



COUNCIL CABINET
13th November 2019

ITEM 12

Report sponsors:

Strategic Director for Communities and Place
and Strategic Director of Corporate Resources

Report author: David Marshall, Principal
Regeneration Manager

Investment in High Quality Office Development – One Cathedral Green, Full Street, Derby.

Purpose

- 1.1 This report seeks approval for direct investment by the Council in c. 42,900 sq. ft. of new high quality offices on Full Street. The developer/site owner proposes a revised high quality office scheme in response to changes to the original business case approved by Cabinet in 2018. The investment will help deliver the Council's aspirations for new offices within the City Centre by enabling stalled development proposals for offices to go ahead.
- 1.2 The project will create quality workspace for new and existing businesses, helping to address the investment market's failure to fund the supply of larger, high quality office units in the City Centre. Whilst the overall purpose of the project is to support much needed office provision, development of this prominent brownfield site will support the wider regeneration of the Cathedral Quarter.
- 1.3 This report summarises the findings of the feasibility work and the rationale for the investment and seeks Cabinet approval to forward fund a high quality commercial development that provides for income generation with a positive rate of return. The confidential report also considered at this Cabinet meeting sets out the details in the investment appraisal for the project.
- 1.4 The project proposes that the Council will acquire new offices, as a forward purchase, requiring £12.104m of Council investment to be funded through serviced finance borrowing.

Recommendations

- 2.1 To approve the terms of the property transactions the details of which are set out in the confidential report submitted to this Cabinet.

Reasons

- 3.1 To enable the delivery of a high quality office development in this prime location and stimulate the office market within the city centre. Taking forward this development will support the delivery of the City Centre Masterplan 2030 objectives and aspirations of Derby City's Local Plan.

- 3.2 Based on the outcome of feasibility work, investment appraisals and professional advice the proposal will generate a positive return on investment sufficient to repay corporate borrowing. The investment is self-financing and will generate a positive surplus in the medium to long term.
- 3.3 The accommodation will be extensively marketed during the construction period to secure lettings in readiness for the building opening so as to reduce the risks to the Council's investment purchase.
- 3.4 The development of 42,900 sq. ft. of grade A office space is anticipated to generate valuable economic benefits, including 345 permanent full time jobs (these are likely to be a mixture of relocated jobs within the City and newly created jobs), £8.5m pa additional Gross Value Added (GVA is an industry standard measure of economic activity), additional business rates of up to £346k pa and opportunities for local labour and skills training (apprenticeships) during the construction period.

Supporting information

Project description

- 4.1 This project aims to improve the supply of offices in the city centre for businesses who want to locate there, or growing businesses looking to expand, and as a result create new jobs in the city centre. The proposal is to deliver a high-quality four-storey office development in two blocks, with a net internal lettable area of 42,900 sq. ft. There will be flexibility in the accommodation for a single letting or multiple occupations. The offices will be accessed from a common entrance/reception area at ground floor with lifts to all floors.
- 4.2 The building will be acquired from the developers and let as a whole, or in parts, on leases to third parties.
- 4.3 The Council will be responsible for the building as owner and the responsibility for the building, its letting and its subsequent management will rest with the Council's Property Team as Corporate Landlord. Leases will be granted to tenants in occupation who will contribute towards the maintenance, insurance etc of the building by way of a service charge.

Strategic fit

- 4.4 The Derby City Centre Masterplan 2030 recognises that large office units are in short supply in the city centre and this market failure is holding back business growth. There is currently no Grade A office space available within the city centre and many of the sites expected to come forward as office developments are being developed for alternative uses.
- 4.5 The Derby City Council Local Plan Part 1 (the Core Strategy) was adopted in early 2017 and promotes sustainable growth to meet its objectively assessed housing and commercial needs between 2011 and 2028. The plan emphasises the Council's commitment to delivering a renaissance for the City Centre and reinforcing its central

economic, cultural and social role by supporting sustainable economic growth and regeneration. The city centre is the preferred location for the development of new office development in the City. The One Cathedral Green site is identified as the best located city centre site for new grade A offices in the emerging Local Plan Part 2.

Project rationale

- 4.6 Two major studies have emphasised the weakness of Derby city centre in regard to its office stock. Derby Cityscape's Masterplan and Implementation Strategy (launched June 2009) promoted the need for 185,000 sq m of employment space in the city centre and this is the foundation for the Council's Derby City Centre Masterplan 2030. In February this year, a Centre for Cities report set out that the features of a strong city, amongst other things, include a large proportion of office spaces; that is, at least 60%. Weak city centres by contrast have a low proportion of office space, and currently Derby has 15%. The proposed investment is considered essential to redress this under-lying weakness and therefore improve the vitality of the City Centre.
- 4.7 A series of office market assessments commissioned by the Council in recent years have indicated pent-up demand for new Grade A office accommodation within Derby city centre. Despite this demand development has not been viable and this scenario has persisted for at least 10 years: if no deal is forthcoming there is a danger of a change of use to residential, with the consequent loss of a prime city centre office site.

Project benefits

- 4.8 The project will create 42,900 sqft of Grade A office accommodation in the city centre and will directly create 345 new full time jobs. The scheme will generate additional £8.5m pa Gross Value Added and business rates of up to £346k pa. with opportunities for local labour and skills training (apprenticeships) during the construction period.
- 4.9 The offices will be available as prestigious Headquarters accommodation with the associated benefits of footfall, incoming visits for meetings / conferences and benefits to the local supply chain.
- 4.10 Through promoting this key site, intervention will improve market confidence and perceptions, catalysing further investment in the City Centre. Delivery will help establish a pipeline of high quality commercial accommodation supporting a diverse portfolio of business space to meet the needs of entrepreneurs and fledgling businesses.

The project will support the wider marketing of the City Centre as a business location, helping to address the existing negative perceptions of the office stock within the City Centre. The project will contribute to supporting the growth of businesses within professional, finance, information and other office based sectors, supporting the development of a vibrant business community that is critical to the city's economic growth.

Financial model

4.11 An Investment Appraisal for the project has been undertaken and this is referenced in the confidential report. The key elements of this are:

- **Capital investment:** £12.104m upfront required to forward fund development of the scheme. The cost of the project is to be funded through Serviced Financed Borrowing in the proportions set out in the confidential report.
- **Capital Programme Profile:** the profile of expenditure is estimated to be

	£000's
2019/20	£104
2020/21	£5,500
2021/22	£6,500

- **Forecast income:** The scheme will generate a positive return on investment sufficient to repay Corporate Borrowing as set out in the confidential report.
- **Net Present Value and Internal Rate of Return:** these too are set out in the confidential report.

4.12 The Financial Implications section of the confidential report gives further headlines from the Investment Appraisal and evidences the project is a good investment for the Council.

Project Management

4.13 The project requirements of the Council as investor and future landlord will be managed within the Regeneration and Major Projects Service with a nominated Senior Responsible Officer and a dedicated Project Manager. The Senior Responsible Officer will consult with and implement advice from officers within Finance, Legal, Estates, Asset Management and Procurement; supported by the services of external Legal advisors, property consultants and cost consultants. The cost of external advisors and internal support has been allowed within the financial appraisal. A dedicated project delivery team will liaise the developer.

Programme

4.14 The following high level project programme sets out the key milestones for the project following Cabinet Approval:

Exchange of contracts with the developer	January 2020
Submission of planning application by developer	March 2020
Planning approval	June 2020
Final project approval and completion of contracts	July 2020
Start on site	August 2020
Practical completion and hand over to Council	November 2021

Key Project Risks

- 4.15 The principal risks identified as part of the investment appraisal are set out in the confidential report.

Public/stakeholder engagement

- 5.1 The site forms the last part of the larger development comprising the conversion of the former Magistrates' Court to Riverside Chambers, the Premier Inn fronting Full Street and 44 riverside apartments. Planning permission for these uses together with further office and commercial buildings was granted in 2014.
- 5.2 A new planning application will be need to be submitted for the revised office development proposals, at which time further public consultation will be undertaken by the developers.

Other options

- 6.1 Other options have been considered and are outlined in the confidential report.

Financial and value for money issues

- 7.1 The financial implications in respect of this property transaction are set out in the confidential report.

Legal implications

- 8.1 The Council's Legal Service is providing support to the project and where necessary commissioning external legal advice on specific elements of the transaction. The legal implications associated with specific elements of the financial structure of the project are set out in the confidential report.

Other significant implications

Personnel

- 9.1 There are no direct implications arising from this report.

Information Technology

- 9.2 There are no direct implications for the Council. The construction of the new building to provide Grade A office accommodation and the installation of appropriate IT infrastructure will be the responsibility of the developer.

Equalities Impact

- 9.3 It is very important that the new building is as accessible as possible, both for disabled employees and disabled visitors. The Council will be discussing access requirements with the developers, such as an evacuation lift, built in hearing loops,

an accessible car park barrier and making sure the car parking spaces and accessible toilets all meet with the Building Regulations and the Equality Act 2010. In addition, The Council will examine the new and existing arrangements for level access into the site and the building; particularly in relation to the condition of the dropped kerbs and pavements in close proximity to the site so that they are robust and fit for purpose.

Health and Safety

9.4 There are no direct implications arising from this report.

Environmental Sustainability

9.5 The building is situated within a flood plain and is proposed to be designed with integrated flood defences which will tie into flood mitigation measures undertaken in connection with the Our City Our River (OCOR) project. The location of the site within the City Centre with limited car parking and as part of a mixed use development is highly sustainable, promoting travel to work patterns other than by use of private car.

Property and Asset Management

9.6 In order to minimise the risk associated with void letting periods, it is proposed that extensive marketing be undertaken during the construction period in order that lettings can be secured immediately the building is available for occupation.

9.7 The costs of the servicing common parts and insuring/maintaining the building will be built into service charge arrangements in individual occupation leases so as to be able to recover these from tenants. The investment appraisal for the proposal anticipates a level of non-recoverable service charges, void rates and bad debts based on current market conditions.

9.8 The Council's Property Team has been and will continue to be part of the multi-disciplinary project team involved throughout the project.

Risk Management and Safeguarding

9.9 A detailed risk register will be maintained as part of the monitoring process under the governance arrangements for the project.

Corporate objectives and priorities for change

10.1 The project addresses a key priority within the City Centre Masterplan 2030.

This report has been approved by the following people:

Role	Name	Date of sign-off
Legal	Emily Feenan (Director for Legal, Procurement and Democratic Service)	25 Oct 2019
Finance	Simon Riley (Director of Financial Services)	25 Oct 2019
Service Director(s)	Greg Jennings (Director of City Development and Growth)	25 Oct 2019

Report sponsor	Rachel North (Strategic Director for Communities and Place)	25 Oct 2019
Other(s)	Jayne Sowerby-Warrington (Head of Strategic Asset Management and Estates)	25 Oct 2019
	Catherine Williams (Head of Service Regeneration Projects)	25 Oct 2019