

To: Cabinet
Date: 15 July 2020
Report of: Executive Director (Development)
Title of Report: Local Growth Funded Workspace Projects, 1-3 George Street and Standingford House, Cave Street

Summary and recommendations	
Purpose of report:	To seek approval to enter into a £1.93m Funding Agreement with Oxfordshire Local Enterprise Partnership for Local Growth Funding to support the refurbishment of 1-3 George Street and redevelopment of Standingford House on Cave Street to provide affordable and innovative workspace to facilitate the inclusive economy.
Key decision:	Yes
Cabinet Member:	Councillor Susan Brown, Economic Development, Councillor Ed Turner, Finance and Asset Management
Corporate Priority:	Vibrant and Sustainable Economy
Policy Framework:	<p><i>Vibrant and Sustainable Economy:</i></p> <ul style="list-style-type: none"> - Development in and around the city will enable businesses and organisations to locate, start and grow locally - Oxford will be a centre of world-leading technology and business innovation with growth and increased investment in enterprise and the knowledge economy
Recommendation: That Cabinet resolves to:	
<p>1. Delegate authority to the Executive Director Development, in consultation with the Council's Section 151 Officer and the Head of Law and Governance to agree and enter into grant funding arrangements and contractual terms with OxLEP for £1.93m in Local Growth Funds for the delivery of city-centre based workspaces at 1-3 George Street and Standingford House, Cave Street.</p>	

Appendices	
Appendix 1	Risk Register

Introduction and background

1. The delivery of workspace in the city-centre is one of the main areas of intervention identified in the emerging Oxford City Council Economic Development Strategy. Oxford City Council is already committed to increasing the supply of good quality commercial workspace in its Corporate Plan. The evidence base from the City Council's Draft Economic Development Strategy has further demonstrated a need to provide workspace that local people and businesses can access. It recognises that more, improved and innovative space needs to be made available if the city wants to be both competitive and meet its inclusive economy corporate objectives.
2. The county-wide Local Industrial Strategy positions Oxfordshire as one of the top-three global innovation ecosystems, providing an ambitious, long-term vision for economic growth between now and 2040, backed by business. Key to that is a successful city centre in Oxford that supports creative, social enterprise and technology sectors and provides an environment for people and businesses to thrive.
3. For this reason, the City Council has been successful in attracting £1.93m of Local Growth Funding (LGF) to deliver new workspaces from OxLEP, subject to contract.
4. OxLEP is keen to explore the potential for a creative workspace hub and a range of different workspace typologies, including co-working, studio, workshops etc. The funding will therefore be used to enable aspects of the inclusive economy agenda, by bringing forward affordable and accessible space through increased availability and by removing barriers for certain entrepreneurs in less well funded sectors (creative, digital, social enterprise).
5. The COVID-19 crisis has created significant uncertainty in the property market and so the feasibility stage of the two workspace projects will need to explore how best to position these schemes within that context. There is an imperative to move forward with both schemes given their condition and also the need to utilise OxLEP funding to deliver accessible workspace as part of the city's economic recovery agenda.

The projects

6. The Council has identified two sites in the City Centre for new and/or improved office space.
7. The initial development is for a refurbished property of approximately 473.5sqm (5,097 sq.ft) nett lettable, at 1-3 George Street in Oxford City Centre to be available from March 2021. A larger redevelopment site, Standingford House on Cave Street, offers a further opportunity for a potential 900.0sqm (9,700 sq.ft) Gross Internal Floor Area. Both schemes will be income generating as well as meeting socio-economic aims.
8. This report seeks approval to enter into the Funding Agreement with OxLEP for grant for both projects, subject to detailed feasibility and design work to follow, which will be subject of a future Cabinet Report. Consultation with existing tenants will take place as part of the feasibility and design.

9. 1-3 George Street comprises a vacant mixed use building in a prime city-centre location. However, the building's condition has deteriorated internally and in its current condition does not meet minimum regulatory standards. It now requires significant works to substantially refurbish the building to provide a rental income to the council. It was reported to the then City Executive Board (CEB) in 2016 that the accommodation is dated and likely to prove difficult to let resulting in an erratic and diminishing rent roll. Plans were subsequently drawn up to demolish and redevelop the whole site in order to provide a modern, fit for purpose, office building together with a new retail unit for the existing retail occupier. The plans were stopped when the feasibility work demonstrated they were uneconomic to pursue. A further exercise was undertaken to explore whether a meanwhile use could utilise the space while detailed plans were drawn up for its long-term use. This exercise demonstrated the costs to make the building usable were too high for such a short-term use; however, it did demonstrate the potential for innovative use of the space to support commercial workspace activity.
10. The development site on Cave Street comprises the Standingford House Enterprise Centre and the adjacent vacant site. Standingford House is currently fully let providing 19 office and studio units; however, recent changes in national legislation will prohibit new leases for the property as the building does not comply with the required Minimum Energy Efficiency Standards (MEES) for commercial properties. There is therefore the threat of a diminishing rental income and the risk of rising vacant property costs over the medium term financial plan period. Feasibility work is being commissioned to undertake an options appraisal for the site. The Council will engage with existing tenants throughout this process.
11. Initial viability work has been undertaken on both sites, which has demonstrated a funding gap and the need for external subsidy to deliver workspace. A Business Case Form was prepared by the Council and submitted to OxLEP and approved by them as part of the funding application. A standalone Business Case will be prepared for each project as part of the detailed feasibility work for each site which will be subject of future Cabinet Reports and a budget allocation to take forward delivery.
12. The OxLEP grant will allow the funding gap to be bridged on both projects and allows an opportunity to grant fund all of the early stages of spend in 2020-21.
13. The OxLEP funding proposal identifies key objectives to be met by the projects including; promoting economic growth in Oxford by providing much needed premises for new and small businesses to operate from within the City centre, working with partners to support start-ups and to provide space for small businesses in key sectors important to Oxford's economy including: the creative sectors, social enterprises and wider knowledge based businesses.
14. This will enable aspects of the inclusive economy agenda, by bringing forward affordable space and removing barriers for certain entrepreneurs in less well funded sectors (creative, digital, social enterprise). As part of the feasibility work for each scheme officers will look at options that include contracting with workspace operators to let and operate the development to maximise outcomes.

Financial implications

15. It is expected that the Council will need to invest capital funds in both schemes alongside the £1.93million funding from OxLEP grant for which provision has yet to be made in the Council's capital programme. This investment will be subject to viable Business Cases being put forward for each project. These Business Cases, and funding requests will be subject to further Cabinet reports and in relation to Council funding, a Council decision.
16. The feasibility costs for these projects are being met from the Council's capital feasibility fund, but will be recouped from the OxLEP grant if the Business Cases are approved. The estimated projected total cost across both projects is £6.18m. Consequently, alongside the £1.93m grant, the city council will likely invest an estimated £4.25m subject to further feasibility, design and business case approval. It is expected that £750K will first be spent on the George St refurbishment, to be completed in spring 2021. Potentially £5.43m will be spent at Cave St, projected for completion in autumn 2023, subject to feasibility.
17. Both projects will aim to achieve an enhanced asset and long-term income levels preferable to purely commercial options. This is likely to be the case due to the level of subsidy. The forthcoming business cases will test this further. Each business case will include a full capital investment appraisal that assesses the available options.
18. The drawdown of the OxLEP LGF funding will require early expenditure across the two projects 1-3 George Street and Standingford House, Cave Street. Should the Business Cases be acceptable, the detailed design and feasibility work for both the George Street refurbishment and Standingford House will be met from the financial year 2020/21 year one grant estimated to be £900K. £250k has already been identified from the Council's feasibility capital budget earlier in this financial year and this can be claimed back using the grant.
19. An initial State Aid assessment has been undertaken and this has indicated that both schemes can be subsidised through the grant, in order to cover the funding gap. This will be confirmed as part of the Business Case for each project and subsequent Cabinet reports.
20. It is important to note that the funding is time limited. Around £900k of grant will be spent up front in 2020-21, with the remainder in 2021-22 subject to Cabinet and agreeing the business cases and recommending the use of required capital funds for approval by Council. Oxford City Council's match funding contribution will need to be spent in 2021-22 and 2022-23. This will be confirmed through the next phase of feasibility.

Legal issues

21. The Council has commissioned Browne Jacobson LLP to provide an independent state aid assessment which is required as a pre-condition of the funding agreement with OxLEP.
22. Browne Jacobson LLP has advised:
 - a. The Council is acting as an undertaking for these purposes and the State Aid tests are passed.
 - b. The Council should be able to benefit from Article 56 of General Block Exemption Regulation (GBER) to enable the funding gap to be filled, provided that the calculation is made by the Council to demonstrate that

the grant funding from OxLEP will not be greater than the difference between the eligible costs incurred by the Council in developing the hubs and the operating profit made by the Council from it over the relevant lifetime of the hubs calculated in accordance with the appropriate accountancy led depreciation period.

- c. The aid provided under GBER must have an incentive effect (i.e. there has been a written application before the project has started and the Council must be able to show a material increase in scope, amount spent or speed of completion of the project as a result of the funding).
 - d. An OJEU compliant tender process (whether directly procured by the Council or let under a compliant framework) will be required for delivery of the project.
23. A development appraisal is carried out using the current value of the building plus spend, less completed value, to establish whether there is a surplus or shortfall.

Level of risk

24. Refer to the attached Risk Register Appendix 1
25. Oxford City Council is required to enter into contractual Funding Agreements with Oxfordshire Local Enterprise Partnership for Local Growth Funding by the end of June or funding will be withdrawn.
26. State Aid advice has been agreed.
27. Under the terms of the OxLEP Local Growth Funding agreement works must be completed by end March 2021. An outline programme has been prepared for each project showing that both projects are deliverable in this timeframe. The initial feasibility work at 1-3 George Street is already progressing and on programme and consultant appointments for Standingford House, Cave Street are now underway.
28. If the business cases are rejected, we will not be able to utilise the grant. Only the feasibility budget, already identified, would be committed ahead of this point to minimise the council's exposure to financial risk.

Equalities impact

29. Refer to the Equalities Impact Assessment Appendix 2.

Conclusion

30. The OxLEP Local Growth Funding will enable the Council to bring forward affordable workspace to support the inclusive economy agenda, removing barriers for certain entrepreneurs in less well funded sectors (creative, digital, social enterprise). Due to the OxLEP Local Growth Funding subsidy, this would allow a preferable financial and social outcome to a purely commercial option and form a key part of the City Council's economic recovery programme.

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Background Papers: None