shares of the NewCo. Loan and security documentation will be prepared and executed by the GLA and the proposed borrower before any commitment is given to lend the sums.
- 7.5 Loan terms have been developed with regard to the European Union Reference Rates for the provision of public sector loan financing based on the collateral available and credit worthiness of the applicant. Again the detail of the proposed rates can be regarded as commercially sensitive and are set out in the Part 2 of this report.
- 7.6 The forecast profile of drawdown of the loan is £5.2m in 2014/15 and £2.5m in 2015/16. The funding is provided as capital.
- 7.7 Loan amounts will be drawn down on the basis of monitoring surveyor reports who value the completed works on site on a monthly basis by Central Research Laboratory (TOVF) Property Company Limited from Q2 2014/15 to Q3 2015/16. The monitoring surveyor will be appointed by the GLA and paid for by Central Research Laboratory (TOVF) Property Company Limited to ensure that drawdown is aligned to actual expenditure. The expected cost of the monitoring surveyor is estimated at £20,000-30,000 and will be recharged to Central Research Laboratory (TOVF) Property Company Limited. Monthly drawdown will also be aligned to specific, measurable, achievable, realistic and time bound progression milestones. Where milestones are delayed or not delivered payment may be withheld, unless good justification is provided.
- 7.8 A retention amount is expected at between 2-5% of the build costs (enveloping and fit-out only). Drawdown of the loan will be net of retention until these costs are expended which is likely to be 12 months after practical completion. This will require an amount of the loan to be withheld until 2016/17. This is currently estimated at £75,000 but will be confirmed with finance once this is agreed with the borrower as part of the loan agreement.
- 7.9 It is intended that construction commences in early summer 2014 completing in the autumn of 2015 when the facility will open.
- 7.10 During construction of the facility the CRL team intend to deliver a CRL pilot programme on the site, engage potential incubator and workspace operators and engage marketing and PR consultants to develop a marketing strategy.
- 7.11 As part of their business plan, Purplexed Ltd have prepared a note on how they intend to consider and address equalities and access requirements as part of the development and the services offered. The CRL will be required to put in place an equalities policy prior to opening which is reviewed on an annual basis.

	Activity	Planned date
1	Mayoral Decision	June
2	Sign loan agreement/announcement	June/July
3	Possible Mayoral Visit to site	July
4	Run tender for Design and Build contract	June/July
5	Appoint marketing and PR consultants	May
6	Commence construction	August
11	CRL opens	Autumn 2015
12	Quarterly reporting of delivery	2015 - 2020
13	Loan repayment	2020-2026

Public access to information

Information in this form (Part 1) is subject to the Freedom of Information Act 2000 (FOI Act) and will be made available on the GLA website within one working day of approval.

If immediate publication risks compromising the implementation of the decision (for example, to complete a procurement process), it can be deferred until a specific date. Deferral periods should be kept to the shortest length strictly necessary. **Note:** This form (Part 1) will either be published within one working day after approval or on the defer date.

Part 1 Deferral:

Is the publication of Part 1 of this approval to be deferred? NO

If YES, for what reason:

Until what date: (a date is required if deferring)

Part 2 Confidentiality: Only the facts or advice considered to be exempt from disclosure under the FOI Act should be in the separate Part 2 form, together with the legal rationale for non-publication.

Is there a part 2 form – YES

ORIGINATING OFFICER DECLARATION:

Drafting officer to confirm the following (✓)

Drafting officer:

Laura Dubeck has drafted this report in accordance with GLA procedures and confirms the following have been consulted on the final decision.

✓

Assistant Director/Head of Service:

Tim Griggs has reviewed the documentation and is satisfied for it to be referred to the Sponsoring Director for approval.

✓

Sponsoring Director:

Fiona Fletcher Smith has reviewed the request and is satisfied it is correct and consistent with the Mayor's plans and priorities.

✓

Mayoral Adviser:

Kit Malthouse has been consulted about the proposal and agrees the recommendations.

✓

Advice:

The Finance and Legal teams have commented on this proposal.

✓

EXECUTIVE DIRECTOR, RESOURCES:

I confirm that financial and legal implications have been appropriately considered in the preparation of this report.

Signature: Martin Clarke

Date 19 June 2014

CHIEF OF STAFF:

I am satisfied that this is an appropriate request to be submitted to the Mayor

Signature: Edward Lister

Date 25 June 2014