

Commercial Development Opportunities

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

Report to: **Hub Committee**
Date: **29th January 2019**
Title: **Commercial Development Financing**
Portfolio Area: **Cllr Neil Jory, Assets**
Wards Affected: **All**
Relevant Scrutiny Committee: **Overview & Scrutiny Committee**
Date next steps can be taken: **After Council, 12 February**
Authors: **Darren Arulvasagam**
Business Development
Darren.Arulvasagam@swdevon.gov.uk

Recommendations:

Hub Committee RECOMMEND that Council:

1. Undertake prudential borrowing of £10.631 million, to fund the commercial developments set out in Exempt Appendix A
2. Allocate £468,700 of S106 funding (as described in paragraph 3.26) to part fund the Tavistock temporary accommodation development
3. Utilise £139,000 of Affordable Housing budget to part fund the Tavistock temporary accommodation development
4. Utilise the £100,000 Okehampton capital receipt to part fund the Okehampton retail hospitality pod development
5. Fund the £502,385 upfront borrowing costs during the construction period of the projects (as set out in Exempt Appendix A) from earmarked reserves as described in paragraph 3.29.

Executive Summary

- 1.0 Following Full Council approval of the amended Commercial Property Strategy (CPS) in September 2018, three in-borough developments have been approved under delegated authority to the Head of Paid Service, in consultation with the S151 officer, the Leader of the Council and Chair of the 'Invest to Earn' Member working group. This report provides an update on these projects and seeks approval for how these will be funded through the pre-development, construction and initial letting period.
- 1.1 The amended CPS had the following objectives:
 - 1.1.1 To support regeneration and the economic activity of the Borough, the LEP area and the South West Peninsula (in that priority order)
 - 1.1.2 To enhance economic benefit & create 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.

Commercial Development Opportunities

- 1.2 The projects require funding and are to be part-funded from reserves, existing budgets and a capital receipt, in addition to borrowing. All of the borrowing and financing for the Commercial Developments requires Council approval. The structure of the borrowing requirements will be determined by the s151 Officer and the Council's Capital Financing Requirements (CFR) and its adopted Treasury Management strategy.
- 1.3 The projects which have been approved in accordance with the Council's adopted Commercial Property Strategy are:
 - 1.3.1 A new build development in Tavistock which will be let to a major UK hotel operator on the current Abbey Rise car park, providing year around visitor accommodation and creating up to 35 jobs.
 - 1.3.2 A new fit for purpose ten unit short-term accommodation building, which will be located in Tavistock and will be used to discharge the council's borough-wide temporary accommodation obligations.
 - 1.3.3 A new retail hospitality pod in Okehampton on Council-owned land, creating up to 25 jobs.
- 1.4 All of these projects are subject to further commercial negotiation and subsequently Planning (Development Management) approval. Therefore there is no guarantee that these projects will progress and there is no pre-determination that these projects will receive planning approval.

2 Background

- 2.0 In September 2018, Council approved an amended Commercial Property Strategy which included in-borough developments.
- 2.1 In July 2018, a report entitled "Council Owned Asset Investment and Development" was presented to Council, which approved expenditure of up to £90,000 to progress 3 projects within West Devon. Two of these (Tavistock Hotel and Okehampton Retail Hospitality Pod) projects have progressed to a stage where they have now been approved for progress towards a planning application. However, before this can happen, the funding arrangements require full Council approval, hence the need for this report and its recommendations.
- 2.2 The third project is not being progressed, with the agreement of the Invest to Earn Member working group. Whilst a project was possible, it was determined that it would have not been appropriate for the Council to be exposed to the cumulative tenant risk that would have arisen if the project continued. The Old Mill site in Okehampton that was under consideration is now under offer and a disposal is expected to be completed by the end of January 2019. The capital receipt that will be generated is to be used to fund the Okehampton retail hospitality pod being proposed, as shown in Exempt Appendix A.

3 Development Options

Tavistock, Abbey Rise Car Park Hotel Development

- 3.0 A major UK hotel operator is seeking a site in Tavistock and has confirmed that the land at Abbey Rise (next to Godolphin House) would be suitable for their requirements.
- 3.1 The proposal is for a 5 storey, 80 bedroom hotel. Some parking will be re-provided, but the majority of hotel users will use the parking provided in

Commercial Development Opportunities

- the nearby Council owned car parks, as is typical in town centre hotel locations.
- 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 35,040 additional visitors to Tavistock 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 Tavistock and surrounding area (excluding room costs) would amount to £2.7m per annum.
 - 3.6 The 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 Borough and enhancing economic benefit & business rates growth.
 - 3.7 Initial discussions with Tavistock Town Council, the chamber of commerce and the Tavistock BID are planned for the 22nd January. Due to publishing deadlines, a verbal update about this meeting will be shared at the committee meeting.
 - 3.8 The project programme envisages approximately two years between approval and completion.
 - 3.9 The next stage is to agree an agreement to lease with the hotel operator in January 2019, prior to seeking planning permission – an application is anticipated by May 2019. An external project team has been assembled to deliver the project and mitigate project risk.
 - 3.10 When approving the project, Invest to Earn working group Members stated that they understood that car parking is an emotive subject, but that any disruption caused would be offset by bringing the expected level of employment, footfall and linked spend to the town. Public consultation through the planning application process will be undertaken. Mitigation solutions are to be explored to limit negative impacts.
 - 3.11 The project now requires full Council approval for the funding and borrowing for the schemes and for the use of reserves to provide the cash flow during the build process ahead of receiving a rental income from the hotel operator.
 - 3.12 Funding will be from PWLB borrowing as shown in exempt Appendix A. This appendix also provides information on the expected capital expenditure by period and the income profile by period. Due to rents not being payable until the hotel is operational, but borrowing being required to fund the pre-development and build, the Council will need to fund the

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

Commercial Development Opportunities

upfront borrowing costs during the construction period. It is forecast that these will total £415,658. This is to be funded from reserves as described in paragraph 3.29.

Okehampton Pod – New Leisure/Hospitality/Food Retail Unit

- 3.13 It is proposed that land where the public toilets on Market Street, Okehampton (which are due to be closed at the end of March 2019) and the Taxi rank (adjacent to the Coop) are located will be utilised for the development.
- 3.14 The current informal and night-time taxi rank on the main road through Okehampton will be re-designated (after public consultation) as the main taxi rank for the town.
- 3.15 The proposal will see the current toilet block being demolished and replaced with a retail “pod”. Interest has been received from a regional franchisor to let this new unit, with additional seating provided outside and a toilet and seating provided inside the building. This will turn a current “loss” making site (public toilets) into a profitable venture for the Council. Up to 25 jobs will be created as a result.
- 3.16 Invest to Earn working group Members understood planning will need to deal with concerns over traffic impact / taxi relocation in order to bring a financial benefit to the town and the creation of new employment. Public consultation through the planning application process will be undertaken. Mitigation solutions are to be explored to limit negative impacts.
- 3.17 Currently there are no vacant units of the size / type / prominence envisaged which could be considered as a suitable alternative for the proposed occupier and use.
- 3.18 Initial discussions with Okehampton Town Council about the proposals are planned for January 28th 2019. A verbal update on those discussions can be made at the Hub committee meeting.
- 3.19 The next stage is to agree an agreement to lease with the operator, prior to seeking planning permission – an application is anticipated by May 2019. An external project team has been assembled to deliver the project and mitigate project risk.
- 3.20 Funding will be from a mixture of a capital receipt (from the disposal of the Old Mill site as described in paragraph 2.2) and borrowing.
- 3.21 Due to rent not being receivable until the building is fully operational, but borrowing being required to fund the pre-development and build, the Council will need to fund the upfront borrowing costs during the construction period. It is forecast that these will total £63,707. This is to be funded from reserves as described in paragraph 3.29.

Tavistock - new temporary accommodation provision

- 3.22 The Council is negotiating to take possession of a building in Tavistock to re-develop the site by demolishing and rebuilding ten fit for purpose temporary accommodation flats.

Commercial Development Opportunities

- 3.23 These will be used to meet short term accommodation needs, ensuring the most vulnerable people will have shelter when required. The facility would be used to meet the housing needs of the Borough, not just Tavistock.
- 3.24 This function is currently provided by the Council using B&Bs at a considerable expense.
- 3.25 Re-developing this site would provide c.£40k/yr of direct income from housing subsidy as well as a cost avoidance of c.£50k/yr.
- 3.26 The site is in the developable town boundary. It is understood that the building design will be key to ensure it is publically acceptable.
- 3.27 The estimated delivery cost of this project and details of how this will partly be funded by affordable housing budgets, s106 receipts and reserves is shown in Exempt Appendix A.
- 3.28 Due to rent / savings not being receivable until the building is fully operational, but borrowing being required to fund the pre-development and build, the Council will need to fund the upfront borrowing costs during the construction period. It is forecast that these will total £23,020. This is to be funded from reserves as described in paragraph 3.29.

Funding upfront borrowing costs

- 3.29 The funding for the upfront borrowing costs – the costs incurred in pre-construction and during construction and through any rent-free period awarded to the incoming tenant, will be funded by reserves. This will be funded by £266,000 from the Financial Sustainability earmarked reserve and £236,385 from the Innovation (Invest to Earn) earmarked reserve, totalling £502,385.

4 Options available and consideration of risk

- 4.0 The Hub committee is requested to approve the recommendations of this report. Without these recommendations being approved, the projects cannot progress.
- 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 and footfall in the town centres would not be felt. Secondary to this, the financial returns would not be realised.
- 4.2 The projects presented have tenants identified to take occupation upon completion of the scheme. This is important given that the projects are mainly 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.
- 4.3 All the projects proposed rely on the Council borrowing money.
- 4.4 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. The business cases have been calculated based on 50% repayment of the capital borrowed. The Council could opt to use either or different repayment treatments or not use reserves and fund all the projects through borrowing.

Commercial Development Opportunities

5 Proposed Way Forward

- 5.0 That Hub committee recommend to Council to approve the recommendations detailed above
- 5.1 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 projects will be undertaken through the Scape Framework to appoint a management contractor.

6 Implications

Area	Relevant to proposals Y/N	Details and proposed measures to address
Legal/ Governance	Y	<p>Appendix A of this report is exempt from publication because it contains 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 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 Hub Committee or the Council does not infer that planning permission for the proposed developments will be granted.</p> <p>Full Council approval is required for how these projects will be funded, both through the pre-development, construction and initial letting period and subsequently when operational.</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 A</p>

Commercial Development Opportunities

		<p>summarises the financial impact of all of the proposed projects if approved in this format.</p> <p>As set out in Exempt Appendix A, the projects could contribute net income of around £125,085 by the year 2022/23 and involve borrowing of £10.6 million. This £10.6m will come out of the Council's previously Member approved borrowing limit of £50m.</p> <p>A report on Council's Treasury Management Strategy will be presented to Council in March 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.£45m. 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
Health, Safety and Wellbeing	N	Not Applicable
Other implications	N	Not Applicable

Supporting Information **Appendices:**

Commercial Development Opportunities

Exempt Appendix A – Summary of Financial Impact of West Devon Commercial Developments

Background Papers:

- Commercial Property Strategy Amendment, presented to Council 25th September, 2018
- Commercial Property Acquisition Strategy Update, presented to Council March 27th, 2017
- Commercial Property Acquisition Strategy Update, presented to Council December 5th, 2017
- Investment in Commercial Property, presented to Council July 25th 2017
- Investment in Commercial Property, presented to Hub Committee June 20th 2017

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