



## Revolving Investment Fund Committee

Item

8

27 November 2014

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<b>Title</b>	<b>Sheepen Place Office Development Proposal</b>		
<b>Wards affected</b>	All		

**This report concerns the proposal to use RIF (Revolving Investment Fund) to invest in the development of a new office building on Sheepen Road car park in order to stimulate economic development, deliver jobs and help meet the Council's future financial targets**

### 1. Decisions Required

To note this report prior to considering the report on Part B of the agenda that provides the financial details of the proposed investment.

### 2. Reasons for Decisions

- 2.1 The RIF was established to recycle capital receipts into projects that could deliver a number of Council objectives. The RIF can be used to support wider economic growth targets and deliver infrastructure supporting regeneration. In addition it is envisaged to recycle funds by investing in assets that deliver high income revenue returns which supports the Council maintain quality front line services. The Sheepen Road proposal delivers on a number of these objectives by stimulating economic growth in the office sector, expanding jobs in Colchester and providing a long term sustainable return through a robust investment case.
- 2.2 Where the Council wishes to secure high levels of future income there is a need to carry out investment decisions in a more commercially focused way based on a clear business case. The Business case is attached to the report on Part B of the agenda.

### 3. Alternative Options

- 3.1 The Council can consider a number of ways of using capital receipts, but it has established the RIF as a means of revolving funds for reinvestment to meet its objectives. The Committee needs to decide if the Sheepen Road proposal is the right opportunity for such investment.

#### **4. Supporting Information**

4.1 Following the Cabinet decision to set up the RIF in July 2014, work has been ongoing to develop a business case for the Sheepen Road opportunity. The RIF Committee was set up with terms of reference which included:

- (7) Project Appraisal – Development of a formal business case procedure to include the following criteria:
  - (a) Return on investment (or regeneration outputs for non income producing regeneration projects) – would income from the proposed project meet rates of return required to invest the capital requested?
  - (b) Deliverability – including a review of the planning status, barriers to development, market conditions, ownership and legal limitations
  - (c) Strategic fit – does the project support Council Strategic Priorities?
  - (d) Timescale for commencement of income
  - (e) Risk versus reward – Does the projected income outweigh the deliverability risks from the investment of capital, what is the security of income?
  - (f) Wider economic impacts – the wider impact of the project on the local economy eg stimulating other local development, contributing to growth of local business or housing targets, local supply chain utilisation.
- (8) Development and overseeing the overall approach to investment risk management including appropriate reviews of risks within the RIF against wider Council risk register.
- (9) Developing the mechanism for new assets to be added to the RIF capital receipts programme.

4.2 In April 2014, the Economic Growth team were allocated £50k of New Homes Bonus monies to carry out feasibility work on the Sheepen Road opportunity.

4.3 This work included, initial designs, cost plans, site investigations, planning investigations viability work and detailed discussions with the potential tenant to gain agreement on key areas such as the rent.

4.4 This feasibility work has now completed and a Case for Investment Business Case has been drafted which is appended to the Part B report because it contains sensitive commercial information.

#### **5.0 The Proposal**

5.1 It is proposed to develop the current southern part of the Sheepen Road car park in order to create a 19,700 sq ft new office building which would be leased out to a pre let tenant for a term of 20 years. The Council would be developing the first new office building in the Borough and the Town for many years, but in doing so it is creating an opportunity for a Company to provide about 140 jobs on site. This direct number of jobs in the Town Centre then has a multiplier effect supporting shops, cafes and support services.

5.2 In addition it is also proposed that a further planning consent should be gained for the western part of the car park site for another 10,000sq ft office building which could either be retained for future development or sold with the benefit of planning consent.

5.3 It is proposed that RIF Committee capital funds are used to pay for the office development subject to agreement of the business case. The scheme will cost a substantial sum, but will provide for a regular rental return including the ability for 5 yearly rent reviews. The ability to use recycled capital receipts through the RIF means that

borrowing costs are reduced or removed. This improves viability for any scheme and means that revenue collected can be diverted to service delivery as appropriate.

- 5.4 The impact of the Park and Ride facility which is to open next year has already been reviewed as part of a car parking strategy across the Borough and consequently it is forecast that the use of car parking spaces in the town centre and the associated income will reduce. The Sheepen Road proposal therefore assumes part of the car park will be redeveloped to produce another income producing asset for the Council and any existing income forecast from this car park has been deducted from gross rent estimates as part of the business case.

## **6. Strategic Plan References**

- 6.1 The proposal contributes to the Council's aim to "Become commercially focused and even more business-like in order to be free of government grant by 2017" by delivering a substantial new income stream.
- 6.2 The scheme will "Regenerate our Borough through buildings, employment, leisure and infrastructure" by providing new high quality office space in the town centre and encourage employment growth.
- 6.3 It will also "Improve opportunities for local business to thrive including retail" by offering a growth opportunity to a significant company who will generate opportunities for other businesses.

## **7. Consultation**

- 7.1 The project has been subject to a feasibility exercise up until this point so has not been subject to any formal consultation except with the potential tenant and its advisors and informal consultation with various teams across the Council. A planning application for the scheme will be consulted upon in the usual way.

## **8. Publicity Considerations**

- 8.1 A positive news story for the Town that not only are the Council developing the first new office building in the Borough for many years, hopefully helping to stimulate the quality end of the office market but in doing so it is providing an opportunity for jobs growth, and stimulating an economic ripple effect within the town.

## **9. Financial implications**

- 9.1 The financial implications and case for investment are addressed in detail in the Part B report and linked Business Case. However it is also worth noting that a office building of this size could also generate a potential business rates of circa £137k pa

## **10. Equality, Diversity and Human Rights, Community Safety and Health and Safety implications**

- 10.1 None identified at this stage.

## **11. Risk Management Implications**

- 11.1 A risk register has been prepared for the scheme. The key identified risks are reported in the Business Case.