

Commercial Development Opportunities

The Appendices of this report contains exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act 1972

Executive

Date:	13th December 2018
Title:	Commercial Development Opportunities
Portfolio Area:	Cllr John Tucker, Leader of the Council, Assets
Wards Affected:	All
Relevant Scrutiny Committee:	Overview & Scrutiny Panel
Date next steps can be taken:	After Call In 24 December 2018
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Recommendations: That Executive:

1) APPROVE the following projects to proceed, (capital investment of £20.86m as per Exempt Appendix H), including the granting of leases in excess of 15 years where applicable, subject to Recommendation 2 being approved by Full Council on 17th January 2019:

- i. Kingsbridge, Rope Walk Resource Centre development
- ii. Totnes, Steamer Quay office development
- iii. Sherford, commercial land acquisition
- iv. Beesands, beach huts
- v. Salcombe, Shadycombe Car Park capacity increase
- vi. Ivybridge, Leonard's Rd Car Park super market proposal
- vii. Workshop for Salcombe Harbour at Batson (subject to consultation with the Salcombe Harbour Board)
- viii. Employment Units, Batson

2) RECOMMEND to Council the financing of the following sums as set out within the Appendices of this report, subject to project approval above in Recommendation 1:

- i. To fund the acquisition of 10 acres of employment land at Sherford from the Business Rates Retention Earmarked Reserve (as set out in Appendix C)
- ii. To allocate £500k from S106 funding from Land at Torhill farm, Godwell Lane, Ivybridge (27_57/1347/14/F) to fund the Ermington Employment Units (thereby freeing up £0.5m of capital receipts funding)
- iii. To fund the £949,833 upfront borrowing costs during the construction period of the projects (as set out in Exempt Appendix H) from a combination of the Business Rates Retention Earmarked Reserve (£624,833) and the Business Rates Pilot gain for 2018/19 (£325,000).

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Executive Summary

- 1.0 Following full Council approval of the Commercial Property Strategy (CPS) in September 2018 and the delegated authority to Executive, this report seeks approval of 8 projects that meet the CPS objectives.
- 1.1 These objectives were:
 - 1.1.1 To support regeneration and the economic activity of the District
 - 1.1.2 To enhance economic benefit & business rates growth
 - 1.1.3 To assist with the financial sustainability of the Council as an ancillary benefit.
 - 1.1.4 To help the Council continue to deliver and/or improve frontline services in line with the Council's adopted strategy & objectives
- 1.2 The CPS delegates authority to approve development projects to Executive, where these projects fit within the borrowing limit approved by the Council. Some of the projects included in this report require seed funding or have an alternative funding provision entirely. These projects would therefore require full Council approval for the funding (see Recommendation 2).
- 1.3 The projects recommended are:
 - 1.3.1 A new build development in Kingsbridge which would be let to a major UK hotel operator on the former Rope Walk Resource Centre Site, providing year around visitor accommodation.
 - 1.3.2 An office development on a brown field site, for a well-established architect practice wishing to invest and grow in Totnes.
 - 1.3.3 The acquisition of approx. 10 acres of commercial land in Sherford to provide for future commercial expansion of business within or re-locating to the South Hams.
 - 1.3.4 Construction of 7 no. chalet style beach huts at Beesands to provide beach front tourist accommodation in the heart of the village, combined with the provision of a new play park facility.
 - 1.3.5 The construction of a single additional deck of car parking at Shadycombe Car Park, to provide approx. 30 new parking spaces in the centre of Salcombe.
 - 1.3.6 Provision of a discount supermarket in central Ivybridge, alongside car park improvements providing no net loss of car parking spaces.
 - 1.3.7 Construction of 5 Employment units in Batson and a Workshop for the Harbour Authority to work from that is fit for purpose and future proofed.
- 2 **Background**
 - 2.0 In July 2018, Council approved a report entitled "Council Owned Asset Investment and Development" which approved expenditure of up to £150,000 to progress 5 projects within the South Hams. Two of these (Kingsbridge and Ivybridge) projects have progressed to a stage where they are able to be considered by Executive. The other three have not incurred any cost to date and are not being progressed at this time.

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- 2.1 In September 2018, the Council adopted a new Commercial Property Strategy, which delegates decisions on in-district development to Executive. This report sets out the two business cases (for Kingsbridge and Ivybridge), along with proposals for 6 other in-district projects.

3 Development Options Kingsbridge, Rope Walk Development

- 3.0 A major UK hotel operator is seeking a site in Kingsbridge and has confirmed that the land at Rope walk would be suitable for their requirements.
- 3.1 The proposal is for a 4/5 storey, 79 bedroom hotel. Some new parking will be provided, but the majority of hotel users will use the parking provided in the adjacent Council owned car park, as is typical in these situations.
- 3.2 The council would procure a design and build contract and then the building would be leased to the tenant on a 25 year, full repairing and insuring lease.
- 3.3 Based on an 80% occupancy rate (the UK average for the last 3 financial years) and 1.5 person/room, this would bring a minimum of 34,600 additional visitors to Kingsbridge per year.
- 3.4 According to Visit Britain.org¹, for every £1 of direct spend in tourism there is a further £1.90 in GVA that is supported elsewhere in the economy through the supply chain and consumer spending activities.
- 3.5 If this is applied to an average room rate of £60/night, the total additional annual spend in the economy of Kingsbridge and surrounding area (excluding room costs) would amount to £3.9m per annum.
- 3.6 This project will deliver an initial net yield slightly below the target net yield of 1% envisaged in the CPS. However, it performs very strongly when measured against the two other objectives of; supporting regeneration and the economic activity of the District and enhancing economic benefit & business rates growth.
- 3.7 Initial discussions with Kingsbridge Town Council have been broadly supportive, recognising the economic benefits such a development would bring to Kingsbridge. However, they did raise concerns over the aesthetic and vernacular of the building, wishing to see the best possible materials and architectural design applied through the planning process.
- 3.8 The project programme envisages approximately two years between approval and completion, should this project move forward.
- 3.9 The project would require full Council approval for the use of reserves to provide the cash flow during the build process ahead of receiving a rental income from the hotel operator. This would be subject to a separate report to Council in January 2019.
- 3.10 A transaction review template is provided in Appendix A, which due to commercial sensitivity is exempt.

¹ https://www.visitbritain.org/sites/default/files/vb-corporate/Documents-Library/documents/Tourism_Jobs_and_Growth_2013.pdf

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Totnes, Steamer Quay office development

- 3.11 It is proposed to develop a small two storey office on a brown field site at Steamer Quay in Totnes, as shown in Figure 2.1 below.



Figure 2.1 – Site location plan

- 3.12 The development would provide approximately 240m² of office space, across the ground and 1st floor.
- 3.13 The building would be designed and specified by the proposed tenant to meet with their requirements and showcase good design. The building would then be leased to the tenant on a long (min 10yr), full repairing and insuring lease.
- 3.14 Initially the 70m² ground floor space would be speculative and be let to the market, however it provides expansion space for the tenant in the future. The CoP Lead for Assets is satisfied that there is sufficient demand in the market to justify this approach.
- 3.15 This project would support a local firm wishing to invest in its future in Totnes and continue to provide secure highly skilled jobs in the area. In addition it provides scope for expansion and additional job creation.
- 3.16 A transaction review template is shown in Appendix B, which is exempt.

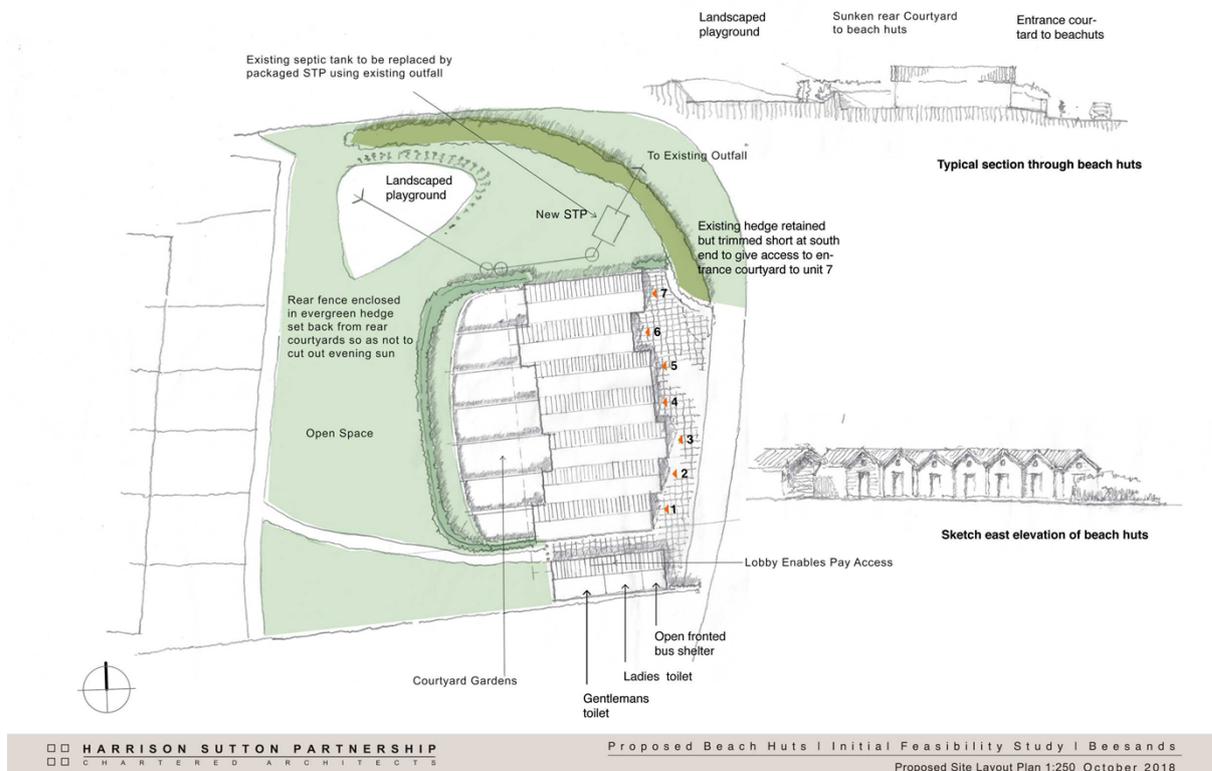
Sherford, commercial land acquisition

- 3.17 As part of the approved planning application for Sherford, approximately 30 acres of commercial land is identified on the north east part of the site, close to the junction with the A38.
- 3.18 The Council has a long history trying to support economic activity in the district, however, it has often not been able to provide sites for companies wishing to stay or move to the area for expansion.
- 3.19 To fulfil this need, it is proposed to buy 10 acres of the site to meet the future economic expansion demand of the District.
- 3.20 The site will have road access as well as services brought to the edge of the site, however internal infrastructure will need to be brought forward as parcels are developed out over time.
- 3.21 It is envisaged that this land could provide the District with between 10 to 20 years of commercial land supply.

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- 3.22 This proposal will directly facilitate economic activity and growth as outlined in the CPS. Over time, it will also provide a sound economic investment both in land value terms and through individual parcels of land coming forward for development.
- 3.23 As there is no immediate payback from this investment, it is proposed to use reserves (rather than borrowing) to fund the acquisition. It is recommended to Council to fund the acquisition of 10 acres of employment land at Sherford from the Business Rates Retention Earmarked Reserve, as set out in Exempt Appendix C. (If this was approved, there would be less funding in this reserve available to pay a lump sum into the Council's Pension Fund, which is an option for the use of this reserve which has also been discussed with Members. More information on the options for the Council's Pension Strategy around the actuarial valuation was set out in Appendix C of the Medium Term Financial Strategy presented to Council in September 2018).
- 3.24 A transaction review template is shown in Appendix B, which is exempt
- Beesands, Beach huts**
- 3.25 The Council own a piece of land at Beesands, upon which it is proposed to construct 7 No. chalet style beach huts on the site, to provide tourist accommodation in the village. An overview of this is shown below in Figure 2.2 & 2.3.

Figure 2.2 – Beesands scheme overview



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Figure 2.3 – Indicative images of the accommodation

- 3.26 The proposal includes the provision of a new play park on the site and the demolition of the existing toilet block. It could include the re-build of the toilet block in the same style or an 8th beach hut.
- 3.27 The business case for this project assumes an average occupancy rate of 170 nights a year. Assuming an average of 2.5 people per stay, this would equate to a further 425 visitor nights spent in Beesands over the year.
- 3.28 Applying the same multiplier of £1.90 per £1 spent, this would add a further £144k to the local economy of Beesands. In simple terms, it is highly likely that these additional visitors would spend their money in the local pub and adjacent restaurant, the latter particularly relying on and supporting the local fishing trade.
- 3.29 The proposals align well with the CPS objectives of supporting economic growth (in this case through tourism) and the provision of a reasonable direct financial return to the Council.
- 3.30 It has been discussed with Stokenham Parish Council, and they were asked their views on:
- 3.30.1 The principle of the scheme.
- 3.30.2 Taking on the maintenance and responsibility of the play park if it was constructed.
- 3.30.3 Taking on the maintenance and responsibility of the toilet if it was re-built.
- 3.31 There was initial verbal support for the principle of the scheme during the meeting, however a written follow up from the Chairman advised that the Parish did not see the benefit of the scheme for the community. Furthermore, they were reluctant to confirm that they would take on the responsibility of the play park and clear that they did not approve of the policy of re-building the toilets being subject to transfer to the Parish.
- 3.32 As such, the Executive would need to consider the approach taken to the public toilets and play-park as part of this scheme, so officers can take the proposals forward.
- 3.33 A transaction review template is included in Appendix D of this report. Due to commercial sensitivity, this appendix is exempt from publication.
- Salcombe, Shadycombe Car Park capacity improvement**
- 3.34 Salcombe has long been a popular tourist destination whilst also supporting a year round community. The local geography of the town restricts the opportunities to provide parking for both locals and visitors.

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- 3.35 The Council owns and operates the three main car parks at Batson, Shadycombe and Whitestrand. All of these car parks are at capacity during the summer and whilst not full in the winter, are well utilised. This is exacerbated by the winter use of Batson car park for boat parking, a further land intensive service that is at capacity.
- 3.36 So as to address this capacity issue directly, it is proposed to construct a single car park deck on the site, to provide approximately 30 extra spaces.
- 3.37 This proposal was presented at a stakeholder workshop held in Salcombe in October, and it was generally well supported. Opinions were expressed that it would be better if the additional spaces were intended for visitors not residents parking, so as to support the shops and commerce in the town.
- 3.38 Whilst the proposal is only at concept stage, it is envisaged that the deck structure will connect to the higher part of the car park, and span over the lower carpark. It would be subject to planning and need to be designed sensitively given its location.
- 3.39 The scheme provides a direct economic return to the Council and will provide greater capacity for visitors to park in Salcombe, which in turn supports footfall and spend in the Town. As such it aligns well with the objectives of the CPS.
- 3.40 A transaction review template is included in Appendix E of this report. Due to commercial sensitivity, this appendix is exempt from publication.

Ivybridge, Leonard's Road supermarket proposal

- 3.41 A national supermarket operator is looking for a site in the vicinity of Ivybridge. It is believed that the Leonard's Road car park would be an ideal location, driving footfall into the town centre, as opposed to an out-of-town new retail development.
- 3.42 The footprint of the store would displace existing parking, which would be replaced through the creation of an upper level above the short stay parking area, resulting in no net loss of parking. Officers are considering other alternatives (which would be delivered at additional cost) to provide a net increase in parking, potentially through an additional level of parking.
- 3.43 The store would employ between 30 – 35 people and generate approximately 1,000 trips a day into the centre of Ivybridge.
- 3.44 The supermarket's business model of only stocking ~2000 – 3000 product lines (instead of a more typical 10,000-20,000) requires shoppers to visit other stores to complete their typical weekly shopping. It is for this reason that this style of store would assist with the sustainability of shops and high streets in close proximity.
- 3.45 There are no other sites in the centre of Ivybridge which would be suitable for such development. If an out of town location (such as a proposed south of A38 development) come forward, it is considered likely to have a negative effect on central Ivybridge footfall and commerce, when added to Tesco's location on the A38.

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- 3.46 The proposal will require a change in car parking strategy at the site, as both the store and the leisure centre will require sufficient parking for their needs, which is not all day parking, such as exists currently.
- 3.47 This report recognises that delivery of this store would displace long stay parking in part from the centre of Ivybridge. This would clearly be to the detriment of those who benefit from the £2 all day tariff, be-it workers or otherwise.
- 3.48 A car parking strategy would need to be devised and implemented alongside this development to cater for the displaced long stay parking. Options for this are currently being considered.
- 3.49 Discussion has been held with ward members and representatives from Ivybridge Town Council. Support for the development opportunity was mixed. It was felt that more needed to be done to create additional parking within the centre of Ivybridge and some felt a new supermarket would not bring additional trade into the town.
- 3.50 A transaction review template is included in Appendix F. Due to commercial sensitivity, this appendix is exempt from publication.

Salcombe Harbour Workshop – Batson

- 3.51 Salcombe Harbour Authority have a workshop located on Island Street. It is part of an existing Council building which is let to multiple tenants.
- 3.52 The workshop space has become too small for modern day operational practices as boat and equipment sizes increase. It is also constrained from a vehicular access perspective and the mobile plant that is required to operate from it has to travel to Batson car park on busy highway.
- 3.53 It is proposed to apply for planning and then construct a new workshop for the Harbour Authority located by the slipway in Batson. This building would provide a modern efficient building that would meet the operational requirements of the Harbour Authority.
- 3.54 The cost of the building is set out in Exempt Appendix H. It is proposed that the Council borrow the money to build the facility from the Public Works Loan Board. The Harbour Authority would then pay the cost of the borrowing and capital repayment (over a 50 year term) back to the Council along with an amount for repairs and maintenance.
- 3.55 The cost of this is estimated to be C. £45k / yr, but all efforts will be made to reduce the cost of the building and therefore the cost of the repayment.
- 3.56 The existing harbour workshop will be let to the market in the same way as the rest of the building currently is.

Employment Units, Batson

- 3.57 The development of the units at Batson meet with the objectives of the CPS as they will provide direct employment benefits to the community in Salcombe, much of which is marine related. It is hoped they will provide space for existing businesses who are unable to find space on Island Street as the character of that area moves away from marine and industrial usage.

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- 3.58 The scheme has been redesigned to take account of the operational needs around trailer parking, resulting in a smaller footprint for the building.
- 3.59 Based on an anticipated rental of £7.5 / sqft, the units should generate a gross rent of C. £24k/yr. However, due to the cost of borrowing it is estimated that the initial net income will be C. £5k/yr as shown in Exempt Appendix G. Any reduction in the overall cost of the scheme will improve the rental yield and income position.
- 3.60 The proposed funding for this project is set out in Exempt Appendix G. As part of this, Members are asked to allocate £500k from S106 funding from Land at Torhill farm, Godwell Lane, Ivybridge (27_57/1347/14/F) to fund the Ermington Employment Units (thereby freeing up £0.5m of capital receipts funding).
- 3.61 A transaction review template is included in Appendix G. Due to commercial sensitivity, this appendix is exempt from publication.
- 4 **Options available and consideration of risk**
- 4.0 The Executive is able to move forward on all, some, or none of the projects put forward in this report. When considering the benefits of these projects, the Executive must recognise that all of these projects meet the objectives of the CPS.
- 4.1 Not proceeding with the projects would result in the status quo, that is to say, the benefits of job creation, business rates and tourism would not be felt. Secondary to this, the financial returns would not be realised.
- 4.2 Proceeding with all or some of the projects also carries risk. All construction carries risk which the Council would have to manage through good design, project management and contractor oversight. It cannot however be eliminated and a financial contingency would always be put in place for each project that proceeds to mitigate that risk.
- 4.3 Apart from Shadycombe, Sherford, Batson Employment Units and Beesands, the projects presented have tenants identified to take occupation upon completion of the scheme. This is important given that the projects are funded through borrowing. Significant cost will not be incurred and planning permission will not be submitted until agreement for leases are completed with the proposed tenants.
- 4.4 The Sherford proposal is different as it is intended to create opportunity for economic expansion and inward investment in the district. The Council is in conversation with several companies looking for new premises and this commercial land may suit their needs. There is however, no clear timeline on how many or how quickly development on the land will occur. As such the Executive must recognise that this purchase represents is a long term investment and any future development will require either further investment or the sale of parcels of land.
- 4.5 The business case put forward for Beesands is based on figures derived from a similar development in Shaldon, Teignbridge. As such, it has already been market tested. It is not the case that any two villages have identical visitor numbers however, so it is quite possible that the business case and reality may vary by an amount, either for the better or worse.

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- 4.6 All the projects proposed rely on the Council borrowing money from the PWLB except for the Sherford opportunity which will be funded from the Business Rates Retention Earmarked Reserve.
- 4.7 Forecast borrowing interest rates have been used in the business cases proposed based on the project timelines. Therefore an interest rate risk exists with all of these projects if the forecast is either incorrect or the timeline is incorrect. This could reduce or improve the business case for each project. Some of the business cases have been calculated based on 100% repayment of the capital amount borrowed over the loan period, whilst others have been calculated based on 50% repayment of the capital borrowed. This is shown in Exempt Appendix H. The Council could opt to use either or different repayment treatments.

5 Proposed Way Forward

- 5.0 That Executive approve the projects set out in this report and recommend to Council to approve the use of reserves as required to seed fund where necessary as follows:
- 5.0.1 Borrowing of just under £19 million as set out in Exempt Appendix H, allocating £0.5m from s106 contributions towards marine units and £1.5m from the business rate retention earmarked reserve.
- 5.1 Should some or all of the projects be approved, the next step will be to finalise terms with prospective tenants and enter into agreement to lease. Following that, planning, detailed design and ultimately construction would commence. This will be completed without further redress to Executive, assuming the business case and financial viability remains consistent.
- 5.2 The timeline between approval and completion is expected to be 2 – 3 years, the exception being the acquisition in Sherford which would be concluded much more quickly.
- 5.3 The projects will be managed within the Assets CoP, utilising the existing supply chain that is in place for design and specification. The construction of the large projects will be undertaken through the Scape Framework to appoint a management contractor.
- 5.4 The small construction projects (Totnes, Beesands and Shadycombe) will be tendered within the market to get an appropriate sized contractor, as is normal for Council construction contracts.

6 Implications

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/ Governance	Y	<p>All appendices to this report are exempt from publication because they contain information about the Council's financial and proposed commercial affairs as defined in Paragraph 3 of Schedule 12A to the Local Government Act 1972.</p> <p>The public interest test has been applied and it is considered that the public interest lies in not disclosing this report at this time because it contains financial and commercially sensitive information which could prejudice the Council if such information was disclosed at this time.</p> <p>These proposals are consistent with the Council's powers to borrow and invest under the Local Government Act 2003 and section 1 Localism Act 2011 (the</p>

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		<p>general power of competence).</p> <p>Section 1 of the Local Government Act 2003 provides a power to the Council to borrow for the purposes of any enactment.</p> <p>There is an overriding duty toward prudent management of risk, and officers, including the Council's section 151 officer, owe a fiduciary duty in relation to given transactions.</p> <p>Any future development will be subject to the normal Council planning process and any decision by Executive does not infer that planning permission for the proposed developments would be granted.</p>
Financial	Y	<p>If successful, the proposed asset developments have the potential to make a significant contribution to the current predicted cumulative budget gap for the Council within the current Medium Term Financial Strategy period to 2023/24. EXEMPT appendix H summarises the financial impact of all of the proposed projects if approved in this format.</p> <p>As set out in Exempt Appendix H, the projects could contribute net income of around £254,000 by the year 2022/23 and involve borrowing of just under £19 million.</p> <p>It is recommended to allocate £500k from S106 funding from Land at Torhill farm, Godwell Lane, Ivybridge (27_57/1347/14/F) to fund the Ermington Employment Units (thereby freeing up £0.5m of capital receipts funding)</p> <p>It is also recommended to fund the £949,833 upfront borrowing costs during the construction period of the projects (as set out in Exempt Appendix H) from a combination of the Business Rates Retention Earmarked Reserve (£624,833) and the Business Rates Pilot gain for 2018/19 (£325,000).</p> <p>A report on Council's Treasury Management Strategy will be presented to Council in January 2019. Borrowing decisions will be taken prudently in line with the Council's treasury management strategy and by officers within that function. The Council must confirm that the borrowing required is available and is proportional to the Council's financial situation.</p>
Risk	Y	<p>Members will need to be satisfied that any proposed development not only delivers best value but also meets the needs of the corporate strategy and adopted asset management strategy. This will include consideration of how:</p> <ul style="list-style-type: none"> • The relevant capital and revenue costs and income resulting from the investment over the whole life of the asset. • The extent to which the investment is expected to deliver a secure ongoing income stream. • The level of expected return on the investment. • The payback period of the capital investment. <p>The Council already owns and operates a property estate valued at c.£70m. It therefore has experience of managing commercial property and can act as an intelligent client to fulfil the proposed developments and preparation of the business cases.</p>
Comprehensive Impact Assessment Implications		
Equality and Diversity	N	Not Applicable
Safeguarding	N	Not Applicable
Community Safety, Crime and Disorder	N	Not Applicable

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Health, Safety and Wellbeing	N	Not Applicable
Other implications	N	Not Applicable

Supporting Information

Appendices:

- Appendix A – EXEMPT Kingsbridge hotel development transaction review
- Appendix B – EXEMPT Steamer Quay development transaction review
- Appendix C – EXEMPT Sherford Land Acquisition transaction review
- Appendix D – EXEMPT Beesands development transaction review
- Appendix E – EXEMPT Shadycombe car park development transaction review
- Appendix F – EXEMPT Ivybridge supermarket development transaction review
- Appendix G – EXEMPT Batson Units development transaction review
- Appendix H – EXEMPT Summary financial impact of the proposed development projects

Background Papers:

- Commercial Property Strategy, presented to Council September 2018
- Council Owned Asset Investment and Development, presented to Council July 2018

Approval and clearance of report

Process checklist	Completed
Portfolio Holder briefed	Yes
SLT Rep briefed	Yes
Relevant Exec Director sign off	Yes
Data protection issues considered	Yes
If exempt information, public (part 1) report also drafted	n/a