

To the Chair and Members of Cabinet

SAVOY CINEMA AND RESTAURANTS – CIVIC AND CULTURAL QUARTER

Relevant Cabinet Member(s)	Wards Affected	Key Decision
Cllrs Joe Blackham and Bill Mordue	All	Yes

EXECUTIVE SUMMARY

- 1 The disposal of land at Civic and Cultural Quarter (CCQ) known as ‘Savoy Cinema Site’ has been a longstanding leisure based development opportunity and was part of the Muse Development Agreement.
2. This site has been brought forward to Cabinet (02/08/2016) before for approval for Sheffield City Region Infrastructure Fund (SCRIF) funding, as per Appendix 1. However, due to Muse being unable to make it work commercially, the proposal stalled.
3. This paper now seeks approval to proceed with the Savoy Cinema Development with the Council acting as landowner, funder, developer and landlord of the completed development.
4. Once completed it will create an annual rent (details of which are expanded upon in the financial appendix), 100 jobs, an estimated rateable value of circa £530,000 and an enhanced CCQ leisure offer.
5. It is proposed that the Council will enter into lease negotiations with potential occupiers with a view to opening the scheme by September 2019.

EXEMPT REPORT

6. This report is not exempt however; there are a number of financial and commercial matters contained within Appendices 1 and 2 to the report which are commercially sensitive information. Therefore, Appendices 1 and 2 are NOT FOR PUBLICATION because it contains exempt information under Paragraph 3 of Part 1 of Schedule 12 (a) of the Local Government Act 1972 (as amended), information relating to the financial or business affairs of any particular person (including the authority holding that information).

BACKGROUND

7. The Council had a ten year Development Agreement with Muse Developments Limited (“Muse”) which was entered into in 2009. The agreement had been the foundation of the developments in the Civic and

Cultural Quarter including the successful on time and within budget development of the Civic building, the Cast building, the Gables housing development and Sir Nigel Gresley Square and public realm. However, the agreement also covered a range of other sites, including the Savoy Cinema. The original agreement would have seen many underway by now however due to a variety of economic and other reasons are yet to be developed.

8. The Development Agreement has now come to an end which allows the Council to step in and bring forward a number of development proposals that have previously stalled.
9. The Cultural Quarter has recently been transformed into a destination in its own right with the £20m Civic offices and the £22m Cast performance venue. The challenge is to now maximise the energy created by building on this with the Savoy Cinema development and the new Library.
10. The Council owns the site, the development has planning consent, Savoy Cinema is ready to work with the Council and there are restaurant occupiers wanting to come to the development. The scheme has the benefit of approved SCRIF funding of £634,000 for the public realm aspect of the proposal. As background the SCRIF business case is set out in Appendix 1. There is however still a lot of work to do to finalise the total cost. The figures presented in this paper are indicative and have taken account of the total costs. It is hoped that as the due diligence progresses the budget will reduce.
11. If the scheme was a commercial property investment opportunity it would meet with the Cabinet approved criteria for property investment as detailed in this report. The intention is for the Council to fund and build the scheme as a whole.
12. The cinema element of the scheme is then sold to the Savoy Cinema Group for a capital receipt. The restaurant element of the scheme is retained by the Council and let out on a commercial basis. Prior to the commencement of the construction, an agreement with at least two restaurateurs will need to be signed. This will satisfy the conditionality of the Savoy agreement and ensure that the Council cover their costs – (see Appendix 2 – Financial Summary).
13. The proposal has the support of the Property Investment Fund Board. However, due to the amount of investment required the scheme cannot be funded from within the currently approved Property Investment Fund. The Property Investment Board therefore recommended that the scheme be referred to the Investment and Modernisation Fund due to the clearly identified regeneration benefits.
14. There is demand for the scheme from restaurants, pubs and coffee houses, however the developer had been unable to make it work; taking into account their specific requirements for profit from the scheme, land assembly and disposal costs.
15. The Council is in a unique position to make a currently stalled scheme viable as the Council is the landowner and will retain part of the investment.
16. There will be long-term leases on a rent plus service charge basis to financially strong national tenants. The projected return sits within the 5-10%

Property Investment Fund target yield – (see the financial summary to see how the proposal compares to the Property Investment Fund investment criteria). However until we agree leases, incentives and the final build costs the final return cannot be confirmed.

17. The development will be designed to have a 50 year lifespan with all leases granted on Full Repairing and Insuring terms with service charges for common areas.
18. As part of the £4.662m Asset Transformation Programme savings, £1,041m was identified as being from income generation. The majority of this income will come from commercial property investment acquisitions. Cabinet subsequently approved a Property Investment Fund for this purpose. The report and decision can be found at:

<http://doncaster.moderngov.co.uk/mgDecisionDetails.aspx?Ild=4057&Oprt=1>

19. The fund will be used to acquire investments based on core investment targets and risk management. These include targeted returns of 7% over the total portfolio, investment parameters of between 5% and 10%, clear risk management with a balanced portfolio of properties and easy management or cost recovery of management.
20. The opportunity for the Council to bear the costs of development of Savoy Site and retain the asset for its rental income may meet the investment returns criteria identified in the Property Investment Fund at the least and cover the cost of borrowing at worst.
21. Once built and fully let it is estimated that the development will generate revenue, 100 jobs and 530k business rates from the Cinema and five restaurant units at the initial investment cost as identified within Appendix 2. For the returns see the attached IRR calculations in Appendix 2.

RECOMMENDATION

22. That Cabinet notes the contents of this report and approves the following:
 - Proceed with work to finalise plans, drawings and planning conditions.
 - Delegate authority to the Council's Property Officer to negotiate terms and enter into conditional agreements to lease with five potential operators for the proposed units on the site.
 - Delegate to Director of Regeneration & Environment and Senior Finance Officer of Finance & Corporate Services (in consultation with the Mayor) the decision to proceed once the Cinema operator and tenant pre lets have been secured and there is sufficient contracted income for the Council to cover its costs..
 - Procure and enter into an agreement to build in accordance with the Council's Contract Procedure Rules at the budgets identified in the report.

- Add the Savoy Cinema development to the Regeneration & Environment Capital Programme for 2017/18;
- Virement of the Finance & Corporate Services Capital Programme, which contains the Investment & Modernisation Fund allocation, into the Regeneration & Environment Capital Programme, where this scheme will be delivered and monitored.

WHAT DOES THIS MEAN FOR THE CITIZENS OF DONCASTER?

23. This undeveloped site, once completed, will provide the citizens of Doncaster with a secure income stream, a new leisure venue, around 180 new jobs and encourage use of the surrounding leisure facilities by the increase in visitor numbers.
- 24 This proposal sees the Council using its unique position to exploit its asset base to develop opportunities which create jobs growth and revenue through the generation of new rents and business rates.

OPTIONS CONSIDERED & REASONS FOR RECOMMENDED OPTION:

25. There are two key options available to the Council and these are set out below.

Option 1: Proceed with a disposal of the land by tendering the site for sale for around £525,000.

Option 2: Seek a second JV partner to work with to bring the development forward.

Option 3: DMBC step in as developer and landlord.

The recommended option is Option 3.

26. If the Council steps in as developer this will provide the best opportunity to ensure that the development comes forward creating an estimated 100 jobs, £530k of new business rates, a high quality revenue stream, and enhanced CCQ leisure offer. The scheme is just viable, for the Council, as the Council can fund the development at a lower rate of interest than a development company. As the Council will retain part of the development as an investment there are limited disposal costs that a developer would have to include as part of their proposal. Given recent experience and market conditions there is little confidence that Option 1 and 2 will bring forward a viable scheme given that development of the site has previously failed to achieve this.

IMPACT ON THE COUNCIL'S KEY OUTCOMES

	Outcomes	Implications
	<p>All people in Doncaster benefit from a thriving and resilient economy.</p> <ul style="list-style-type: none"> • <i>Mayoral Priority: Creating Jobs and Housing</i> • <i>Mayoral Priority: Be a strong voice for our veterans</i> • <i>Mayoral Priority: Protecting Doncaster's vital services</i> 	<p>There are no negative implications with this recommended course of action. By developing out the site DMBC will secure an opportunity to create new jobs.</p>
	<p>People live safe, healthy, active and independent lives.</p> <ul style="list-style-type: none"> • <i>Mayoral Priority: Safeguarding our Communities</i> • <i>Mayoral Priority: Bringing down the cost of living.</i> 	<p>There are no negative implications that may impact on the councils key objectives.</p>
	<p>People in Doncaster benefit from a high quality built and natural environment.</p> <ul style="list-style-type: none"> • <i>Mayoral Priority: Creating Jobs and Housing</i> • <i>Mayoral Priority: Safeguarding our Communities</i> • <i>Mayoral Priority: Bringing down the cost of living.</i> 	<p>This scheme will see development of a prime plot of land that has remained undeveloped at CCQ for a number of years.</p>
	<p>All families thrive.</p> <ul style="list-style-type: none"> • <i>Mayoral Priority: Protecting Doncaster's vital services.</i> 	<p>There are no negative implications.</p>
	<p>Council services are modern and value for money.</p>	<p>This approach will improve value for money by releasing value from land that the council owns.</p>
	<p>Working with our partners we will provide strong leadership and governance.</p>	<p>There are no negative implications.</p>

RISKS AND ASSUMPTIONS

27. If it does not proceed the land will lie vacant until an alternative purchaser is found.
28. The Council can proceed and take advantage of this opportunity whilst there is demand from a Cinema operator and for the leisure units from restaurants and pub operators. The restaurateurs are largely suffering from tough trading conditions and so negotiations may be difficult to bring to a head.

29. There is a risk that the calculated yield/IRR will not be achieved if operators for enough of the units cannot be secured, which could mean a financial loss for the council. The development will not commence until leases are in place with enough of the occupiers to ensure this risk is mitigated. Should the scheme only generate the worst case of just two lettings then the scheme would not meet its cost of borrowing let alone the investment criteria as set out by the PIB.
30. The construction costs are detailed but may need updating depending on how the final schemes progresses. However a fixed price contract will be negotiated to mitigate this risk of cost over runs.
31. In the construction budget allowances have been made for abnormals. However these assumptions may prove to be on the low side.

LEGAL IMPLICATIONS

32. S2 Local Authorities Land Act 1963 gives the Council power to erect buildings for the improvement of their area. The provision of a new leisure area for Doncaster together with the creation of circa 180 jobs will improve the area both socially and economically.
33. The works identified in this report will be above the OJEU threshold for works contracts and must be procured in accordance with the Public Contracts Regulations 2015 or through a compliant framework.
34. The report author should consult with procurement to ascertain whether there are any appropriate framework agreements to which the Council has access.
35. The potential tenants of the development should enter into a conditional agreement to lease prior to the Council committing to carrying out the development to minimize risk of there not being an end user at the completion of the works and to protect the Council's anticipated income stream. Specific legal advice on the terms of the agreements to lease should be sought at the appropriate time.

FINANCIAL IMPLICATIONS

36. This section summarises the financial implications. A more detailed breakdown of the financial implication has been appended.
37. The capital costs are part funded through prudential borrowing and part through revenue costs will be met from first year's rental income.
38. The project is expected to deliver on-going annual savings per annum from 2019/20 onwards after construction is complete and tenants are in place. Indicative borrowing costs for have been modelled and can be found in the appendix.
39. The borrowing costs have been modelled assuming a 50 year life for the development. The interest rate applied to calculate the borrowing costs is the

50-year PWLB maturity rate plus 0.5% IMF risk factor (in-line with IMF guidance). The resultant rate used is 3.14%.

40. As stated above the gross will contribute to the £450k target for income through investment property. If the £450k is overachieved the savings will be put towards the overarching Appropriate Assets savings target of £5.05m.
41. If it decided not to pursue the project after spending the initial costs then these costs will be considered as abortive and therefore could not be treated as capital expenditure or funded through borrowing; instead they would be charged to the Council's revenue budget and funded using the Investment & Modernisation Fund revenue reserve. If the project proceeds beyond the initial stage then the revenue reserve will not be needed and all costs will be met from the IMF capital budget.
42. Any changes to key variables used for the basis of the financial models for example changes in construction costs and asset life would impact on the indicative borrowing costs. The financial models would need to be amended to ensure the scheme was still financially viable.
43. In accordance with financial procedure rule B.17 budget virement between directorates above £500k must be approved by cabinet this report satisfies that requirement. The report recommends a virement of £6.0m which is the total of borrowing needed from the IMF.
44. Financial procedure rule B.11 requires that where a project involves a capital commitment of £1,000,000 or more, a further ODR must be completed for the approval of the relevant Director and CFO in consultation with the Portfolio Holder (Finance & Corporate Services) before a formal commitment is entered into or a contract signed.
45. All associated commissioning and subsequent procuring of developers, designers and consultants needed to fulfil the project must be carried out in line with the Councils CPRs, public contract regulations and where necessary EU procurement law.
46. There are a number of existing framework agreements which can be accessed to facilitate the projects many services including works however to support the Councils ongoing commitment to supporting local businesses it is important to give, where practicably possible opportunities of work to local firms and/or include relevant KPI's for principal contractors to engage with businesses from Doncaster.
47. It is also important to consider other measurable performance indicators relating to apprenticeships, social value and social return on investment throughout the projects delivery. Help, guidance and assistance from the procurement team from an early outset is recommended. Early discussions with potential occupiers (tenants) on the proposed scheme lend weight to the positive outcomes for apprenticeships given that they all have provision within their company operations to encourage apprenticeship positions.

HUMAN RESOURCES IMPLICATIONS

48. There are no HR implications.

TECHNOLOGY IMPLICATIONS

49. Due to the change in developer, ICT and CCTV will need to feed in the requirements given to the previous developer. These requirements are key to ensuring public safety in the public realm surrounding the proposed development and to ensure that there is no disruption to the council's private fibre optic network, which is currently situated on the land identified for development.

EQUALITY IMPLICATIONS

50. None

PROCUREMENT

51. The procurement of such commercial & leisure buildings detailed within the body of the report must be commissioned and procured in line with the Councils Contract Procedure Rules, Public Contract Regulations 2015 and EU Procurement legislation.

52. Equally the forming of any joint venture must be carried out in line with the above rules and procedures and is expect to have carried out a competitive procedure.

53. It is imperative that the Councils Strategic Procurement Team and Legal Teams are involved from the outset of the project.

ASSET IMPLICATIONS

54. Both Herten and the Savoy Cinema Development present significant commercial opportunities for both property and facility management. It is standard for occupiers of such developments to pay a service charge towards the up keep and running for the developments. This process is normally managed and run by a property management company. The Council is uniquely placed to not only manage the schemes but to provide services into the management; such as landscaping, cleaning of common areas repairs and maintenance.

CONSULTATION

55. Portfolio Holder Cllr Joe Blackham.

BACKGROUND PAPERS

None

REPORT AUTHOR & CONTRIBUTORS

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Appendix 1 SCRIF Business Case - (Exempt information under paragraph 3 of Part 1 of Schedule 12 (a) of the Local Government Act 1972 (as amended), information relating to the financial or business affairs of any particular person (including the authority holding that information).

Appendix 2 Financial Summary - (Exempt information under paragraph 3 of Part 1 of Schedule 12 (a) of the Local Government Act 1972 (as amended), information relating to the financial or business affairs of any particular person (including the authority holding that information).

Appendix 3 Scheme Plans.