

This report contains exempt information as defined in Paragraph 3 of Schedule 12A of the Local Government Act 1972 (information relating to the financial or business affairs of any particular persons including the authority holding that information). **This exemption applies to Appendix 2 only.**

Report to: **Executive**  
Date: **16 June 2016**  
Title: **Admiral Court Phase 4 – Business Case**  
Portfolio Area: **Customer First**  
Wards Affected: **Dartmouth**  
Relevant Scrutiny Committee:

Urgent Decision: **Y** Approval and clearance obtained: **Y**

Date next steps can be taken:  
Immediately

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**Recommendations:**

1. That the Executive recommend to Council, to approve the expenditure of up to £600k as detailed below, so as to develop commercial units at Admiral Court, Dartmouth.

## **1. Executive summary**

- 1.1. The purpose of this report is to present a business case for development at Admiral Court, Dartmouth. The development would consist of 7 starter units, of between 50 – 95 m<sup>2</sup> each.
- 1.2. A planning application has been submitted for the development, which is yet to be determined (at the time of writing), ref; *0901/16/FUL*
- 1.3. The cost of the development is estimated at £554,000. This is anticipated to generate a gross yield equal or in excess of 6.6%, representing an annual rental income of upwards of £36,800.
- 1.4. The funding for the project is to come from existing council reserves, as detailed in section 4.
- 1.5. The development would be the fourth phase at the site, and as such we are able to evidence 100% current occupancy and strong demand.

## **2. Background**

- 2.1. A report was taken to Special Council on the 7<sup>th</sup> April, minute reference 69/15, outlining the key development opportunities and priorities of the Assets CoP. Each of the projects identified had outline costs and revenue streams identified, but stopped short of providing detailed business cases, funding sources or seeking approval to proceed.
- 2.2. This report sets out the details of a proposed development of 7 commercial units at Admiral Court, Dartmouth, including a full business case, financials and planning drawings.
- 2.3. The Admiral Court site has been built out in three phases to date, with infrastructure and access for further phase already in place.
- 2.4. The Council has a long history of operating as a landlord of small starter units across the district and at the site, such as those proposed. We are therefore well placed to understand the demand and commercial realities of a further phase of development.
- 2.5. The existing 15 units on the site are 100% occupied and have historically proved popular with local businesses. We are also aware of existing tenants on the site that are keen to expand.
- 2.6. To date the Assets CoP have:
  - 2.6.1. Worked up and submitted a full planning application for the proposed development *0901/16/FUL* (yet to be determined at time of writing).
  - 2.6.2. Prepared a full design and build specification for multiple commercial unit developments including this one.
  - 2.6.3. Prepared a tender package for the procurement of a design and build (D&B) contractor to implement multiple commercial developments in South Hams and West Devon.

- 2.7. Due to the economies of scale, commissioning and implementation of this project (subject to approval), shall become part of a package of works that will also include Burke Rd, Totnes and Batson Creek Salcombe. These two projects already have funding in place, as previously approved in the 2015/16 capital programme.
- 2.8. The Executive have been asked to consider this recommendation at the present time, so as to ensure this development can be included within the forthcoming tender process for a Design and Build (D&B) contractor, as a fully funded project, rather than an aspirational one. Its funded status would derive best value through reduced construction cost, increased project yield and reduced delivery programme.
- 2.9. There are other commercial developments being brought forward currently by the Assets CoP, however, no others are in such a strong position for implementation. As such, it is felt that this project should be funded from current reserves. Future projects will come forward for consideration, but will have to rely on receipts from disposals or borrowing for funding.
- 2.10. This development aligns with the adopted asset strategy, to increase the Council's commercial holdings as well as the corporate priority of improving the economy, in this case, through employment.
- 2.11. A copy of the layout plan for the development can be found in Appendix 1.

### 3. Business Case for Development

- 3.1. The full business case for this development is presented in Appendix 2. A summary of non-sensitive key data and assumptions can be found below:

No. Units for development	7
Rent £/sq ft	6.50
Occupancy Rate	89%
Annual Income (rent)	£36,835
Gross Yield	6.6%
NPV (Net Present Value)	£157,079
IRR (Internal Rate of Return)	5.31%
Surplus over 40 years (after maintenance)	£1,151,205

- 3.2. The rental rates used in this business case are actually a conservative figure, when compared with actual rents for the existing phases of development. This is to ensure that members are presented with a realistic, yet worst case position on which to make their recommendation, as future market conditions will vary over the life of the development.
- 3.3. If existing rental rates are used, the rent increases to £44k and the yield to 7.7%.
- 3.4. A rate of £1000/m<sup>2</sup> has been used for the construction of the units. This is taken as a representative value for similar construction projects, from the Building Cost Information Service (BCIS) of the Royal Institution of Chartered Surveyors (RICS). The actual construction costs will vary, but will be benchmarked against this business case.
- 3.5. It should be noted that lost interest on the funds used for this project is modelled in the business case, at 0.7%, which is the current level of interest yielded. No borrowing is required to fund this project.
- 3.6. Funding of this project does not impact the other known Council wide commitments made against the various reserves proposed for use.

### 4. Funding

- 4.1. The total funding requirement based on the business case in Appendix 2, and a contingency of ~£80,000 is £600,000.
- 4.2. To be funded by £250,000 from the Innovation Reserve (Invest to Earn) Earmarked Reserve, by £100,000 from the Land and Development Earmarked Reserve and £250,000 from the 2016/17 Capital Programme Contingency Reserve.

- 4.3. The Innovation Reserve (Invest to Earn) Earmarked Reserve has a remaining uncommitted balance of just over £250,000, so there is sufficient funding to meet this request.
- 4.4. The Land and Development Earmarked Reserve has a remaining balance of £206,000. There is a recommendation on the same Executive agenda to use £76,000 of this funding for Ropewalk, therefore there is sufficient funds remaining to utilise £100,000 for Admiral Court.
- 4.5. In February 2016, Members approved a Capital Programme for 2016/17 totalling £1,765,000, which included a contingency provision of £300,000. It is recommended to use £250,000 of the £300,000 Capital Programme 2016/17 contingency amount for the funding of Admiral Court.

## **5. Demand**

- 5.1. A full pre-construction market test and expressions of interest tender will be undertaken should this project receive member approval. In this way, the risk of voids through low demand will be effectively mitigated, as a pre-let agreements will be entered into.
- 5.2. At the current time, this report relies on historical occupancy at the site and the level of enquires received. The site is 100% occupied.
- 5.3. A tenant recently left, and the unit was re-let without a void period, as demand is strong. The assumed occupancy rate of 89% for the business case is significantly conservative.

## **6. Options available and consideration of risk**

- 6.1. What alternative approaches could we take?
- 6.2. Assuming the adopted strategy of increasing the Council's commercial portfolio is to be followed, this site is brought to the attention of members as the highest priority, after consideration is given to; demand, yield, cost and readiness.
- 6.3. Should members not feel that the business case presented represents a sound investment, the option of awaiting the other developments to come forward should be considered.
- 6.4. It should be noted that the business case for future commercial development is likely to be similar, with regard to yield, IRR and NPV, as rents do not vary significantly across South Hams for small starter units and subject to topography and infrastructure, nor do construction costs.
- 6.5. Funding of the project will reduce the levels within the earmarked reserves and the capital programme contingency. As such, future unknown funding demands may be harder to afford, albeit these cannot be predicted.

6.6. A simple risk summary of the project is presented below

<b>Title</b>	<b>Risk</b>	<b>Mitigation</b>	<b>Residual Risk</b>
Actual construction costs in excess of that in business case	Med	Roll out of several similar commercial projects as one commission introduce economies of scale, reducing design and construction costs. Contract not to be signed unless affordability criteria met.	Low
Increase in actual construction costs during works programme	Med	Standard form of contract (NEC) used to manage construction phase, (fixed price). Client contingency secured for such eventuality. Appropriate project management and QS resource to be available to the project.	Low
Initial low demand	Low	Market tender and pre-let agreement to be undertaken prior to construction start. Construction only proceed with healthy demand.	Zero
Future low demand, representing a significant change to historic trend	Low	Improvements to the website and other marketing efforts will reduce this in so far as is possible. Rent can be negotiated downwards.	Low

6.7. This project is subject to a full planning application, and as such has been publically consulted. Internal consultation has been undertaken with local members and the asset portfolio holder.

## **7. Proposed Way Forward**

- 7.1. Should the recommendation be approved, the status of this project will be changed to "funded", within the forthcoming D&B procurement exercise, with immediate effect.
- 7.2. The procurement exercise will provide a contractual price to undertake the design and build. The evaluation will be based on quality and price, most probably weighted equally.
- 7.3. The procurement timetable is yet to be finalised, but is likely to yield a preferred bidder by Autumn 2016.

## 8. Implications

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance	Y	<p>Approval to spend, funding from earmarked reserves and the Capital Programme contingency amount requires the agreement of full council as this has not been previously budgeted for within the 2016/2017 budget setting process.</p> <p>This report contains exempt information as defined in Paragraph 3 of Schedule 12A of the Local Government Act 1972 (information relating to the financial or business affairs of any particular persons including the authority holding that information). <b>This exemption applies to Appendix 2 only.</b></p>
Financial	Y	<p>The total funding requirement based on the business case in Appendix 2, and a contingency of ~£80,000 is £600,000.</p> <p>To be funded by £250,000 from the Innovation Reserve (Invest to Earn) Earmarked Reserve, by £100,000 from the Land and Development Earmarked Reserve and £250,000 from the 2016/17 Capital Programme Contingency Reserve.</p> <p>The Innovation Reserve (Invest to Earn) Earmarked Reserve has a remaining uncommitted balance of just over £250,000, so there is sufficient funding to meet this request.</p> <p>The Land and Development Earmarked Reserve has a remaining balance of £206,000. There is a recommendation on the same Executive agenda to use £76,000 of this funding for Ropewalk, therefore there is sufficient funds remaining to utilise £100,000 for Admiral Court.</p> <p>In February 2016, Members approved a Capital Programme for 2016/17 totalling £1,765,000, which included a contingency provision of £300,000. It is recommended to use £250,000 of the £300,000 Capital Programme 2016/17 contingency amount for the funding of Admiral Court.</p>
Risk	Y	Refer to risk table in section 6.
Comprehensive Impact Assessment Implications		

Equality and Diversity	N	N/A
Safeguarding	N	N/A
Community Safety, Crime and Disorder	N	N/A
Health, Safety and Wellbeing	N	N/A
Other implications		

### **Supporting Information**

#### **Appendices:**

Appendix 1 – Admiral Court Layout Drawings

Appendix 2 – Full Business Case

#### **Background Papers:**

Income generation report - Full Council, 7<sup>th</sup> April, minute reference 69/15

<b>Process checklist</b>	<b>Completed</b>
Portfolio Holder briefed	<b>Yes</b>
SLT Rep briefed	<b>Yes</b>
Relevant Exec Director sign off (draft)	<b>Yes</b>
Data protection issues considered	<b>Yes</b>
If exempt information, public (part 1) report also drafted. (Cabinet/Scrutiny)	<b>Yes</b>