

Meeting: Cabinet **Date:** 16th November 2021

Wards affected: Barton and Watcombe and Shiphay

Report Title: Growth Fund allocation - Edginswell Development

When does the decision need to be implemented? Immediately

Cabinet Member Contact Details: Swithin Long, Cabinet Member for Housing, Regeneration and Tourism

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1. Purpose of Report

- 1.1 This proposal is for Torbay Council acting as landowner and developer to progress and enter into contracts to develop and lease new production, research and design facility, with external parking and servicing on land at Edginswell Business Park, Orchard Way Torquay.
- 1.2 This report sets out the terms and basis to provide a new circa 2,100 sq m facility, with the potential to bring 100 new jobs to Torbay, for an innovative, expanding and award winning company in the sector of research, training and production of energy based surgical systems.
- 1.3 The report seeks the authority to secure funding for the project and to agree the contract terms.

2. Reason for Proposal and its benefits

2.1 In June 2017 Council made the decision to purchase 6 acres of land at Edginswell Torquay with the intention of unlocking a prime employment site at the strategic Torquay Gateway, adjacent to the South Devon Highway. The acquisition was completed in 2018.

2.2 This project will, deliver economic growth through, targeted infrastructure investment and meet the original objectives set out when acquiring the land in 2018. Bringing forward

development opportunities on this site has taken slightly longer than envisaged due to the market slowdown during the pandemic.

2.3 Further benefits and complementary policy items are contained within the Supporting Information section of the report.

3. Recommendation(s) / Proposed Decision

- 3.1. That subject to due diligence on legal and financial issues and the rent being in excess of the Councils loan repayments, the Chief Executive in consultation with the Chief Finance Officer and Cabinet Member for Housing, Regeneration and Tourism be authorised to negotiate and conclude lease and development terms with the incoming tenant and that the Council approve funding from the Growth Fund to fund the development at a sum not exceeding £6.5m, of which £1.5m is for the anticipated fit our costs that may or may not be required.
- 3.2. That subject to due diligence on legal and financial issues the Chief Executive be authorised to finalise lease terms and enter into a lease that includes an option to purchase with the incoming tenant.

Appendices

Appendix 1: **Part 2** - Financial Summary – Confidential

Appendix 2: **Part 2** - Indicative Project Timeline and Next Steps

Appendix 3: **Part 2** - Indicative design

Appendix 4: **Part 2** - Current Edginswell Marketing Masterplan

Background Documents

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Supporting Information

1. Introduction

1.1 In June 2017 Council made the decision to purchase 6 acres of land at Edginswell Torquay with the purchase completing in 2018. Following a comprehensive marketing campaign the Council entered into an agreement for lease with Wickes for part of the site (site 1) with works expected to commence in the spring of 2022.

At the end of 2020 the Council secured a £2m grant from the Getting Building Fund (GBF) to support essential infrastructure works to take place on the site and essentially ensure the site was serviced and ready for development. Planning permission has been obtained for these works and they are due to commence in November 2021.

It is now proposed that the Council enter into a new contract that will see the development and construction of site 3 where a new 2,100 production, research & design facility would be built with expansion land.

1.2 The proposed incoming tenant is currently based outside of Torbay and operate in the medical sector developing tools to assist with keyhole and open surgery. 1.3 The proposed tenant is currently based in a rural location which creates challenges for delivery/collection access and for the 57 employees (October 2021) that are based there. The site is also comprised of varying separate buildings which is very inefficient and they have been looking for a new location to address these issues for some time. The move to a new site is anticipated to bring an additional 15/20 new jobs in addition to the current employees including R & D growth engineers, product assembly, engineering apprentices through South Devon College and business support roles in HR, finance, customer sales support, exporting and marketing. The additional future growth space that has been allowed for would also provide the necessary space for the company to grow and create additional new jobs.

1.4 The company has been in discussions to explore opportunities across the Torbay Authority for some time whilst also looking at other opportunities in the region. The result of those discussions and searches is that they have decided to advance the opportunity to be located at Site 3 of the emerging Council's Edginswell Business Park. The proposal will create a new Production, Research & Design facility, with external parking and servicing. In addition the site will have an expansion area for future growth (target 1,000 m²).

1.5 Site 3 at Edginswell will provide the tenant with the opportunity to bring all of their current functions under one roof. This will include; training suite for surgeons/doctors/nurses, cleanroom class 7, machine tooling and engineering workshop (this is the future growth element of the company so they can increase their own manufacturing volumes and undertake functions for other parts of the wider group), offices and meeting rooms (including HR, accounts, marketing, customer services, sales/product management support), electronics build, assembly and test; warehousing and goods in/out.

1.6 An indicative timeline for the delivery of the project is contained within Appendix 4 with a targeted practical completion in the summer of 2023.

2. Options under consideration

- 2.1 Members (through the Cabinet and Overview & Scrutiny) have considered options for the site (including Leisure, Builders merchants, speculative business units). Having now progressed with the Wickes store proposal the Council will have the benefit of approximately 2 new development plateaus that will be created by the enabling works.
- 2.2 In all respects this proposal provides an excellent opportunity for the land to deliver on desired objectives identified when the site was purchased in 2018.

3. Financial Opportunities and Implications

3.1 The tenant's financial status has been assessed through appropriate credit ratings and consider them to be at least Very Good. In addition to these checks further due diligence will take place as part of the contract negotiations and a parent company guarantee is being offered.

3.2 There is a detailed confidential financial summary/breakdown available at Appendix 1 although it should be noted that the rent payable by the tenant will be equal to or above the Councils loan repayments. It should also be noted that the lease will contain a tenant purchase option which in any event will not be less than the Councils outstanding debt at the time of purchase.

3.3 Within the financial summary there are two potential scenarios, both of which are clearly set out. The first of which is that the Council funds and develops the shell and core of the property and then hands this over to the tenant to fit out at their own cost. The second option sees the Council fund these fit out works and the rent is increased proportionally to reflect this increased investment. As already mentioned in either scenario the rent will never be lower than the Councils loan repayments and thus meet the terms set out as part of the Growth Fund criteria.

Financial Assumptions

- The estimated build costs have been assessed by an independent Quantity Surveyor
- There is a proposed rent review every 5th year (Indexed linked and compounded, with reference to RPI, subject to a cap and collar of 2% and 4%). This ensures that there is a guaranteed rental uplift.
- The tenant has an option to purchase from year 5. The price will be determined at that time and will cover the Council's full remaining debt.

Financial Opportunities

The TDA Economy Team has estimated further benefits and Policy alignment as follows;

- Economic modelling for this enquiry assumes a GVA per FTE of £40,965.90 based on scientific and technical profession and an example of just a 10 year period would contribute over £18.4M of GVA to Torbay's economy, this would give a net present value (removing inflation from the impact) of £15.9M. This excludes indirect job impacts which would be in addition. This is an excellent return against the borrowing and construction costs and for the Torbay economy.
- The team further concludes that the project will strengthen opportunities with South Devon College regarding engineering apprenticeships.
- Estimated Business rate uplift over £100,000 p.a
- Estimated additional leisure and tourism economy benefit from the 450/600 visitors on training programmes
- This would also provide a complementary addition to Torbay's growing med tech cluster whom have felt less impact due to the effects of c19, therefore adding additional economic resilience to the Torbay economy.
- Due to issues of viability, employment space has been slow to come forward in the Torbay market. The GBF funding has improved the viability for the site and brought forward the enabling works creating new employment space opportunities and attracted opportunities such as this.
- This opportunity to support business growth and inward investment is in line with the Economic Repositioning Plan. Furthermore, as the gateway site it presents an opportunity to accommodate high value jobs signifying Torbay's economic intent in such a high profile location. Torbay suffers structural weaknesses due to the makeup of the economy. Supporting inward investment and local job growth enables Torbay to create new jobs that will increase skills, wages and money into the economy.
- The case for developing employment space on this gateway site flows through all local strategic documents. Torbay Council's Corporate Plan which sets 4 visions to achieve its wider objectives, one of which is for a thriving economy through creating an environment in which businesses and jobs can grow and where the local economy is successful and sustainable. There is further ambition to strengthen medical/healthcare/life sciences sector which, through enabling the inward investment enquiry, will support the growth of this sector. Torquay Gateway Master Plan sets out the importance of this site for provision of employment space to support the growth of employment sectors. Torbay Economic Strategy (2017-22) recognises the importance of bringing forward employment space as one of its 4 key objectives to support local growth in order to create more full time and sustainable employment. Torbay's Covid19 Economic Reposition Strategy which looks to accelerate local economic recovery. As part of the Torquay Town Deal Town Investment Plan, Torquay Gateway will support town centre regeneration through unlocking employment space to help businesses expand, support inward investment and through embedding community wealth building

principles will aim to tackle inequality, exclusion and poverty leading to a more sustainable economy.

4. Legal Implications

4.1 Lease terms have been broadly agreed with the detail still to conclude. Therefore, whilst subject to minor alteration, the terms are currently:

- 25 year lease
- Rent please see financial appendix
- Tenant full repairing and insuring terms
- Indexed linked upward only rent reviews every 5th year
- Tenant option to purchase at the 5th year and beyond
- Tenant option to break at year 10

4.2 Torbay Council Legal team have reviewed the terms and advised that a specialist external law firm should be appointed to act on behalf of the Developer and land owner (Torbay Council).

4.3 The tenant has a requirement for an option to purchase from year 5. The Option Price will be the Council's remaining debt in respect of the pro rata share of cost in respect of Land, Project / Build costs including any PWLB (Public Works Loan Board) early redemption penalties, interest, less any Tenant's rental payments. In addition, should the option be exercised the transaction will progress only in accordance with the legal requirements of the GBF funding.

5. Engagement and Consultation

5.1 The Council's Edginswell land has been the subject of the September 2021 approved Full Planning approval (ref P/2021/0123 Enabling works for future development. Extension of Orchard Way with associated retaining walls and landscaping). This built on a 2007 Outline Planning Approval that outlined commercial development on the wider land at Edginswell Park including the Council's land. The 2021 application received a substantial programme of consultation including Members and the Torquay Neighbourhood Planning Forum. The application received full scrutiny in terms of ecology, highways, transport, heritage, arboriculture, landscape proposals, drainage. As a result of that consultation landscaping proposals and archaeological proposals were enhanced.

5.2 The proposals for this project will include the engagement requirements as part of the planning process.

5.3 These proposals will be the subject of a further pre application planning enquiry and the emerging full planning application will receive full consultation. The proposals fully align with the Local Plan with this area being in the Edginswell Future Growth Area (Local Plan Policy SS2) which supports high quality business uses.

6. Purchasing or Hiring of Goods and/or Services

- 6.1 The procurement of the main contractor to deliver the construction and the design team will be undertaken in accordance with public procurement regulations and working in partnership with the Torbay Council Procurement team.
- 6.2 The appointment of the main contractor will be made in accordance with public procurement regulations.

7. Tackling Climate Change

- 7.1 The incoming tenant has stated that along with Torbay Council they are committed to achieve high standards and commitments to reducing carbon emissions in the project and to achieving robust standards of sustainability. On behalf of Torbay Council TDA will work with the design team to achieve this, initially producing an outline Energy & Sustainability Statement at the planning submission stage.
- 7.2 This will include details building on the existing approvals for Edginswell around Transport & Accessibility (targeting sustainable modes of transport), Sustainable Design, Critical Drainage design (surface water attenuation) and an Energy Assessment (outlining renewable energy options and low carbon technologies).

8. Associated Risks

- 8.1 There are currently significant cost and supply risks in the construction industry causing high levels of build cost inflation. Torbay Council will commission a quantity surveyor to assess and monitor costs and the levels of contingency within the development appraisals has been increased accordingly.
- 8.2 The indicative timeline in the Appendix 2 identifies gateways to monitor costs and assess the business plan ahead of the Council signing the development agreement.
- 8.3 If the Council does not proceed with this proposal at Edginswell there is significant risk that this opportunity would be lost to Torbay and the potential for approaching 100 jobs over three years taking into account future growth plans.
- 8.4 The proposal will require a new Full Planning approval and therefore there are risks associated with this, notably in terms of design. However, the use is supported by the Local Plan, the 2007 Outline Planning approval (expired) and the 2021 enabling works approval. The project will submit a planning pre application enquiry to review all the issues and the risk is considered low.
- 8.5 Matters relating to the lease terms and the option to purchase have been considered by the Legal, Finance and Economy teams of the Council (and TDA) notably with regard to the terms of the GBF. The risks can be managed and are considered low.

8.6 There are risks in progressing a transaction with the tenant, notably in the event of company failure. However the transaction will involve contracts to protect the Council's interests (drafted by appropriate solicitors), the Company has been reviewed by the Finance Team. It should also be noted that the Council and TDA will look to ensure the design will be of interest to other occupiers if required.

9. Equality Impacts - Identify the potential positive and negative impacts on specific groups

	Positive Impact	Negative Impact & Mitigating Actions	Neutral Impact
Older or younger people			No differential impact
People with caring Responsibilities			No differential impact
People with a disability			No differential impact
Women or men			No differential impact
People who are black or from a minority ethnic background (BME) (Please note Gypsies / Roma are within this community)			No differential impact
Religion or belief (including lack of belief)			No differential impact
People who are lesbian, gay or bisexual			No differential impact
People who are transgendered			No differential impact
People who are in a marriage or civil partnership			No differential impact
Women who are pregnant / on maternity leave			No differential impact
Socio-economic impacts (Including impact on child poverty issues and deprivation)			No differential impact
Public Health impacts (How will your proposal impact on the general			No differential impact

health of the population of Torbay)			
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10. Cumulative Council Impact

10.1 The Council are already carrying debt on the land purchase and therefore not proceeding with this proposal means that the holding costs will continue to create a revenue pressure on the Council.

11. Cumulative Community Impacts

11.1 None