

3rd January 2017

To the Chair and Members of Cabinet

HERTEN TRIANGLE

Relevant Cabinet Member(s)	Wards Affected	Key Decision
Cllr Joe Blackham	All	Yes

EXECUTIVE SUMMARY

- 1 The disposal of land at Doncaster Leisure Park known as ‘Herten Triangle’ has been a longstanding leisure based development opportunity and is part of the Council’s capital receipts disposal programme. Despite an agreed sale, the preferred developer has failed to move the scheme forward. This paper seeks approval to proceed with the Herten Triangle leisure scheme as a Council lead and funded development that will create up to 200 new jobs, £335k pa of new business rates, and enhance the Lakeside leisure offer. If approved, the Council will enter into lease negotiations with potential occupiers with a view to opening the scheme by Easter 2018.

EXEMPT APPENDICES

2. Appendices 2 and 3 of the report are exempt and are NOT FOR PUBLICATION because they contain exempt information under paragraph 3 (information relating to the financial or business affairs of any particular person, including the authority holding that information) of Schedule 12A of the Local Government Act 1972, as amended.

BACKGROUND

- 3 The Council owns a plot of land at Lakeside known as Herten Triangle. The land was previously identified for freehold disposal as a leisure scheme development opportunity and the Council had been progressing a sale with a private development company. This proposal stalled and following discussions at the Council’s Property Investment Fund Board it was felt that there was an opportunity for the Council to step in as developer. There are a number of benefits to this approach.
- 4 The scheme has been in development for a number of years now. It is felt that without intervention by the Council the scheme will fail to materialise. If the Council does develop the scheme it will create an estimated 200 new jobs including apprenticeship opportunities and generate new business rates, as well as enhancing the leisure offer at Lakeside.
- 5 If the scheme was a commercial property investment opportunity it would meet with the Cabinet approved criteria for property investment. See background to Property Investment Fund at 11-14 below.

- 6 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. The IMF Board met on the 25th November 2016 to consider the proposal and gave approval for the funding subject to Cabinet approval of the scheme.
- 7 There is strong 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.
- 8 The Council is in a unique position to make a currently stalled scheme viable as it is the landowner and will retain the investment.
- 9 There will be long-term leases on a rent plus service charge basis to financially strong national tenants. The projected returns sit 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.
- 10 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.

Background to Property Investment Fund

- 11 As part of the £5.05m Asset Transformation Programme savings, £450,000 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>
- 12 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.
- 13 The opportunity for the Council to bear the costs of development of Herten Triangle and retain the asset for its rental income would meet the investment returns criteria identified in the Property Investment Fund.
- 14 The Council remains fully committed to its aspirations to create a vibrant and successful Urban Centre and is confident that this proposal does not diminish opportunities in Doncaster Town Centre. Further details of investigations to support this position can be found in the financial summary.

RECOMMENDATION

15 That Cabinet notes the contents of this report and approves the following:

- Proceed with work to secure Planning Approval for the Herten Triangle scheme using IMF funding.
- Delegated authority to the Council's Property Officer to negotiate terms and enter into conditional agreements to lease with eight potential operators for the proposed units on the site.
- Proceed with work to construct the development subject to 75% of the pre-lets being in place and securing a minimum return of 5% using IMF funding.
- Procure and enter into a design and build contract to develop the scheme in accordance with the Council's Contract Procedure Rules.
- Add the Herten Triangle development to the Regeneration & Environment Capital Programme for 2017/18;
- Virement from 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?

- 16 This undeveloped site, once completed, will provide the citizens of Doncaster with a secure income stream, a new leisure venue, around 200 new jobs and encourage use of the surrounding leisure facilities by the increase in visitor numbers.
- 17 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:

- 18 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 again.

Option 2: DMBC step in as developer and landlord.

The recommended option is Option 2. If the Council steps in as developer this will provide the best opportunity to ensure that the development comes forward creating an estimated 200 jobs, £335k pa payable of new business rates, a high quality revenue stream, and enhanced Lakeside leisure offer. The scheme is viable, for the Council, as DMBC can fund the development at a lower rate of interest than a development company. As DMBC will retain the development as an investment there are no disposal costs that a developer would have to include as part of their proposal. There is little

confidence that Option 1 will bring forward a viable scheme given that disposal 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 Lakeside 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

- 19 If it does not proceed the land will lie vacant until an alternative purchaser is found.

- 20 The Council can proceed and take advantage of this opportunity whilst there is strong demand for the leisure units from restaurants and pub operators.
- 21 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 project income of 75%, the scheme would still meet the investment criteria as set out by the PIB. Figures are shown within the appendix.
- 22 An initial commitment to fund pre-construction development costs is required to progress the scheme design to submission of a Planning Application. This will provide a level of detail and comfort to facilitate negotiations with potential operators. If the scheme did not progress, a Planning Approval on the site would arguably enhance the value of the site, but this is not currently quantifiable.
- 23 The construction costs are estimates only and will be updated as the scheme design progresses. It is intended that the Design and Construction of the development will be procured on fixed price basis to ensure that all risks are known and managed.

LEGAL IMPLICATIONS

- 24 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 200 jobs will improve the area both socially and economically.
- 25 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.
- 26 The report author should consult with procurement to ascertain whether there are any appropriate framework agreements to which the Council has access.
- 27 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

- 28 This section summarises the financial implications. A more detailed breakdown of the financial implication has been appended.

The capital costs are part funded through prudential borrowing and part through revenue costs will be met from first year's rental income.
- 29 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.

- 30 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%.
- 31 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.
- 32 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.
- 33 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.
- 34 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.
- 35 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.
- 36 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.
- 37 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.
- 38 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

39 None

TECHNOLOGY IMPLICATIONS

40 None

EQUALITY IMPLICATIONS

41 None

CONSULTATION

42 Portfolio Holder Cllr Joe Blackham. Town Ward members have been informed of the proposal and the comments received have been supportive.

BACKGROUND PAPERS

None

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Appendix 1 Scheme Layout

Appendix 2 Financial Summary

Appendix 3 Marketing Detail