



COUNCIL CABINET
12th December 2018

ITEM 13

Report sponsors:

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

Report author: John Gilman, Principal
Regeneration Manager

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

Purpose

- 1.1 This report seeks approval of the Business Case for direct investment by the Council in 25,000 sq. ft. of new high quality offices on Full Street. The developers have agreed heads of terms with respective Board Approvals in place for a sale of the adjoining block (12,500 sq. ft.) to UNITE the Union for their new regional Headquarters. The investment will help deliver the Council's aspirations for new offices within the City Centre; and the Council's investment is necessary to enable the UNITE acquisition to complete and enable the full development of 37,500 sq. ft. of 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 details the full business case for the project.
- 1.4 The development requires £8.965 million of Council investment funded through serviced finance borrowing; which in turn is intended to be supported through a pre-let to a third party. Broad Heads of Terms for their Management Lease have been agreed and Board Approval is now in place.

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 and stimulate the office market within the city centre. Taking forward this development will support the

delivery of the City Centre Masterplan 2030 objectives.

- 3.2 Based on the outcome of the feasibility work, the proposal will achieve a 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 intended pre-let de-risks the Council's investment purchase.
- 3.4 The development of 37,500 sq. ft. of grade A office space is anticipated to generate valuable economic benefits, including 180 permanent full time jobs, £35.6 million additional GVA and opportunities for local labour and skills training (apprenticeships) during the 16 month 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, with a net internal lettable area of 25,000 sq. ft. There will be flexibility on the ground floor for a reception area, a café and office space.
- 4.2 The building will be acquired from the developers and let on a management lease to a third party. UNITE will own the adjacent building and there will be some shared structures and common areas.
- 4.3 The Council will be responsible for insurance of the building, external and structural maintenance and joint management with UNITE of areas common to both buildings. Joint management arrangements will need to be established with UNITE and a methodology agreed for apportionment of costs. Where these costs affect DCC they will be recovered from the tenant by way of a service charge. It is intended that responsibility for the building and its subsequent management will rest with the Council's Property Team as Corporate Landlord.

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 will be identified as one of the best located city centre sites for new grade A office space in the emerging Local Plan Part 2.

Project rationale

- 4.6 A Centre for Cities report sets out that the features of a strong city, amongst other things, include a large proportion of office spaces, 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 37,500sqft of Grade A office accommodation in the city centre and will directly create 180 new full time jobs. The scheme will lead to a net increase in business rates as set out in the confidential report in the first 15 years and generate a net contribution to GVA of £35.7 million.
- 4.9 The site will be the regional Headquarters for UNITE, 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 is contained in the Business Case at Appendix 1 in the Confidential Report. The key elements of this are:

- **Capital investment:** £8.965m 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:**

Q1 – Q4 2019/20	£4,109,000
Q1 – Q3 2020/21	£4,856,295

- **Forecast income:** Income generated by the scheme to repay borrowing and to cover revenue voids to year 2 are set out in the confidential report.
- **Net Present Value and Internal Rate of Return:** these are set out in the confidential report.

4.12 The Financial Implications section 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 project 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 has been established with the developers, UNITE, the managed workspace operator and the intended contractor.

Programme

4.14 A high level project programme is set out in the Business Case at Appendix 1 in the Confidential Report. Following Cabinet approval it is anticipated that contracts will be exchanged in early 2019 and a detailed planning application submitted and determined by June 2019. Construction and fit-out works are subsequently expected to commence July – August 2019 with completion and occupation of both buildings taking place in September - October 2020.

Key Project Risks

4.15 A comprehensive risk register is included as part of the Business Case at Appendix 1 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 magistrate's court to Riverside Chambers, the existing Premier Inn and 44 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 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 considered at this Cabinet meeting.

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 considered at this Cabinet meeting.

Other significant implications

Personnel

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

IT

- 9.2 There are no direct implications for The Council: 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 will be designed to flood resilient standards. 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 this project it is recommended that dedicated management arrangements are established with UNITE to manage the development's common areas – notably the undercroft car park, party wall, the external grounds and boundary treatment. Treatment of insurance will also need to be considered.
- 9.7 The cost of the Council's share of common servicing and maintenance costs will be built into the building's service charge which will under the terms of the sub-lease be recovered from the tenant.
- 9.8 At the end of the lease period, the Council will need to review the options regarding the future of the building.
- 9.9 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 The full project risk register is contained in the Business Case at Appendix 1 to the confidential report.

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 (Principal Lawyer)	28.11.18
Finance	Don McLure (Strategic Director of Corporate Resources)	19.11.18
Service Director(s)	Greg Jennings (Director of Development & Growth)	12.11.18

Report sponsor	Christine Durrant (Strategic Director of Communities and Place)	12.11.18
Other(s)	Catherine Williams (Head of Service Regeneration Projects)	12.11.18
	Ann Webster (Equality and Diversity Lead)	19.11.18
	Dinesh Kotecha (Interim Director of Property)	21.11.18
	Paul Clarke (Chief Planning Officer)	